

Science FOR Democratic Action

AN IEER PUBLICATION Selected articles published in *Énergie et Sécurité* • *Энергетика и Безопасность* • *能源與安全* No. 27

NATO's Nuclear Conflict

BY ARJUN MAKHIJANI AND BRICE SMITH¹

The allies of the United States that are members of the North Atlantic Treaty Organization (NATO), and especially its non-nuclear members, are at a crossroads. Because of the U.S. disregard of its treaty obligations and the continued role of nuclear weapons in NATO, countries' membership in the alliance is coming into conflict with their obligations under the Nuclear Non-Proliferation Treaty (NPT) and the Comprehensive Test Ban Treaty (CTBT).

The period between 1995 and 2000 was historic for nuclear disarmament. The five nuclear weapon states that are parties to the NPT agreed that they were bound under its terms to actually achieve complete nuclear disarmament and to take specific steps to get there. But the NPT parties agreed to much more. They agreed that the 182 non-nuclear states were also obligated to promote and to help achieve nuclear disarmament.² That commitment was made by each of the non-nuclear member states of NATO, who are also among the most important allies of the United States, such as Canada, Germany, Italy, Norway, and Spain. One key element to achieve disarmament that was emphasized in the 1995 and 2000 declarations of the NPT Review Conferences was the achievement and entry into force of a nuclear test ban treaty. Other key elements in the 2000 declaration included a reduced reliance on nuclear weapons in military policy and an irreversible reduction in nuclear weapon stockpiles.

As all NATO members are parties to the NPT, NATO's enduring reliance on nuclear weapons stands in contradiction to the pledge of its member states to nuclear disarmament. NATO policy also includes nuclear sharing that could result in the transfer of nuclear weapons from the United States to non-nuclear NATO members in time of war, even though the latter are obliged under Article II of the NPT not to acquire nuclear weapons.

These contradictions could be brushed under the rug as long as the United States (and by extension NATO) could credibly claim that it was making progress towards the fulfillment of its nuclear disarmament obligations. Prior to 1999, the United



NATO Defense Ministers taking part in Dynamic Response 2007, a war game dubbed "crisis management seminar," at the Joint National Integration Center of Schriever Air Force Base, near Colorado Springs, Colorado, in October 2003. This was the first NATO meeting that included its civilian and military sides in a joint exercise.

Democratizing Money:

An Outline for Staving off a Monetary Train Wreck

BY ARJUN MAKHIJANI

Editor's note: In the June 2003 special issue of *Science for Democratic Action*, we argued that global apartheid and economic imperialism need the threat of force and frequent use of force for their maintenance. Nuclear weapons have been part of this system. We also explained how dominating the world monetary system is part of the basic imperialist tool kit. The following article sets forth some basic steps for introducing a modicum of equity and transparency into the world's financial system.

We first introduced financial issues as part of the process of nuclear disarmament in the double issue of *Science for Democratic Action* in October 1998. Past major global crises indicate that military, political, fiscal, trade, and monetary issues are interwoven in complex ways because they all form part of prevalent systems of domination. We present this article as part of the discussion on global

I N S I D E

Arjun's Reading List.....	13
Reader Reactions to the <i>Science for Democratic Action</i> Special Issue.....	14
Dr. Egghead.....	16

SEE **NATO** ON PAGE 2
ENDNOTES, PAGE 6

SEE **DEMOCRATIZING MONEY** ON PAGE 7

NATO

FROM PAGE 1

States had made progress on disarmament, including the Strategic Arms Reduction Treaties (START I and II) with Russia, the test moratorium, and the signing of the CTBT. The United States withdrew almost all tactical nuclear weapons from its arsenal, including all but 150 to 180 bombs based in Europe.

However, the rejection of the CTBT by the U.S. Senate in 1999, the announcement of the NATO doctrine in 1999 (described below), the Bush administration's hostility to the CTBT, the U.S. withdrawal from the Anti-Ballistic Missile Treaty, and the U.S. Nuclear Posture Review of 2002, among other actions, point clearly to the conclusion that the United States does not intend to fulfill its nuclear disarmament obligations and intends, on the contrary, to continue reliance on nuclear weapons for the indefinite future. The irreversible nuclear arms reductions under the START treaty process have been effectively scrapped. The U.S.-Russian arms control agreement of May 2002, known as SORT (Strategic Offensive Reductions Treaty) or the Moscow Treaty, provides for reductions of operational strategic warheads that can be instantly reversed after the end of 2012, when the treaty expires. No warheads or delivery systems are required to be destroyed under this treaty.

Further, the United States has adopted a policy of pre-emptive war and demonstrated its will to put that policy into practice in Iraq. The Nuclear Posture Review names non-nuclear weapon countries as potential targets and also asserts that nuclear weapons could be used in the event of "surprising" developments, contrary to U.S. commitments to provide negative security guarantees to non-nuclear NPT parties.

Because the United States is the *de facto* leader of NATO, its intent to disregard its NPT obligations will inevitably impact NATO's nuclear policy. All NATO states, but particularly those that have forsworn acquisition of nuclear weapons, must assess how NATO military strategies may compromise their commitments under the NPT. Moreover, since 1999, when NATO intervened in the former Yugoslavia, and even more since August 2003, when NATO took command over United Nations military operations in Afghanistan, NATO is operating as a global military force instead of a force meant to defend Western Europe against external aggression, the purpose for which it was established in 1949 in the early years of the Cold War.³

U.S. and NATO nuclear policies are bringing NATO allies into increasing conflict with their NPT and CTBT obligations. We will examine these conflicts and then make the case that the United States needs a little help from its friends to get on to the path of disarmament in concert with other nuclear weapon states for the sake of its own security and that of the world.

NATO Reliance on Nuclear Deterrence

With the end of the Cold War and with the buildup of the militaries of western countries, the capabilities of the NATO alliance now far surpass any possible combination of non-NATO states. The combined military budget of NATO and its members is about three-fifths of the global military budget. The threat of deliberate massive conventional or nuclear attack upon any NATO member country currently does not exist. Nevertheless, NATO still holds firm to a policy of nuclear deterrence. The *1999 NATO Strategic Concept*, which

SEE NATO ON PAGE 3
ENDNOTES, PAGE 6

Science for Democratic Action

Science for Democratic Action is published four times a year by the Institute for Energy and Environmental Research:

6935 Laurel Avenue, Suite 201
Takoma Park, MD 20912, USA
Phone: (301) 270-5500
FAX: (301) 270-3029
E-mail: ieer@ieer.org
Web address: www.ieer.org

The Institute for Energy and Environmental Research (IEER) provides the public and policy-makers with thoughtful, clear, and sound scientific and technical studies on a wide range of issues. IEER's aim is to bring scientific excellence to public policy issues to promote the democratization of science and a healthier environment.

IEER Staff

President: Arjun Makhijani, Ph.D.
Librarian: Lois Chalmers
Bookkeeper: Diana Kohn
Outreach Director, United States:
Lisa Ledwidge
Project Scientist: Annie Makhijani
Administrative Assistant:
Betsy Thurlow-Shields
Project Scientist: Brice Smith, Ph.D.

Thank You to Our Supporters

We gratefully acknowledge our funders whose generous support makes possible our project to provide technical assistance to grassroots groups working on nuclear weapons-related issues, and our global outreach project.

Colombe Foundation • Educational Foundation of America • Ford Foundation • John D. and Catherine T. MacArthur Foundation • John Merck Fund • Stewart R. Mott Charitable Trust • New Cycle Foundation • New-Land Foundation • Ploughshares Fund • Public Welfare Foundation • Simons Foundation • Town Creek Foundation

Thanks to the C. S. Fund whose generous support made possible our work on the global economy.

Thanks also to the SDA readers who have become donors to IEER. Your support is deeply appreciated.

Credits for This Issue

Production: Cutting Edge Design
Editor: Lisa Ledwidge

Science for Democratic Action
is free to all readers.

We invite the reprinting, with proper credit, of materials from this newsletter. We also appreciate receiving copies of publications in which articles have been reproduced.

presents the framework for NATO's operations and expresses NATO's purpose and security tasks, set forth the following principle in its guideline for alliance forces:

[T]he Alliance will maintain for the foreseeable future an appropriate mix of nuclear and conventional forces based in Europe..., although at a minimum sufficient level....

But the Alliance's conventional forces alone cannot ensure credible deterrence. *Nuclear weapons make a unique contribution in rendering the risks of aggression against the Alliance incalculable and unacceptable. Thus, they remain essential to preserve peace.*⁴

The *Strategic Concept* emphasizes that Europe-based nuclear forces committed to NATO play a special role; they "provide an essential political and military link between the European and the North American members of the Alliance."⁵

This raises a serious question: If the alliance that has by far the most powerful and vast conventional arsenal in the world needs nuclear weapons for deterrence, what about less powerful countries or alliances?

NATO Members Are Abetting U.S. Rejection of the CTBT

All NATO states have ratified the CTBT, with the exception of the United States. Even though the treaty has not entered into force, under the laws that govern treaty-making, parties to a pending treaty must not take actions that would defeat its objects and purposes. Article I of the CTBT (see box) not only prohibits nuclear tests, but also requires parties not to encourage any other state to carry out nuclear tests of any kind. NATO has, in the past, recognized the obligation to take action to promote the entry into force of the CTBT, so much so that this policy is part of the 2001 NATO Handbook.

NATO states, notably Canada, Britain, France, and Germany, all key allies of the United States, have made urgent appeals to the United States to ratify the CTBT. However, NATO is no longer in a position to endorse the CTBT's entry into force because U.S. opposition prevents consensus on the issue.⁶ For example, a June 2002 press statement from the NATO Defense Planning Committee and Nuclear Planning Group expresses support for the existing moratoria on testing, but mentions nothing of the CTBT.

And despite vociferous pressure from its NATO allies to adopt the CTBT, the United States appears positioned to resume testing. The Bush administration has no intention of resubmitting the CTBT for ratification; the Administration wants to keep open the option of nuclear testing and is accelerating its readiness to conduct

ARTICLE I of the CTBT

1. Each State Party undertakes not to carry out any nuclear weapon test explosion or any other nuclear explosion, and to prohibit and prevent any such nuclear explosion at any place under its jurisdiction or control.
2. Each State Party undertakes, furthermore, to refrain from causing, encouraging, or in any way participating in the carrying out of any nuclear weapon test explosion or any other nuclear explosion.

tests in line with recommendations from the Nuclear Posture Review. In fact, the Bush administration has recently received \$24.9 million dollars from Congress in order to shorten the time necessary to prepare for a nuclear test to 24 months.⁷ That puts the United States in violation of the NATO policy to achieve the ratifications needed for an "early entry into force" of the CTBT. Hence, a nuclear partnership with the United States by other NATO countries, which have all ratified the CTBT, puts them in the objectionable position of abetting a violation of NATO policy.

If the United States does resume testing, we believe that it will cause NATO states to violate the spirit of their CTBT commitments. NATO integrates much of U.S. nuclear policy into its own; many NATO states are involved in the planning aspects of nuclear weapons use on behalf of NATO. If the United States tests a nuclear weapon, any new or modified weapons resulting from the testing may be integrated into NATO policy. This

would be incompatible with the obligations of the NATO allies of the United States under the second paragraph of Article I of the CTBT, according to which parties to the treaty cannot encourage any other country to carry out a nuclear explosion.

For NATO states to continue involvement with nuclear planning after the United States tests a weapon would mean that NATO states are tacitly encouraging testing by going along with U.S. nuclear policy. It is incumbent on the NATO allies of the United States to do everything they can to make this contradiction between their NATO membership and the resumption of testing clear in order to dissuade the United States from carrying out a nuclear test. In addition to violating at least the spirit of the CTBT, any encouragement of testing weapons would undermine the disarmament commitments of the NPT, which recognize a test ban as a cornerstone of the global non-proliferation regime.

SEE **NATO** ON PAGE 4
ENDNOTES, PAGE 6

A nuclear partnership with the United States by other NATO countries puts them in the objectionable position of abetting a violation of NATO policy.

NATO Nuclear Sharing and the NPT

The NATO nuclear sharing arrangement comprises two components. One is the operational sharing of nuclear weapons whereby the United States maintains control of the weapons—which are mostly, if not entirely, B-61 free-fall nuclear bombs in dual-use aircraft—until such time that a decision to use them has been made. At that point, control of the weapons is transferred to those NATO members on whose territory they are stored. As a result of this policy, non-nuclear weapon states “have the capability to conduct a nuclear attack, using U.S. nuclear weapons and national delivery means during times of war.”⁸ Estimates tally the number of weapons between 150 and 180 weapons in thirteen bases in seven NATO countries — Belgium, Britain, Germany, Greece, Italy, Netherlands, and Turkey. All except Britain are non-nuclear parties to the NPT.

The second component of nuclear sharing is the political mechanism, known as the Nuclear Planning Group, which consists of consultations among defense ministers of NATO member states (with the exception of France⁹) regarding specific policies relating to nuclear forces. The Nuclear Planning Group consults on a broad range of nuclear issues: “safety, security and survivability of nuclear weapons,” deployment issues, arms control and proliferation.

Both aspects of nuclear sharing are intended to allow non-nuclear weapon NATO countries to be able to use nuclear weapons at a time of war. There is a strong argument that the operational aspect, that is, the physical placement of nuclear weapons on non-nuclear weapon territory, violates the non-transfer and non-acquisition provisions of the NPT, even though the NATO arrangement pre-dated the entry into force of the NPT. The problem was not discussed with most parties to the NPT during the negotiations (though a closed door discussion of some parties was held).¹⁰

The nuclear sharing doctrine creates an unstable system under the NPT that allows NATO states to create circumstances for an automatic exemption to the treaty’s obligations without officially withdrawing from the NPT. However, the Vienna Convention makes no specific reference to suspension of any treaties in time of war. It does permit suspension of operation of a treaty if a material breach has occurred. U.S. policy for suspending the NPT in time of war is not clear. It does not explicitly require a material breach of NPT to have occurred and therefore creates a situation in which the United States could suspend the treaty outside of that context. This is not a mere academic debate. Similar issues were a principal part of the debate in the Security Council in the run up to the Iraq war of 2003. The United States and Britain set their own standard for Iraqi violations and went to war without a Security Council finding that Iraq was in material breach of its obligations.

NATO and Possible First Use of Nuclear Weapons

The 1999 NATO *Strategic Concept* recognizes the changes in the world military situation since the end of the Cold War (mostly importantly, the collapse of the Soviet Union) but still includes a possibility of first use of nuclear weapons. According to NATO doctrine, such use may occur in circumstances that are “extremely remote.” Even though the use of the term “first use” is not acknowledged as a description of this possibility, it is clearly a part of the doctrine since the possibility of use against any party is kept open and there is no explicit policy banning first use.

The first use of nuclear weapons in reprisal for chemical or biological would violate the laws of war. The use of nuclear weapons, or any weapon, including in reprisal, must meet the fundamental requirements of necessity, proportionality, and discrimination. Thus the International Court of Justice affirmed that states must “never use weapons that are incapable of distinguishing between civilian and military targets.” There are no realistic situations in which nuclear weapons used in response to a biological or chemical attack could meet those requirements.

Moreover, there is a clear contradiction in NATO retaining the possibility of first use, including against non-nuclear weapon states. The NATO nuclear weapon states’ negative security assurances have arguably achieved legal status because non-nuclear weapon states demanded these assurances in exchange for the indefinite extension of the NPT in 1995.¹¹ Moreover, a possible first use policy against non-nuclear states is not in keeping with Security Council Resolution 984 of 1995, which noted negative security assurances with approval.

NATO is expanding its potential for armed conflict with a new policy permitting out of area engagement. According to the *Washington Post*, NATO “quietly negotiated a new agreement” for a global role, which was ratified at a meeting in Reykjavik on May 14, 2002.¹² That role is now being played out in Afghanistan, and may be played out in other areas in the future, possibly including Iraq. To facilitate this role, on October 15, 2003, NATO officially activated the initial core of what is to be planned to become a 20,000-member elite military force capable of being deployed anywhere in the world within five days and sustaining independent action for up to a month. The first 9,000 troops of the NATO Response Force will serve as a prototype for the full unit that is planned to be operational by 2006 for use in missions ranging from peacekeeping to counter-terrorist strikes to full-scale military engagements.¹³

With a policy in place that allows first use, the possibility that non-nuclear weapon states may receive control over use of nuclear weapons, and an expanded mandate for NATO engagement, the theoretical possibilities for

NATO to use a nuclear weapon have expanded. This contravenes the requirement for a diminishing role for nuclear weapons pledged by NPT states parties in the 2000 Review Conference final declaration. By expanding the possibilities for nuclear weapons use, NATO states are also signaling to other countries the strategic desirability of nuclear weapons under a variety of circumstances. As the Lawyers Alliance for World Security asserts, if NATO continues its policy permitting the first use of nuclear weapons, "it will be increasingly difficult to convince technologically sophisticated and/or politically ambitious states to continue to forswear the nuclear option."¹⁴

A Little Help From Its Friends

The United States government, to the distress of a substantial number of its own people and an even larger proportion of people and governments of its allies, is rejecting its international obligations in favor of reliance on its military strength and, when feasible and convenient, that of NATO. This is a disastrous course not only for the security of other countries but for the United States itself, because it provokes proliferation, among other things.

The current proliferation situation is alarming, indeed. The volatility of the Middle East conflict, which shows no sign of abating, is made worse by the fact that Israel has nuclear weapons. Iran appears to have nuclear ambitions, though they may be contained for the moment by an agreement on inspections with the International Atomic Energy Agency (IAEA). Leading Iranians, pointing to Israel, India, Pakistan, and the United States, have pointed to a double standard and raised questions about why they should continue to forswear nuclear weapons.¹⁵ North Korea withdrew from the NPT in January 2003 without the requisite three months notice and is likely pursuing a nuclear weapons program. Its determination to do so may have been strengthened by the U.S.-British war on Iraq, which was attacked without explicit UN Security Council authorization even after Iraq submitted to UN-mandated inspections. These circumstances strongly suggest that all parties to the NPT must do whatever they reasonably can to strengthen it, or the NPT may fall apart.¹⁶

Given the U.S. determination to maintain, and in some cases expand, the role of nuclear weapons, current NATO nuclear policy puts the NATO allies of the United States on a collision course with their obligations under the NPT and CTBT. Many NATO members have been urging the United States to meet its treaty obligations on a variety of fronts including the CTBT, the NPT, and the Kyoto Protocol. They have also advocated U.S. participation in

the International Criminal Court, or at the very least to end its efforts to undermine it. As former U.S. Deputy Secretary of State Strobe Talbott observed:

[T]he United States has rarely been so at odds with so many of its traditional friends on so many issues... This general dispute has naturally taken its toll on NATO, an organization that is itself based on a treaty, on the notion of America as first among equals, and on the principles of common interest, shared responsibility, concerted resolve, collective action, and decision by consensus.¹⁷

Clyde Prestowitz, a lifelong Republican, has argued at length in his book that the friends of the United States around the world are increasingly viewing it as "The Rogue Nation,"¹⁸ a most unfortunate development for the country that did so much to bring the idea of the rule of law into the world's political and legal arrangements.

So far, NATO members have failed to gain U.S. support for the CTBT and for better compliance with the NPT. Moderate persuasion has failed. Indirect messages, such as the draft European Union strategy which speaks of "pre-emptive engagement" to help create a world that "is seen as offering justice and opportunity for everyone" as a part of achieving better security for Europe,¹⁹ have had little effect on U.S. policy.

Indeed, U.S. policies in regard to nuclear weapons have become more militant and more rejectionist in relation to the CTBT and to U.S. NPT obligations. This has created an uncomfortable problem for the allies of the United States, especially its non-nuclear allies. They must either put more pressure on the United States to comply, or risk falling into non-compliance with their own NPT and CTBT obligations.

The NATO allies, as members of the world's most powerful military alliance, have a heavy responsibility for steering the United States away from the potentially disastrous course it is now leading. We propose that the NATO allies of the United States act on the following items in order to resolve the conflict between their membership in NATO and their commitments under the NPT and CTBT:

- Inform the United States that (i) it is essential that it respect the nuclear test moratorium and resume the path to CTBT ratification and (ii) a nuclear test by the United States would put NATO members' CTBT and NPT obligations in conflict with their NATO obligations, possibly forcing a difficult choice upon them and creating a very volatile situation for Europe, NATO, and the world.
- Urge an immediate, explicit, and unconditional no first use nuclear weapons policy for NATO.

The NATO allies have a heavy responsibility for steering the United States away from the potentially disastrous course it is now leading.

SEE **NATO** ON PAGE 6
ENDNOTES, PAGE 6

► Urge the United States to permanently withdraw U.S. nuclear weapons from the six non-nuclear member states of NATO as well as from Britain, and to do away with the policy of basing its nuclear weapons on the territory of any other state, even if the other state is a nuclear-weapon state.

► End the nuclear sharing policy of NATO.

The achievement of the last two items would essentially make for a non-nuclear NATO and remove the threat that U.S. actions may make the non-nuclear members of NATO in non-compliance with the CTBT and NPT.²⁰ It would also put them in a far better position to help salvage the NPT and CTBT and help put the world on a course to security and complete and universal nuclear disarmament, as required by the NPT.

While the specifics of the U.S. alliance with Japan are different, the broad arguments we have made here also apply to that relationship. Therefore, we also recommend that Japan adopt these general policies in regard to its alliance with the United States, to the extent that they apply. Specifically, Japan should also make explicit to the United States that a U.S. nuclear test would put their alliance in conflict with the spirit of Japan's CTBT and NPT obligations. Japan should also urge the United States to adopt an unconditional no first use policy.

The issues of no first use and nuclear sharing can be considered together. Ending nuclear sharing and adopting a no first use policy can be made compatible with consultation in NATO on nuclear weapons questions. NATO will, after all, need to consider how it is going to play a role in achieving complete nuclear disarmament. If the United States refuses to remove its nuclear weapons from its bases in other countries, states should enact domestic laws banning the basing of nuclear weapons on their territories, which would compel the U.S. to remove the weapons.²¹ One model for this program would be the domestic legislation of New Zealand which created a nuclear free zone for its territories. U.S. ships that carry nuclear weapons or that are not declared to be nuclear-free can no longer visit New Zealand.

The dangerous patterns that have put the NPT in jeopardy on several fronts must be reversed. Nuclear weapon states and their allies, in addition to seeking the enforcement of non-proliferation obligations for others, such as Iran, must meet their own NPT obligations. In the grave crisis that is evolving in the world, the measures that we advocate here appear to be the minimal obligations of the NATO allies of the United States if they are to continue to be part of the NPT and the CTBT in good faith. These steps should be taken on an urgent basis — if possible, before the NPT Preparatory Committee meeting in April-May 2004. In any case, it is necessary to take these steps prior to the 2005 NPT

Review Conference, because that will be the point during which countries will be called upon to show the actions they have taken pursuant to their commitments to preserving the NPT and the CTBT. 

1. This article is based on and drawn directly from the October 2003 IEER report, *NATO and Nuclear Disarmament*, by Arjun Makhijani and Nicole Deller. References and other details may be found in that report, which is posted in full at www.ieer.org/reports/nato/index.html.
2. For an analysis of NPT and CTBT related obligations see Nicole Deller, Arjun Makhijani, and John Burroughs, eds., *Rule of Power or Rule of Law?* (New York: Apex Press, 2003) and the *Science for Democratic Action* issue based on this work, vol. 10, no. 4, August 2002.
3. After September 11, 2001, NATO invoked Article 5 of its charter, under which "an armed attack against one or more" NATO members "in Europe or North America shall be considered an attack against them all." Although NATO was excluded from a role in the initial invasion, Article 5 provided the rationale for the NATO military presence in the stabilization effort in Afghanistan. However, Article 5 was not invoked in the case of the intervention in the former Yugoslavia.
4. NATO Press Release, The Alliance's Strategic Concept, April 24, 1999, para. 46. On the web at www.nato.int/docu/pr/1999/p99-065e.htm. Emphasis added.
5. *ibid.*, para. 63.
6. Decision making in NATO is done by consensus.
7. U.S. House of Representatives: Committee on Appropriations, Highlights of the FY 2004 Energy and Water Development Appropriations Conference Report, November 5, 2003. On the Web at http://appropriations.house.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=335&IsTextOnly=1
8. Otfried Nassauer, "NATO's Nuclear Posture Review, Should Europe End Nuclear Sharing?" BITS Policy Note 02.1, April 2002.
9. France does not participate in NATO's integrated military structure, including the Nuclear Planning Group and the Defense Planning Committee, due to France's withdrawal of military forces from under NATO command in 1966 which also led to NATO's headquarters being moved from France to Belgium.
10. Otfried Nassauer, "Nuclear Sharing in NATO: Is it Legal?" *Science for Democratic Action*, vol. 9 no. 3, May 2001. On the Web at www.ieer.org/sdfiles/vol_9/9-3/nato.html.
11. Broadly speaking, negative security assurances are guarantees to non-nuclear states parties to the NPT that the nuclear states parties will not use or threaten to use nuclear weapons against them.
12. Robert G. Kaiser and Keith B. Richburg, "NATO Looking Ahead to a Mission Makeover," *Washington Post*, November 5, 2002.
13. John Chalmers, "NATO Unveils Strike Force, Key to Alliance Future," *Reuters*, October 15, 2003.
14. Thomas Graham, Jr. and Jack Mendelsohn, "NATO's Nuclear Weapons Policy and the No-First-Use Option," *The International Spectator*, Vol. XXXIV, No. 4, October-December 1999, p. 2.
15. Karl Vick, "Iranians Assert Right To Nuclear Weapons; Issue Unites Conservatives, Reformers," *Washington Post*, March 11, 2003.
16. See the quote from the director of the IAEA on page 8.
17. Strobe Talbott, "From Prague to Baghdad: NATO at Risk," *Foreign Affairs*, November/December 2002, p. 47-48.
18. Clyde Prestowitz, *Rogue Nation: American Unilateralism and the Failure of Good Intentions* (New York: Basic Books, 2003).
19. Javier Solana, "A Secure Europe in a Better World," p. 9 and 10. On the Web at <http://ue.eu.int/pressdata/EN/reports/76255.pdf>. This draft European Union security strategy paper by the EU High Representative for the Common Foreign and Security Policy was delivered at the European Council meeting in Thessaloniki on June 20, 2003.
20. U.S., British, and French nuclear weapons would not be usable by NATO once NATO ends its nuclear sharing policy.
21. Of course, this presumes that the U.S. would abide by the laws of an allied country. It has done so in the case of New Zealand.

DEMOCRATIZING MONEY

FROM PAGE 1

democracy specifically intended to address the question of what might replace the International Monetary Fund, and its inequitable conditionalities, should it be abolished.

On pages 14–15 you'll find some reader responses to the June 2003 special issue of Science for Democratic Action. We encourage your feedback on this article, even more so than with other articles, given that we have departed from our usual fare again. We have done so because these are unusual times, because the response to the special issue was so unprecedentedly positive, and because, indirectly at least, these issues are intricately and vitally related to the most important military and security issues of our time. We will publish some reader correspondence on our website, www.ieer.org.¹

A global financial, military, and political drama of the greatest moment appears to be unfolding out of the crisis created by the U.S.-British war on Iraq and its chaotic, violent aftermath. Consider the following:

- ▶ Antagonism to the United States in the Islamic world is rising in the aftermath of the U.S.-British war on and occupation of Iraq. The Israeli-Palestinian crisis is at a new low. The dollar “is increasingly unpopular among Muslim traders,” who are beginning to use barter and euros.² The Prime Minister of Malaysia has suggested that the 45 Islamic countries belonging to the Organization of the Islamic Conference use a gold-based currency, called the dinar, and discard the dollar for trade among themselves. Pierre Vilar, in his magnificent history of gold and money, chronicles how the money in circulation in Europe changed from Arab coins (and coins minted by Europeans to look like Arab coins) to European coins that had their own stamp in the period during which power shifted from the Arabs back to European Mediterranean power centers.³ Similarly, a combination of circumstances appears to be bringing the U.S. dollar if not into disrepute, then into territory where its holders are becoming more skeptical of its value and prestige.
- ▶ Russian President Vladimir Putin has suggested that Russia could price its oil in euros.⁴ There is speculation that a partnership between the European Union and Russia would offer a suitable military and financial counterweight to the United States.⁵
- ▶ Russia has opened a military base in Kyrgyzstan, only 30 kilometers from a U.S. base in the same country. Its opening is a clear challenge to the U.S. presence in the area. President Putin and Defense Minister Sergey Ivanov have reportedly stated that they regard the U.S. base as a temporary presence, but the Russian base as a long-term one, with Ivanov stating the purposes of the two bases are “diametrically opposite” even though the publicly declared purpose of both is to fight terrorism.⁶ The “Great Game” appears to be on again, but this time with three nuclear-armed states, Russia, the United States and China, among others, jockeying for position over vast oil and gas resources, with the last two being net energy importers. The European Union, a net oil-importing, nuclear-armed region, is also a player in this game.⁷ This means that all five nuclear-armed, permanent members of the United Nations Security Council, which is supposed to be responsible for the world’s security, are in one way or another part of the competition over Central Asian and Caspian oil and gas resources and over the transportation corridors to export those resources from the region.
- ▶ The world trade talks at Cancun in September 2003 collapsed in the face of unprecedented unity of many developing countries, including India, Brazil, South Africa, and China, which demanded the United States and the European Union reduce agricultural subsidies that are severely harming farmers in the Third World.
- ▶ Britain appears to be hedging its military bets by tentatively agreeing to join France and Germany to create a European Union military formation outside of the North Atlantic Treaty Organization (NATO).⁸
- ▶ North Korea appears to have become a nuclear weapon state.



ALMA CHANEY, WWW.ALMACHANEY.COM

SEE **DEMOCRATIZING MONEY** ON PAGE 8
ENDNOTES, PAGE 11–12

DEMOCRATIZING MONEY

FROM PAGE 7

► The director of the International Atomic Energy Agency, Mohamed El-Baradei, has opined that, “Unless we are moving steadily toward nuclear disarmament, I’m afraid that the alternative is that we’ll have scores of countries with nuclear weapons and that’s an absolute recipe for self-destruction.”⁹ Given current U.S. policy for maintaining a nuclear arsenal for the indefinite future, threatening non-nuclear countries, and doing research into new types of usable nuclear weapons, nuclear disarmament appears to be a distant dream, thus making proliferation a more likely nightmare.

► The United Nations Security Council is receding either into impotence or into ceding its security authority to provide the military forces for peacekeeping in strategic situations to the United States and/or NATO. The UN ceded its military authority to NATO in Afghanistan in August 2003.¹⁰ The replacement of U.S.-British forces by NATO forces under a UN mandate is one of the “solutions” being advanced for Iraq.

Some of these developments, such as unity of the most powerful countries in the Third World on more equitable trade negotiations, are healthy. Other developments pose grave risks. For instance, a competition between the euro and the dollar may imply an emerging face-off between two huge, oil-importing, nuclear-armed economies. They are, for the moment, papering over their differences with Security Council resolutions, such as the sullen unanimity of the October 2003 Security Council vote on Iraq at U.S. behest.¹¹

At the moment, the pricing of oil in dollars and the huge holdings of dollar-denominated assets, such as U.S. treasury securities, by governments and private parties are preventing a rapid fall of the dollar. But if the euro begins to get the upper hand in oil pricing, in the context of the massive U.S. trade and budget deficits, it may be difficult to stave off global economic disaster or confrontation.¹²

The only economic tools available to the United States to stem a steep, possibly uncontrolled drop in the value of the dollar are sharp increases in interest rates and large increases in taxes. Both may be necessary because the alternative may be hyperinflation. Either

“Unless we are moving steadily toward nuclear disarmament, I’m afraid that the alternative is that we’ll have scores of countries with nuclear weapons and that’s an absolute recipe for self-destruction.”

—Mohamed El-Baradei, IAEA Director

Even those who have unlimited military might see that bombs and occupation of oil-rich areas cannot provide for financial stability as simply as might have been wished.

remedy, to say nothing of both, could trigger a drastic decline in economic activity and even a global economic slump. A parallel to the 1930s is not fanciful, when economic, political, and military problems combined into a disastrous mix.

In a world brimming with nuclear weapons, nuclear materials, and other ways to inflict grievous harm on society, even those who have unlimited military might see that bombs and occupation of oil-rich areas cannot provide for financial stability as simply as might have been wished. The primacy of the dollar appears now to depend at least partly on the success of the U.S.-British imperialist adventure in Iraq and the maintenance of powerful military bases in the Persian Gulf region.¹³ But occupation imperialism and the setting up of pliant governments are instruments of a fading era, when the majority of the people of the world were condemned to subservience and impoverishment. The attempt to restore occupation imperialism is already marked with treasure and blood. And that fact itself is undermining the imperialist

effort, as the protests regarding both those kinds of costs are beginning to indicate.

Will the world have to descend into chaos and conflict before it can sort out its affairs? Or will peoples and governments and other institutions be able to work together enough on the main issues of the day to stave off disaster? Work is needed on many fronts, such as nuclear disarmament, reducing inequities within and between countries, and building democracy locally and globally.

There has been much discussion of most of these issues. But one issue which is rapidly coming to the fore – an equitable and functional global monetary system that is compatible with global democracy, local autonomy, an open trading system, and human rights (including freedom to move across borders) – has not received the attention it deserves.

The alternative to domination by one currency and destructive competition between two currencies must be a more democratic system in which all parties have equal rights to manage their internal financial arrangements, subject to meeting their external commitments. Thus, instead of having an international currency dependent on a single government or some small set of powerful governments, we need a stable international currency that is managed by a transparent and accountable institution with rules that

SEE DEMOCRATIZING MONEY ON PAGE 9
ENDNOTES, PAGE 12

DEMOCRATIZING MONEY

FROM PAGE 8

cannot be easily manipulated for political or parochial financial advantage.

Approaches to Democratizing the Monetary System

There are three possible approaches to creating a monetary system that is not dominated by a single global currency—in the present case, the U.S. dollar. One is the creation of a global reserve currency backed by a commodity such as gold. Keeping the price of a commodity fixed relative to a currency requires vast reserves of that commodity, and is unsustainable, as is demonstrated by the history of gold-backed currencies in the twentieth century, including the U.S. dollar. For instance, since 1973 the price of gold per troy ounce has varied between ten and twenty times the price of a barrel of oil. Such a variation of relative price between two commodities that can be held for their value is far too great and is not compatible with exchange rates of currencies set according to a fixed price of gold.

There are two schemes for creating a global monetary system that do not require the price of any commodity to be fixed or managed. Both require the creation of an international clearinghouse for settling balances along the lines advocated by the noted economist John Maynard Keynes six decades ago and both require a new global currency. The two schemes are:

- ▶ A global currency along the lines of the “bancor,” proposed by Keynes in 1942, where the values of currencies relative to the global one are changed according to whether the cumulative credits or debts of a country exceed certain bounds.¹⁴ The initial exchange rates would be based approximately on the relative strength of pre-established trading positions and cumulative balance of payments situation of a country.
- ▶ A global currency that has constant purchasing power in all countries.¹⁵

An implicit assumption in the Keynesian system is that a single factor, the exchange rate, is the decisive determining factor in a country’s balance of payments. It was proposed as a scheme to arrange matters between the victors of World War II, rather than the colonies that they dominated at the time. It is roughly applicable to a situation where the internal economic structures of countries are broadly similar. However, the Keynesian monetary approach of the 1940s cannot provide for economic justice or equity in a world that is structured like global apartheid.

Setting the exchange rates of currencies according to their local purchasing power would provide for an equitable basis for trade between countries.

Moreover, ample evidence since the International Monetary Fund’s “restructuring” of economies in the Third World, carried out since the early 1980s, indicates that devaluations of currencies do not necessarily reduce current account deficits. Rather, many countries tend to fall into perpetual debt, much like a poor peasant who remains indebted to the village moneylender and thus becomes a perpetual source of cheap labor. Third World debt, in current dollars, is about five times the level of the early 1980s, when the IMF began imposing severe conditionalities. Overall, the IMF managed to save the multinational banks, but its formulas, applied to supposedly address the debt crisis, have left the majority of the people worse off. The IMF “medicine” has cured the pocketbook problem of the doctor and left the patient in greater distress and deeper in debt.

By contrast, setting the exchange rates of currencies according to their *local* purchasing power—that is, their purchasing power relative to goods and services that are primarily of local origin—would provide for an equitable basis for trade between countries, since the relative values of their currencies would approximately reflect the average productivity of monetized labor.¹⁶ A global currency could be issued on this basis.

An International Currency Unit and Other Nuts and Bolts

One “international currency unit” (which I call a “pecu”¹⁷) would, in all countries and at all times, correspond to a specific basket of goods and services. If individual countries follow inflationary policies, then their currencies would be automatically devalued with respect to the pecu and if prices fell, their currencies would be revalued. One pecu would therefore have constant purchasing power in all countries relative to that basket of goods.¹⁸

The international currency would be managed by a world central bank. A bank along those lines was envisioned by Keynes during World War II, when Britain sought to maintain some financial independence from the imminent overwhelming economic dominance of the post-war world by the United States. Keynes’s concept, called an “International Clearing Union,” was as follows:

The Central Banks of all member states (and also of non-members) would keep accounts with the International Clearing Union through which they would be entitled to settle their exchange balances with one another at their par value as defined in terms of the bancor.¹⁹

I will follow Keynes’s terminology and call the world central bank the International Clearing Union.

SEE DEMOCRATIZING MONEY ON PAGE 10
ENDNOTES, PAGE 12

The concept of the International Clearing Union is independent of the manner in which the parities (or exchange rates) of currencies are set. It is a mechanism that allows all outstanding balances between countries to be settled in an orderly manner. Investments across national boundaries would also be recorded and become part of the settlement process. Imports of capital would be treated as equivalent of exports of goods, because they bring money into a country, and exports of capital the equivalent of imports of goods. Of course, imports of capital create long-term liabilities, since investors expect to recover their capital, possibly to repatriate it, and also to earn a return on their investment.

All foreign financial transactions — that is, transactions involving parties in different countries, such as imports and exports of goods or foreign investments — would flow through the central banking authority of each country and be recorded into an account established for each country in the International Clearing Union. The purposes of the Union would be to settle international accounts (as envisioned by Keynes) and to issue and maintain the global currency, the pecu.²⁰ Regulation of foreign financial transactions would not be necessary, for they can be automated, with provision for appropriate safeguards and oversight. This currency structure would leave individual countries free to set their internal monetary policies, such as interest rates and the amount of money in circulation, with far greater freedom than today, while allowing foreign creditors the security of constant purchasing power within every country.

Currently, major policies for the settlement of international accounts are coordinated by the Bank of International Settlements (BIS), which counts 55 of the world's central banks as its members. The BIS is not a bank and has no international legal mandate, which enables it to remain rather opaque to global public oversight. The main policies it suggests are set by a group of ten of the most financially powerful countries (including the United States, Japan, Germany, France, and Britain), known as the G10.²¹

Since exchange rates would not be used as a mechanism for bringing current accounts into balance, a system for managing balance of payments, should they get severely out of balance, would be needed. In general, countries would maintain reserves — combinations

of commodities, securities, and money — sufficient to settle their accounts so as maintain net balances in the International Clearing Union within certain margins.

Countries that sustain current account balance of payments deficits (loosely speaking, imports greater than exports) beyond pre-defined limits would settle those

balances by selling assets, increasing exports, reducing imports, or encouraging foreign investment.²² Countries that accumulate large reserves of the international currency by consistent balance of payments surpluses (not with one country but overall) beyond pre-defined limits would be taxed unless they spent or invested the extra surpluses within a reasonable time. In other words, there would need to be a set of rules that prevented either excessive debt because of consumption beyond

the means of a country or excessive hoarding of international currency due to consistent large overall trade surpluses.

Who Would Be Affected?

Such a minimal set of overall rules would allow a far larger amount of local and national economic autonomy to the vast majority of the world's people, including those of the United States. Exchange rates based on purchasing power parity would result in substantial revaluations of developing country currencies. The currencies of developing countries would (typically) be revalued several-fold. This would enhance the bargaining power of workers in the United States, Europe, and Japan by reducing the incentive for capital flight to cheap-labor

havens simply because labor in these areas would be far less cheap as a result of the currency revaluations. This would also substantially increase the purchasing power of people in developing countries, reducing poverty and creating the demand for more investment and consumption where it is most needed. Finally, a several-fold revaluation of developing country currencies would reduce

emigration pressures and encourage more open borders at the same time. There would be far less pressure for workers to migrate to the United States and Europe for economic reasons.

A democratically controlled, constant purchasing power international currency and banking system is not compatible with feverish speculation or large-scale money laundering and secret bank accounts. Disclosure of all

This currency structure would leave individual countries free to set their internal monetary policies while allowing all foreign creditors the security of constant purchasing power within every country.

A several-fold revaluation of developing country currencies would reduce emigration pressures and encourage more open borders at the same time.

DEMOCRATIZING MONEY

FROM PAGE 10

large foreign accounts and the taxing authority for those accounts would be required. This would greatly reduce illegal and shady banking transactions.²³ Discouraging speculation would require a modest tax, perhaps on the order of only about 0.1 percent, on all large foreign exchange transactions.²⁴ Any bank that did not agree to collect this tax, often called the Tobin tax, or to disclose taxing authority information on large deposits should not be allowed to participate in international transactions.

The Tobin tax has been criticized by some as inimical to foreign investment. This is an incorrect economic assessment. Decisions involving foreign investment do not turn on amounts corresponding to 0.1 percent of the investment. Preliminary investigative and decision-making expenditures are generally far greater than that. And foreign investments involve economic, security, and political factors that far outweigh the impact of a 0.1 foreign tax. (For comparison, we should note that international travelers often pay premiums of several percent in the form of below-market exchanges rates and/or fees when they change their money.)

Who will face adverse consequences as a result of such reforms? Corporations that rely on cheap, productive labor would see their enormous profit margins diminished. Currency speculators would also wake up in a new world. Corresponding to this shift, the ability of communities and local, state and national governments to bargain with multinational corporations on the terms of investment will increase. These, of course, are the central reasons why a restructuring of the international monetary system will be difficult to accomplish, and why it will require a broad global coalition even to put the issue on the global agenda. But, as with other basic changes that are needed in global society, such as ridding the world of the borders that characterize global apartheid and of nuclear weapons, the goal provides us with the direction. The process of struggle to achieve it creates the democratizing experience and the basis for sustaining global democracy.

A global monetary structure such as the one outlined above could, in principle, allow for the development of varieties of local currencies within countries, giving much more room for economic democracy at the local levels. Successful examples of such local, time-linked

A restructuring of the international monetary system will be difficult to accomplish, and will require a broad global coalition even to put the issue on the global agenda.

The arrangements needed to transition to a more just and stable system would ideally occur at a new global conference with a mandate as wide as that of the 1944 conference at Bretton Woods.

currencies are in operation in places such as Ithaca, New York and Chicago.²⁵ It would also allow for regional currency arrangements involving many countries, such as the euro, provided that they are appropriately linked to the International Clearing Union, and are valued according to purchasing power in the region. In brief, a democratic global monetary system is compatible with local economic self-reliance, development of local culture and political autonomy, as well as with borders that are more open to people and to trade.

A Global Monetary Conference

This sketch does not address many crucial technical issues, such as how the world would handle the vast dollar balances that are presently held outside of the United States, issues related to huge debts

that were unjustly created by IMF policies designed to protect large international banks and investors at the expense of people in many Third World countries, and the nature of the transition process to a new global monetary system. It is not meant as a completely worked-out proposal, but to provide a start for a more specific discussion of what might replace the present monetary order and the International Monetary Fund that enforces its (corporate-centered) rules, mainly to a tune set by the U.S. Treasury.

The *Washington Post* has described what a “great bargain” the IMF is for the United States thus:²⁶

The world needs an organization to deal with exchange-rate crises; if the IMF were abolished, a replacement would soon have to be set up. For America especially, the IMF is a great bargain: It implements policies that are by and large those of the U.S. Treasury, but then shares the cost with other governments.

International financial and monetary systems should not be about providing great bargains to the powerful but rather equity, stability, and justice for all. The specific discussion about new monetary arrangements, what might replace the IMF were it to be abolished, and the arrangements needed to transition to a more just and stable system would ideally occur at a new global conference with a mandate as wide as that of the 1944 conference at Bretton Woods, New Hampshire. It could be seen as the financial counterpart to international efforts that are needed to create a more equitable trading order, to reduce greenhouse gas emissions, and to save the Nuclear Non-Proliferation Treaty. 

DEMOCRATIZING MONEY

FROM PAGE 11

1. IEER reserves the right to shorten correspondence before posting.
2. Kate Mayberry "Malaysia Pushes a Gold Standard," *International Herald Tribune*, October 16, 2003. On the Web at [www.iht.com/ihsearch.php?id=113774&owner=\(Bloomberg%20News\)&date=20031016080245](http://www.iht.com/ihsearch.php?id=113774&owner=(Bloomberg%20News)&date=20031016080245).
3. Pierre Vilar, *A History of Gold and Money 1450–1920*, translated by Judith White (London: NLB, 1976), Chapter 3.
4. "EU in talks on Russian oil for euros," *The News (International)*, October 18, 2003. On the Web at <http://jang.com.pk/thenews/oct2003-daily/18-10-2003/business/b7.htm>.
5. Catherine Belton, "Putin: Why Not Price Oil in Euros?" *The Moscow Times*, October 10, 2003. On the Web at www.moscowtimes.ru/stories/2003/10/10/001.html.
6. Sergei Blagov, "Russia drops an anchor in Central Asia," *Asia Times Online*, 27 Oct 2003. On the Web at www.atimes.com/atimes/Central_Asia/EJ25Ag01.html; and Alexander Kirn, "Diametrically opposite tasks," *The Times of Central Asia*, September 25, 2003. On the Web at www.kabar.kg/english/03/Sep/25/15.htm.
7. The quest for oil and gas was on well before September 11, 2001 provided the rubric of a "War on Terror" for the enterprise. See for instance, Richard Norton-Taylor, "The new Great Game. East and west are jockeying for influence in the Caucasus. The prize is oil and gas," *Guardian Unlimited*, March 5, 2001, on the Web at www.guardian.co.uk/Archive/Article/0,4273,4146099,00.html; and, Michael Klare, *Resource Wars: The New Landscape of Global Conflict* (New York: Metropolitan Books, 2001).
8. John Vinocur, "Britain's Subtle Shift on EU Defense," *International Herald Tribune*, October 14, 2003. On the Web at www.iht.com/articles/113629.html.
9. Louis Charbonneau, "Scores of States May Build Nuclear Weapons—ElBaradei," *Reuters* newswire, September 30, 2003. On the Web at www.kiwiingenuity.org/smutraker/archives/000899.html.
10. See "NATO Assumes Leadership of the International Security Assistance Force in Afghanistan," Press Statement by Philip T. Reeker, U.S. State Department, August 11, 2003, on the Web at www.state.gov/r/pa/prs/ps/2003/23189.htm. It is possible that NATO may evolve into a military instrument of global apartheid. But that will depend on resolution of the many major differences among the major western powers, and an accommodation of Russia in some manner, among other factors. For a discussion of global apartheid and of U.S. economic vulnerabilities, see the June 2003 special issue of *Science for Democratic Action*, on the Web at www.ieer.org/sdfiles/index.html, and Arjun Makhijani, *Manifesto for Global Democracy: Two Essays on Imperialism and the Struggle for Freedom* (New York: Apex Press, 2004).
11. Even if the West were to achieve a kind of cooperation by sharing the control of places like Iraq and Afghanistan, a nineteenth century-style accommodation amongst western countries at the expense of the rest of the world is highly unlikely in the twenty-first century. The aspirations of the world's people for a place at the table and a realistic chance to make a decent living are unlikely to be pushed back by a nuclear-tipped NATO any more than they can be stemmed by a nuclear-armed United States. In a world bristling with materials and information regarding all manner of weapons that can wreak havoc, chaos is a more likely result.
12. See Arjun Makhijani, "U.S. Monetary Imperialism and the War on Iraq," *Science for Democratic Action*, special issue, vol. 11 no. 3, June 2003, and Arjun Makhijani, "Saddam's Last Laugh," March 2001, online at www.tompaine.com/feature2.cfm/ID/4110.
13. The analysis in the June 2003 special issue of SDA and the events since that time have led me to the conclusion that the U.S. goal in Iraq will be to maintain a powerful military presence in the country, or at least in the oil-rich regions, for the long-term in the form of bases regardless of the eventual nature of the government of Iraq. This has been the result of the 1991 Gulf War for Kuwait. It follows that, insofar as the U.S. government can influence the eventual outcome, the shape of the Iraqi government may depend largely on whether parties and groups in Iraq are willing to allow a long-term U.S. military presence (or a multinational presence dominated by the United States) and on what political process can provide the United States with the best assurance of that outcome. However, as of this writing, the future shape of the conflict and its outcome are unclear, since the Iraq war continues.
14. Keynes' ideas are set forth in *Proposals for an International Clearing Union*, Draft of the British government's proposal sent to U.S. Treasury Secretary Henry Morgenthau, Jr. by the British War Cabinet, Official Committee on the Post-War External Economic Problems and Anglo-American Co-operation, August 28, 1942. On the Web at <http://e-server.e.u-tokyo.ac.jp/Exhibition/keynes/pdf/62.pdf>.
15. This scheme was initially proposed in Arjun Makhijani, *Oil Prices and the Crises of Debt and Unemployment: Methodological and Structural Aspects*, Final Draft Report, Geneva: International Labour Office of the United Nations, April 1983, and then by Arjun Makhijani and Robert S. Browne, "Restructuring the International Monetary System," *World Policy Journal*, Winter, 1985–86, pages 59–80, and again, with slight modifications, in Arjun Makhijani, *From Global Capitalism to Economic Justice* (New York: Apex Press, 1992), Chapter 11.
16. Not all work is monetized, as for instance most work in the home. Labor productivity calculations in economics generally refer only to labor exchanged for money. For a discussion of this issue in relation to women's work, see Part 2 of *Manifesto for Global Democracy* (New York: Apex Press, 2004).
17. *Pecunia* is Latin for money, and *pecus*, its root, means cattle. Thanks to Brice Smith for the research.
18. Over periods of a decade or two, it may be necessary to adjust the basket as the composition of the global economy changes. Similar adjustments are now made in computing inflation, labor productivity, and economic outputs of countries measured by purchasing power parity.
19. *Proposals for an International Clearing Union*, 1942, op. cit. Point 4.
20. In principle, settlements of international accounts is much like settlements of individual bank accounts, with payments and deposits being made into them. For discussion of current issues relating to settlements under the present system, see the website of the Bank of International Settlements and specifically the section devoted to the Committee on Payment and Settlement Systems at www.bis.org/cpss/cpssinfo01.htm.
21. See www.bis.org/cpss/cpssinfo01.htm.
22. The foreign investment need not be from a creditor country, since only overall accounts of any country must remain within the limits set by the system over the long term.
23. There has been considerable discussion and some progress on transparency issues in recent years. For a discussion of money laundering, offshore banking, etc., see the website of the Global Policy Forum at www.globalpolicy.org/nations/laundry/general.htm and Michael Levi, "Money Laundering: Private Banking Becomes Less Private," from the Global Corruption Report 2001 of Transparency International, at http://gcr.netscript.kunde.sserv.de/download/gcr2001/gi_money_laundering.pdf.
24. Such a tax has been proposed by the late James Tobin, a Nobel prize-winning economist.
25. Explanations of how these alternative currencies work include: Transaction Net, *Complementary Community Currency Systems and Local Exchange Networks*, at www.transaction.net/money/community/index.html; Timedollar Institute, Welcome to Time Dollars, at www.timedollar.org; and Ithaca HOURS Online, at www.ithacahours.com.
26. "The IMF Under Fire," [editorial] *Washington Post*, October 10, 1999, page B6.



Arjun's Reading List



Dr. Egghead has been reading again. Recent readings—other than DOE documents, which have nearly destroyed his literary life—are highlighted here.

The One-Straw Revolution

by Masanobu Fukuoka (Other India Press, 2001)

If you care about nature and economy, this is the most essential book of all. It describes productive agriculture—rice, small grains, fruit, vegetables—all done by hand, without plowing, fertilizers, pesticides, or oil-powered machines, or even farm animals. The result is not just productivity per unit of land, but also per unit of labor. A brilliant and revolutionary concept of agriculture, of Buddhist inspiration, based on the idea of working with Nature, combining the best of traditional knowledge, ecological awareness and understanding, joined with painstaking experimentation in the best scientific tradition (though the author might not like that way of describing it). Literally and figuratively, a seminal book.

Rogue Nation: American Unilateralism and the Failure of Good Intentions

by Clyde Prestowitz (Basic Books, 2003)

The best leaders lead by example. This book by a lifelong Republican about U.S. disregard of its allies and its international obligations, spells out the reasons we might expect that a U.S. policy of do as I say not as I do leads to a bad place for the people of United States and the world.

The Unconquerable World: Power, Nonviolence, and the Will of the People

by Jonathan Schell (Metropolitan Books, 2003)

Gandhi believed that the British only succeeded in ruling India because Indians were giving them implicit consent. Schell tests whether a withdrawal of consent through non-violent resistance (satyagraha), and building an alternative vision and practice, explain the success of other revolutions from the British revolution of 1688 to 1776 in the United States, to the Vietnamese resistance to French imperialism and the U.S. war. A brilliant analysis. Essential reading for anyone who, like me, believes that a secular version of the political and moral ideas of Gandhi and King must show the way to peace and democracy in the twenty-first century.

Secrets: A Memoir of Vietnam and the Pentagon Papers by Daniel Ellsberg (Penguin Books, 2003)

If you want to understand the machinations that preceded the Iraq war without access to the secret documents of 2002, read this book on a war that people in the United States know as the Vietnam War, but the Vietnamese call the American War.

Facing West: The Metaphysics of Indian-Hating and Empire-Building

by Richard Drinnon (University of Oklahoma Press, 1997)

I think a large part of the key to understanding present U.S. relations with the world lies in the ideology of Manifest Destiny and, more broadly, in the formation of the dominant U.S. political culture on the rationalization of grabbing the land and resources of Native Americans. This work on the culture, politics, and economics of terror as practiced on Native Americans from the earliest days by some of the “Pilgrim Fathers” and others shook my nuclear-hardened self.

Moral Politics: How Liberals and Conservatives Think

by George Lakoff (University of Chicago Press, 2002)

A fine analysis of the unspoken cultural basis of conservative and liberal politics as “strict Father” and “nurturant Mother,” both of whom share the idea of nation as family. I had an insight per minute reading this book about how conservatives have come to rule the United States. However, it is, in my view, a description mainly of politics as if it is an argument among Whites. It omits the centrality of racism and the ideology of Manifest Destiny in U.S. politics and economics. For that reason, its understanding of why conservatives have succeeded is better than its prescriptions of how liberals might succeed.

Other readings: *East of Eden* (John Steinbeck), *The Namesake* (Jhumpa Lahiri), *The Death of Vishnu* (Manil Suri), and *Ishmael* (Daniel Quinn).

Of course, if you don't have time for all this, you can always read Egghead's new book: *Manifesto for Global Democracy* (Apex Press, 2004). You can get it early from IEER.

Reader Reactions to the *Science for Democratic Action* Special Issue

Reader responses to the June 2003 special issue of *Science for Democratic Action*, volume 11 number 3, were extraordinary. Some excerpts are reprinted below; more are posted on the IEER website under 'newsletters'. As always, and especially for this issue of SDA, we invite your feedback.

Dear Arjun,

I have just given a first reading to the June issue and I felt constrained to send you a message at once. Ping [the late W.H. Ferry]... would have loved [the dedication of the issue to him] and insofar as I have grasped what you are saying, he would have endorsed it in full...

I read the issue in its entirety and can readily see where you are going, but as the myriad threads which you are attempting to bring together into a unified whole are, themselves, technically challenging, I will require more than one reading before I can endorse the product without qualification. We certainly need more of this kind of analysis.

I am pleased to see that you are still on the case. Sorry we never got our monetary thoughts codified into a recipe for world salvation, but that is no easy task either.

Keep up the good work, Arjun.

Sincerely,
Bob Browne
Teaneck, New Jersey

Dear Arjun and friends,

...[T]he fabulous special June issue on global economics... is the most concise and clear explanation of our global economic problems I have yet seen. I thought it was particularly useful to think of immigration policies in terms of a system of global apartheid—a connection I had not made until reading your articles... [P]lease continue to write on this topic.

For a just and peaceful world,
Chuck Johnson
Portland, Oregon

Dear Arjun,

You and your team deserve unqualified appreciation for bringing out a special number about democracy. By doing so you have met the challenge which your magazine expected. In fact it is the undemocratic use of science that has plunged the world into the current darkness. Democratic thinking, democratic attitudes and democratic behavior is a must in every part of life. It is so unfortunate that the country most suited to lead humanity to unprecedented heights through democracy has sponsored the most undemocratic acts and persons in the world, unrivalled in human history.

I possess a bit different view about [your claim] "The dozen years since the sunset of the U.S.-Soviet clash have seen the hopes of millions of people for a new dawn of freedom and equality across the world dashed because of a process of globalization..." At first it was wrong on the part of those millions of people to pin the hopes of a "free and equal" future on the sunset of the U.S.-Soviet clash. ... [The] going-away of the Soviet Union would not turn the world from hell to heaven overnight as the people had hoped. In fact the first super power had spent trillions of dollars and millions of men around the globe in defeating "the rival" not for realizing the hopes of people but to achieve what the world is witnessing, in your words, "[putting] the interests of corporations and capital ahead of those of people." To realize their hopes and make the so-called long held dreams of humanity come true, these millions—rather billions—of people will have to rely on their own and wage their struggle afresh with new strategies.

Abdul khaliq Junejo
Karachi, Sindh, Pakistan

Reply: Dear Mr. Junejo: I agree with you that the hopes were misplaced because they did not take into account the nature of global capitalism and the role of nuclear weapons in it. But millions did have those hopes. It is difficult to see the nature of the global apartheid beast from within its gut. Events of recent years are bringing them into clearer view.
—Arjun Makhijani

I just read for the second time your superb “special issue.” I read a lot of newspapers and magazines of international and national circulation and repute and this is by far the most cogent, compelling analysis of the world political-economic scene I have read yet.

Great work and best wishes,
Will Shapira
Minneapolis, Minnesota

My dear friend,

...I hope I am not too late in letting you know what an important work it is and what a courageous act on your part—sticking your neck [out] work, so to speak...

It is not a coincidence that your voice is becoming clearer and louder at this time in history. We need a voice so desperately.

You have focused on nuclear issues, but it has been obvious since meeting you that your intellect cuts across many lines. Perhaps not being submerged in USA political and pop culture as a child has helped you see through the confusion and obfuscation, to perceive and articulate what I see as a clear, new vision.

...Resistance to war, this time in Iraq, rising out of the US and enlarging over the entire planet, may have been the birth [of a world people’s movement]. This was the first time in modern history that people have said, “We want peace.” Before, they have been anti-war; this time, the first time, they were pro-peace. I am still blown away by the numbers.

Great new movements need a message and a messenger. And you are both. There are many ways of getting a message across. I want to encourage you to press on. The times call for a clear radical vision. There’s an enormously large and hungry audience clamoring for it.

Don Gardner
Austin, Texas

Dear Dr. Makhijani,

I recently read your article on “U.S. Monetary Imperialism and the War on Iraq” in the June 2003 issue of *SDA*. It gave me a better understanding of this war than anything I have read. At the end of the article you make a suggestion for establishing fair trade, i.e., setting exchange rates of currencies on the basis of their underlying value. Many difficult steps would need to be taken, perhaps starting with “a second Bretton Woods.”

Inasmuch as monetary policy can be either a hindrance or a help to the goal of peace and justice, I am wondering how an interested citizen can support this idea. Are any legislators interested? Are any NGOs promoting a second Bretton Woods? How can I add my voice to making this a reality?

Sincerely,
Dolores Rodriguez
Richmond, California

Reply: Dear Ms. Rodriguez: I’ve written an article on restructuring the global monetary system along lines that I believe would benefit working people everywhere. Perhaps you and others could advocate for it if you think it is along the right lines. Also, you are free to republish our material with due credit to the source. —Arjun Makhijani

Editor’s note: We invited comment from Professor Milton Friedman on the article regarding his views on capitalism and freedom that was published in the June 2003 special issue of *Science for Democratic Action*. He refused comment, replying “...I am not interested in responding.” His letter and other comments on the special issue of *SDA* are on the IEER website.



It pays to increase your jargon power with Dr. Egghead

Tactical nuclear weapons

- a) Nuclear weapons you can feel, fuzzy to the touch.
- b) Polite (tactful) weapons of mass destruction.
- c) Nuclear weapons designed for battlefield and theater-level use. There were thousands of such weapons in Western Europe until almost all were removed in 1991 by President Bush I. New tactical nuclear weapons under development are called “bunker-busters” and “mini-nukes.”

Ratification

- a) Process of combing clumps of hair toward the scalp (ratting) so that the hair sticks straight out from the head.
- b) Purposeful infestation of rodents, by rodents, for rodents. Very common in financial capitals.
- c) Formal adoption by a country of an international treaty or agreement as part of the law of that country. In the United States, treaty ratification requires two-thirds support of the Senate. Sometimes, a certain number of countries must ratify a treaty before it can enter into force.

First use

- a) Term describing sterile hospital clothing or instruments that must be disposed after being utilized only once.
- b) In the paper industry, virgin, or non-recycled, material.
- c) A nuclear weapons policy that leaves open the option of using nuclear weapons first in a conflict. “First strike” generally connotes a massive surprise attack with nuclear weapons on another nuclear weapon state.

NATO

- a) Neck And Throat Occlusion, medical term for chokehold.
- b) National Association for the Tolerance of Orcs, an organization that advocates for understanding and acceptance of the belligerent and blood-thirsty creatures from the *Lord of the Rings* trilogy.
- c) North Atlantic Treaty Organization, a military and security alliance of 19 North American and European countries. Formed in 1949.

Answers: c, c, c, c

The Institute for Energy and Environmental Research

6935 Laurel Avenue, Suite 201
Takoma Park, MD 20912 USA

Address service requested.

Printed with vegetable oil based ink on process chlorine free recycled paper containing 100% postconsumer waste.

Non-Profit
US Postage
PAID
Merrifield, VA
Permit #1112

