

John B. Taylor

The Empty Chair at the Iraq Hearings

Effective foreign policy requires paying close attention to economics, not just security and politics. Policy often falters in practice because the economic or financial aspect is overlooked.

Recall the hearings on Capitol Hill in September concerning progress in Iraq. Testifying on security issues was Gen. David Petraeus, offering his expertise on counterinsurgency warfare in theory and in practice. Next to him was Ambassador Ryan Crocker, able to answer virtually any question, no matter how detailed, on the political machinations within Iraq. And next to them was the seasoned expert on economic issues in Iraq.

Oops. Actually, no one was next to them. An empty chair, perhaps. But had an expert been at the witness table, the testimony might have gone. . . .

Empty Chair: Thank you, Mr. Chairman, for inviting me to testify on economic issues in Iraq. I ask that my written testimony be entered in the record. I will give just the highlights here. We have been working with Iraqi economic officials, including the governor of the Central Bank of Iraq. He has a very tough job conducting monetary policy, perhaps tougher than the chairman of the Federal Reserve Board has here in the United States, even with our current market turmoil. I am

happy to report that the central bank has implemented the recommendations of the Baker-Hamilton commission in this area. It has raised the interest rate all the way to 20 percent to control inflation, and through such actions the inflation rate has come down sharply. The new Iraqi dinar, which was introduced in 2003, has proved popular and has appreciated nicely in the past year. The Central Bank of Iraq now has \$21 billion in reserves, many times more than it had just after Saddam Hussein stole a billion dollars from its vaults in March 2003. This summer the Baghdad Stock Exchange opened to foreign investors, rose 85 percent in July and held its own in August. As the closely watched Grant's Interest Rate Observer noted Sept. 7, "Iraq has turned into a capital magnet. . . . Money is sometimes misinformed, but it is never insincere. Something is afoot in Iraq." So there are measurable signs of economic and financial progress.

Chairman: Just this summer guards stole \$282 million from a private bank in Baghdad. I am referring to news reports on July 11. If the financial sphere is doing as well as you claim, could you tell me how such an astonishingly large heist — a hundred times greater than the famous Brink's robbery — could have happened?

Empty Chair: Well, Mr. Chairman, those

newspaper stories were in error.

The actual amount was 282 million dinars, not dollars. Currently, a dinar is worth less than one-tenth of a penny, so the robbery was only half of 1 percent of the size of the Brink's robbery.

When the story broke, NBC asked if I would explain it on the nightly news. But when they discovered the actual size of the robbery, they canceled my appearance, saying it was no longer newsworthy. I agreed.

Committee Member: Certainly things can't be going as well financially as you claim. We hear very little about it.

Empty Chair: Occasionally there are stories. Last December, for example, Newsweek reported that the Iraqi economy was the "mother of all surprises." But that story did not get in the echo chamber like the robbery this summer.

Committee Member: So there is nothing more to do in terms of economics?

Empty Chair: On the contrary, there is much more that we and the Iraqis should be doing. I appreciate the opportunity to testify today on the importance of this third pillar of our policy.

My strong recommendation is: As soon as Gen. Petraeus and his coalition forces secure an area — a neighborhood or a town — we should immediately focus as best we can on

the economic part of our mission. Help businesses reopen and hire people, especially young people who might otherwise join the enemy.

Establish organizations of entrepreneurs to tell us and the Iraqi government what they need. Build industrial enclaves if necessary. Work with Iraqis to provide security for shipments of products and key raw materials for manufacturing or agriculture.

You have heard much about the need to secure an area before significant political progress can be made; the same is true for economic progress. But economics is quicker than politics. We should move in economically even before our teams start helping on political reconciliation. If the environment is secure, entrepreneurs — both Shiite and Sunni — can create jobs much more quickly than politicians can reach agreement, let alone pass legislation. Job creation, the economic integration of communities and the taste of prosperity will accelerate political reconciliation and the achievement of our ultimate objective in Iraq.

The writer, an economics professor at Stanford and senior fellow at the Hoover Institution, was Treasury undersecretary for international affairs from 2001 to 2005.