

International Finance in the Post 9/11 World

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The United States is a powerful economy. We have a particularly important role in the world's economy and our financial policies are a very large part of our foreign policy. So in my view we need a cadre of what I call "global financial warriors" to take care of business on the finance side. Our foreign policy has three components – military, diplomacy and financial. To me those are three parts of a stool and if you lose one you lose the whole game. But nobody knows much about the financial side and that's what I want to emphasize: in order to understand the war on terror you need to understand the financial side.

So, who are these global financial warriors, anyway? Well, there were approximately 350 people who worked for me in the Treasury in Washington, but also people at the World Bank and a roughly 50 countries around the world giving advice to the finance ministers and to other central bankers about their economies.

In my book there's a nice piece of artwork to attract people's attention. The frontispiece on my book is a picture of Uncle Sam posted at the north entry of the Treasury building, a picture of Uncle Sam saying, "We're at war. Are you doing all you can?" In a sense, it was for the Treasury employees so they came in to recognize that they had a mission, and this poster was to generate the teamwork necessary to carry out that mission.

The global financial warriors also include people in other countries, and that's very important because we are a global economy and the United States can't do everything. Therefore, we have people like, for example, the Finance Minister in Afghanistan who was the first Finance Minister in that country's democracy under President Karzai. His name is Ashraf Ghani, and I think of him as the Alexander Hamilton of his country. He not only worked to set up a treasury and finance industry like Alexander Hamilton did here, but he had to rein in some of the unruly governors of the provinces that weren't paying their customs duties and try to convince them that they needed to support the federal government. He was successful in doing that with United States help. So, the financial global warriors are much broader than people who work in the Treasury or even for the U.S. government.

In many respects the focus on the financial side of our foreign policy seems to me to have deepened and expanded after 9/11. I went to Washington and was appointed by President Bush right before 9/11. I expected to be negotiating in the halls of finance in Paris, London and Tokyo. In fact, I was in Tokyo on September 11. But then the world changed completely and I had to fly to the United States. There was no commercial air traffic, so I got a military aircraft that took me

back, refueling over Alaska to be back in time. I knew it was going to be a different world and, instead of negotiating high-level agreements in the capitals of the developed world, I was going to places I'd never been before, like the western part of Afghanistan. So, that flight in a military aircraft was symbolic as to how things had changed so much.

The story that I'm telling tonight and in my book, includes the freezing of assets, it includes the work in Afghanistan and Iraq, it includes efforts to try to make the overall financial system run smooth. What I would like to do is give you five themes that characterize the whole subject here and give you a sense of what all the stories were about at the same time.

Number one – I call it the “high marks theme.” I use the words high marks perhaps because I'm a professor. By the “high marks theme” I mean that the stories in the financial area are for the most part good stories, stories of success. It's really quite remarkable. Right after 9/11 when I got back to Washington our first job was to find the assets of Al Qaeda and its financiers and freeze them, not only in U.S. banks but in banks around the world. That required cooperation of other countries, and you might say, “How do you get that cooperation?” Well, you work at it. Ultimately we got 172 countries to cooperate with the United States on that particular operation. So it was a success in that sense. But you also don't have to take my word for it. The bipartisan, non-partisan, 9/11 Commission which looked at all aspects of the war on terror—and they're tough graders, by the way, much tougher than I am, they gave a lot of D's and C's and they only gave one grade in the A range, and that was in this effort to freeze and track terrorists' assets. So, it's no joke when people who have looked at this objectively have found it to be successful. Successful, not only because money has been frozen but because through the financial system we can track networks of the terrorists, Al Qaeda, etc., and get more information about what they're doing and that information can be useful to prevent attacks or apprehend people who might be perpetrating events.

There were also high marks for things like the new currency in Iraq. In order to have financial stability in Iraq you had to produce a whole new currency. When you read about this you will have to be amazed. The new currency required printing the equivalent of twenty-seven 747 planeloads of currency, – in a record time, at seven different printing plants around the world, flying them into Baghdad, sending it in convoys in smaller aircrafts to 250 distributions points around the country as Iraqis came in with their own currency with Saddam's face on it and turned it in for this new currency. It is a success by any definition.

The efforts to reduce Iraq's debts was another example. The efforts to reduce the debt of the very poor countries is another example. The efforts to actually try to prevent the contagion of major crisis is another example. You might note, although people frequently don't, that we have not had a financial crisis in the world since 2002 of any magnitude. We certainly have not had the contagion that we had in the 1990s. That's another aspect of success. In all aspects, you don't really know who to give the credit to entirely, but nevertheless this is my first theme – that a lot of the stories here get high marks.

I think it's important, quite frankly, to know about these successes, to know about what has worked well. There has been a lot of focus on what has not worked so well and a lot of examination as to why. We also need to understand what went right and to understand why and by looking at the details we can understand much better.

The second point I want to stress is what I call “questioning conventional wisdom.” If you read the stories that I've been trying to tell here, I think in many cases you'll wonder about some of the

conventional wisdom that is out there. I will give you two examples: First of all, the claim that the United States has no diplomatic strategy, laundering our political capital internationally; we don't have a strategy on the diplomatic side, that's the conventional wisdom. If you look at this particular area, which is what my job was, you'll see just the opposite. How could you get 172 countries to cooperate in freezing assets, how can you get 120 of those countries to change their laws without a very robust diplomatic strategy? And that's what happened. How can you get the countries who were otherwise disagreeing with each other about Iraq, for example, the French, the Russians and the Germans, who had a much different view of Iraq than the Americans, the British and the Japanese? Yet those countries came together, and agreed through good negotiations and diplomatic strategy to cut Iraq's debt by 80 percent so that the economy of Iraq could begin again. That required diplomatic strategy. How do you raise \$5 billion almost overnight to support Afghanistan, even before the Taliban was thrown out of Kabul without diplomatic strategies? So, this is really remarkable. Some of this may be because there was a lot of enthusiasm and support for the United States right after 9/11, but even later we received, I would say, this diplomatic strategy.

My other example of this second theme of questioning conventional wisdom is related to the financial aspects in Iraq. The conventional wisdom that there was insufficient advanced planning to correspond to situations. If you look at how planning went for the financial side of Iraq – and that's all I can speak to intelligently because I was there and I can tell the story- you see an enormous amount of advanced planning, in anticipation of a possible conflict in Iraq way back in 2002 we in the Treasury began planning for what we could do to create financial stability in that country. And it wasn't just the Treasury – there were interagency discussions involving the White House, the president, the National Security Council, State Department, and so there was this effort to figure out what you do in this area, and it was because of that advanced planning that it was successful, in my view. It's really why we can tell the story about the currency and that success.

So, what you have to do, as students of foreign policy, is look at the details and come to your own conclusions about this conventional wisdom, about advanced planning. Here I give you the information, the meetings and the descriptions and the debates that were going on about how to proceed. Just imagine, by the way, imagine the advance planning in a situation where you don't know if there's going to be a conflict, you had no idea what it's going to be like afterwards, your intelligence about the country is very flimsy and you have to put together a plan for a central bank with a finance ministry after a conflict – it is tough. The fact that it happened at all is remarkable.

My third point. I think to understand this area you really have to follow things from top to bottom. By the top, I mean the president, the White House. By the bottom I mean the people on the ground. Fortunately I was in a position, as the person in charge of the financial side at the Treasury, to see both; to be in meetings with the president, to make the presentation to the president and to the Joint Chiefs and to the NSC about our plans for Iraq, for example; to see how those decisions were made and how they interacted with the political and security issues, at the same be able to be on the ground to observe what happened, to observe these financial heroes trying to establish an economy in very difficult circumstances. And so, for some statistics, not only did I go to something like 400 meetings at the White House during this span of time, I also made 120 trips to foreign countries to be with our guys on the ground and to do what had to be done there.

The stories about what they did are very much part of the understanding of what went on. For example, we had to send a person to Baghdad in April 2003 – right after Saddam fell- and he had

been prepared for this, he had his instructions about what to do and his first job was to pay the Iraqis so that the economy would keep going. What he had to do was go to the completely looted, almost destroyed central bank and finance ministry and try to find which Iraqis to talk to so that we could figure out who to pay. The looting was discouraging because it looked like all the records that we would need to make these payments were destroyed. So one of my first situation reports from these people was that with the looting it had been impossible to find records of people that we should make payments to. So, we said, “There goes our plan. How is this going to work? We don’t even know who to make payments to.” Believe it or not, the Iraqis in these ministries, in anticipation of a conflict, took the records home with them on old fashioned floppy disks. Afterwards, when we got their trust built up with our people, they let us have these records and that turned it around completely. Knowing what happens on the ground, I think, is so important to understand why there are successes. Sometimes it’s the work of people we never think of that’s going to be the most important part.

The person we ultimately chose to be commander of the Iraqi currency exchange was a civilian, but a retired Brigadier General. He was very effective not only because he was a dedicated public servant, but he also happened to know some of the top people in our military personally. So, when he needed help on security he could call up General Sanchez and say, “I need some people out here.” That would have been very hard for someone without that background. These are things you learn after the fact.

My fourth point is, I think it’s very timely in U.S. history to think about the financial side of this operation more carefully. There are a couple of reasons for that. First of all, it has to do with the change in leadership in the Congress. As you know, in the first hundred hours one of the objectives of the Democratic leadership was to work on implementing the recommendations of the 9/11 Commission, a top priority of the first hundred hours. One of the recommendations of the 9/11 Commission, of course, was to work on the financial aspects of the war on terror, to freeze and trace the assets. That’s the area which, after they made the recommendation, they said they would give the grade of A-

So, the first lesson is don’t screw that up. In fact, I would say bolster it, find a way to give more support for this activity so the next time the report card comes out it’s not less than an A-. That will require support on this progress to make that happen. So right now, for example, for the U.S. Treasury to continue this operation it needs additional analysts, it needs “secured rooms” they’re called SCIFs —so they can work. That requires money, they need computers to do this and so right now Congress has the opportunity to fund this or not. If they don’t fund it, it’s likely to move from an A- grade to a lower point, and more important than the grading, it would make the United States less secure and make the war on terror less effective.

The other reason why this is timely, it seems to me is that in the last couple of years the financial aspect of the war on terror is expanding in new areas which people are just beginning to learn about and which are also examples of effectiveness. They have to do with weapons of mass destruction in North Korea and Iran. You may have read in the testimony of Negroponte, he was asked about the financial sanctions against North Korea and whether they were doing any good. He said they were. He thought it was an important part of the effort to persuade North Korea to get to the table and to stop their testing.

What are the financial sanctions? Probably people don’t know. Well, a little over a year ago the U.S. Treasury designated a bank in Macau, in Asia that had been doing money laundering with North Korea – drug money – and distributing counterfeit hundred dollar bills in North Korea.

And so by designating this bank it was a warning to U.S. banks that you might not be able to deal with that bank any more. That was enough to make everybody look warily at this bank and with our authority replaced the leadership of the bank, froze about \$24 million dollars of North Korean money. And so the North Koreans were very upset about this. It's their money. They're using that now as an important factor in the six-party talks. So you can think about that and think about whether that's the kind of thing we should be doing, these sanctions; whether they useful or not, they're there. And that's another reason for this to be such a timely topic.

Finally, in terms of timeliness, the same thing is going on an Iranian bank. Just two weeks ago, the U.S. Treasury designated an Iranian bank because this bank had been financing purchases of the technology that produced long-range missiles. So this bank is also designated as one that U.S. banks won't be able to deal with and another example of what sanctions are possible. They are very focused and directed and may do some good in this important area.

It seems to me that we have an opportunity, and we're looking for opportunities to come together in a nonpartisan way in America on some issues related to the war on terror. It seems to me that this financial area is one that should be a no-brainer. It's not controversial; there is bipartisan evaluation that seems to be working. We're sure there's going to be complaints and debates as we shoot for democracy. But this seems to be one issue we should able to get behind and show some resolve, both by the Congress and the administration, to persuade Americans that this is something we can get together on, maybe pass a resolution about bolstering this activity.

I will conclude with a quote, if you like, from my son. This was written a couple of months ago from Iraq where he was serving. It was part of an e-mail. He said, "Dad, resolve and hope are what we are lacking, and what we need the most." It seems to me this is an area where we need to get started with some of that resolve.

Thank you very much.

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