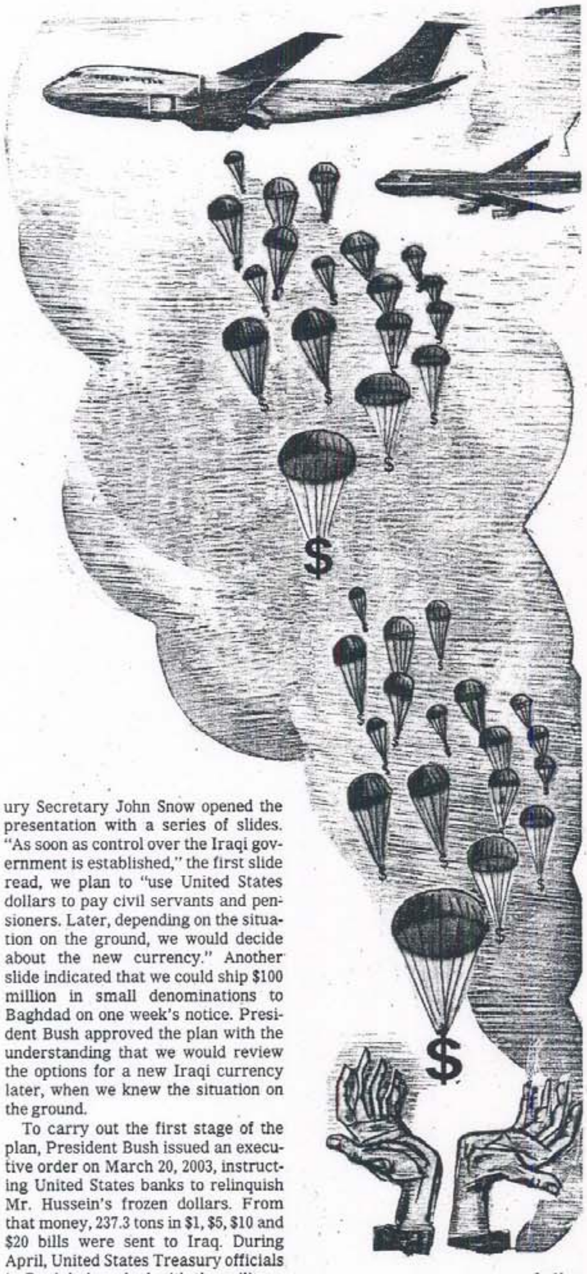
Billions Over Baghdad

By John B. Taylor



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EARLIER this month, the House Committee on Oversight and Government Reform held a hearing that criticized the decision to ship American currency into Iraq just after Saddam Hussein's government fell. As the committee's chairman, Henry Waxman of California, put it in his opening statement, "Who in their right mind would send 360 tons of cash into a war zone?" His criticism attracted wide attention, feeding antiwar sentiment and even providing material for comedians. But a careful investigation of the facts behind the currency shipment paints a far different picture.

Sending U.S. cash to Iraq was one of the war's big successes.

The currency that was shipped into Iraq in the days after the fall of Saddam Hussein's government was part of a successful financial operation that had been carefully planned months before the invasion. Its aims were to prevent a financial collapse in Iraq, put the financial system on a firm footing and pave the way for a new Iraqi currency. Contrary to the criticism that such currency shipments were ill advised or poorly monitored, this financial plan was carried out with precision and was a complete success.

The plan, which had two stages, was designed to work for Iraq's cash economy, in which checks or electronic funds transfers were virtually unknown and shipments of tons of cash were commonplace.

In the first stage, the United States would pay Iraqi government employees and pensioners in American dollars. These were obtained from Saddam Hussein's accounts in American banks, which were frozen after he attacked Kuwait in 1990 and amounted to about $1.7 billion. Since the dollar is a strong and reliable currency, paying in dollars would create financial stability until a new Iraqi governing body was established and could design a new currency. The second stage of the plan was to print a new Iraqi currency for which Iraqis could exchange their old dinars.

The final details of the plan were reviewed in the White House Situation Room by President Bush and the National Security Council on March 12, 2003. I attended that meeting. Treasury Secretary John Snow opened the presentation with a series of slides. "As soon as control over the Iraqi government is established," the first slide read, we plan to "use United States dollars to pay civil servants and pensioners. Later, depending on the situation on the ground, we would decide about the new currency." Another slide indicated that we could ship $100 million in small denominations to Baghdad on one week's notice. President Bush approved the plan with the understanding that we would review the options for a new Iraqi currency later, when we knew the situation on the ground.

To carry out the first stage of the plan, President Bush issued an executive order on March 20, 2003, instructing United States banks to relinquish Mr. Hussein's frozen dollars. From that money, 237.3 tons in $1, $5, $10 and $20 bills were sent to Iraq. During April, United States Treasury officials in Baghdad worked with the military and the Iraqi Finance Ministry officials — who had painstakingly kept the payroll records despite the looting of the ministry — to make sure the right people were paid. The Iraqis supplied extensive documentation of each recipient of a pension or paycheck. Treasury officials who watched over the payment process in Baghdad in those first few weeks reported a culture of good record keeping.

On April 29, Jay Garner, the retired lieutenant general who headed the reconstruction effort in Iraq at the time, reported to Washington that the payments had lifted the mood of people in Baghdad during those first few confusing days. Even more important, a collapse of the financial system was avoided.

This success paved the way for the second stage of the plan. In only a few months, 27 planeloads (in 747 jumbo jets) of new Iraqi currency were flown into Iraq from seven printing plants around the world. Armed convoys delivered the currency to 240 sites around the country. From there, it was distributed to 25 million Iraqis in exchange for their old dinars, which were then dyed, collected into trucks, shipped to incinerators and burned or simply buried.

The new currency proved to be very popular. It provided a sound underpinning for the financial system and remains strong, appreciating against the dollar even in the past few months. Hence, the second part of the currency plan was also a success.

The story of the currency plan is one of several that involved large sums of cash. For example, just before the war, Saddam Hussein stole $1 billion from the Iraqi central bank. American soldiers found that money in his palaces and shipped it to a base in Kuwait, where the United States Army's 336th Finance Command kept it safe. To avoid any appearance of wrongdoing, American soldiers in Kuwait wore pocket-less shorts and T-shirts whenever they counted the money.

Later, American forces used the found cash to build schools and hospitals, and to repair roads and bridges. Gen. David Petraeus has described these projects as more successful than the broader reconstruction effort.

But that wasn't the only source of dollars. Because the new Iraqi dinar was so popular, the central bank bought billions of United States dollars to keep it from appreciating too much. As a result, billions in cash accumulated in the vaults of the central bank. Later, with American help, the Iraqi central bank deposited these billions at the New York Federal Reserve Bank, where they could earn interest.

Finally, when Iraq started to earn dollars selling oil, the United States transferred the cash revenue to the Finance Ministry, where it was used to finance government operations, including salaries and reconstruction. Many of these transfers occurred in 2004, long after the financial stabilization operation had concluded. Iraqi Finance Ministry officials had already demonstrated that they were serious about keeping the controls they had in place. The 360 tons mentioned by Henry Waxman includes these transfers as well as the 237.3 tons shipped in 2003 in the stabilization.

One of the most successful and carefully planned operations of the war has been held up in this hearing for criticism and even ridicule. As these facts show, praise rather than ridicule is appropriate: praise for the brave experts in the United States Treasury who went to Iraq in April 2003 and established a working Finance Ministry and central bank, praise for the Iraqis in the Finance Ministry who carefully preserved payment records in the face of looting, praise for the American soldiers in the 336th Finance Command who safely kept found money, and yes, even praise for planning and follow-through back in the United States. □

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