

International Monetary Fund

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My Travels to Baghdad

Warren Coats



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My Travels To Baghdad

By Warren Coats

2004-2005

Written for and dedicated to my family

My parents, Warren and Sue;

My son and his family, Brandy, Talitha, Alexis, Kedrick, Hannah, and Casey;

My daughter and her family, Daylin, Harley, Bryce and Micaela; and

Their mother, Louise



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Preface

Warren Coats was the Coalition Provisional Authority's Senior Monetary Policy Advisor to the Central Bank of Iraq in May and June 2004. He returned four more times for two week visits through December 2005 working for BearingPoint under a contract with USAID and reporting to the U.S. Treasury. Between visits he continued his assistance to the Central Bank by email.

Dr. Coats has a BA degree in Economics from the University of California Berkeley and a Ph.D. in economics from the University of Chicago. He taught economics at the University of Virginia for five years before joining the International Monetary Fund in December 1975. During his 26 years at the IMF he led the teams that helped establish the monetary authorities or central banks of Bosnia and Herzegovina, Kosovo, West Bank and Gaza Strip, and the teams that helped develop the capacities of the central banks of Croatia, Kazakhstan, Kyrgyzstan, Moldova, and Serbia. In addition, he lead IMF technical assistance and/or financial sector assessment teams to the central banks of Bangladesh, Bulgaria, Czech Republic, Egypt, Hungary, Israel, Slovakia, Slovenia, and Turkey. He took a one year leave of absence in 1979 to join the staff of the Board of Governors of the Federal Reserve System as a visiting economist and a one year leave of absence in 1988 to serve as a principal author of the 1989 *World Development Report* of the World Bank. He retired from the IMF in May 2003 in order to accept an appointment as a Director of the Cayman Island Monetary Authority.

When asked by the U.S. Treasury if we would serve in Iraq as the CPA's Senior Monetary Policy Advisor to the Central Bank of Iraq, Dr. Coats put aside his reservations about the wisdom of the war against Saddam Hussein and accepted. He believes that economic success and the rule of law (to which democracy contributes) increase the likelihood that a country will be a peaceful member of the world community and that peaceful and healthy countries serve the interests of the United States and of all good-hearted people in the world. One small part of economic success comes from a sound and predictable monetary system. Dr. Coats was happy to contribute his knowledge in this area to helping Iraq emerge from decades of repression as a successful state and peaceful member of the world community.

December 2005

Introduction

The approach to the reconstruction of Iraq is very different from other post conflict countries I have worked in. My goal for this book is to explain how and why it was so different while giving the reader a feel for what it was like working there.

By the time I was sent to Bosnia and Herzegovina to lead the IMF's post war assistance to that country's efforts to establish a new central bank, I had already had four and a half years of experience in establishing or rebuilding central banks in countries under stressful circumstances (Bulgaria, Croatia, Kazakhstan, Kyrgyzstan, Moldova, West Bank of Gaza Strip). In the early 1990s we helped almost all of the former Soviet republics introduce their own currencies, establish market oriented monetary policy tools, payment systems, and banking supervision, establish foreign exchange, government securities, and interbank money markets, and develop the structures and capabilities in their central banks needed to formulate and implement sound monetary policies.

Because of the experience I gained in Bosnia, the IMF sent me to Kosovo as soon as hostilities stopped there to build a monetary authority for that non-country "from scratch." This was followed by Yugoslavia—Serbia really, as I had no contact with Montenegro—as soon as the American bombing stopped there. I was even part of the IMF and World Bank's first post conflict visit to Kabul in January 2002 following the toppling of the Taliban regime in Afghanistan. Thus I probably have had more experience than almost anyone else in the world in dealing with a country's (or region's) post conflict needs for a monetary system. Several of my colleagues at the IMF have developed similar hands on experience.

Thus it seemed quite natural that the IMF sent a team to Baghdad in July 2003 to play its usual role in the post conflict establishment of monetary systems and that I was part of the team. I participated in discussions and preparations underway at the IMF well before the War was launched and was allowed to join the first IMF mission following the toppling of Saddam and the end of what we might now call the initial phases of the war though I had recently retired from the IMF.

Even before we arrived in Baghdad in July 2003, the IMF's role had a different feel and smell to it than my earlier post conflict experiences. We were not in our usual leadership role in the macroeconomic, monetary policy areas. It was a U.S. show all the way. The US requested IMF analysis of several issues (relating to currency, payments, and the banking system) before the war, but we were not really "in the loop."

When the Office of Reconstruction and Humanitarian Assistance (ORHA) in Iraq

invited the IMF to visit Baghdad, it seemed almost perfunctory and half hearted. ORHA was headed by retired General Jay Garner, who reported to Donald Rumsfeld, the U.S. Secretary of Defense. In polite terms we attempted to explain the areas of IMF competence, and our ORHA counterparts tried to look interested.

On that first trip we traveled on a UN-World Food Organization charter flight from Amman. We were actually booted from our intended flight and had to return to our hotel and come back the next morning. The WFO guy at the airport had no record of our “confirmed” reservations in his printout. Post war environments are rarely well organized. The experience was not terribly different from my UN-WFO charter flights into Kosovo in its early days or the NATO C-130 charters from Zagreb to Sarajevo in the early days of my work in Bosnia and Herzegovina (except that the C-130s were clearly military transports with military seating and “service”).



The IMF team at the UN Canal Hotel in July 2003(before it was bombed)

The environment in Baghdad was also not materially different than the environments in Bosnia and Kosovo in the early months in those post conflict assignments. Once in Baghdad, we moved about freely with minimal security. Though

there was a curfew from 11:00pm to 5:00am (I think) and we were driven around in UN cars, we did not wear body armor and our driver and navigator were armed only with pistols. In fact, my friend Rick Ortiz, who was a U.S. Commerce Department appointee to ORHA, drove over one evening and picked me up at my hotel and drove me to dinner at a nice restaurant in the Mansuar District. That was before the UN headquarters in the Canal Hotel was blown up killing its highly respected head, Sergio de Mello, and seriously injuring my IMF colleague Scott Brown. The UN, IMF and World Bank are no longer in Iraq, waiting for security conditions to improve. The IMF meets with Iraqi officials in Amman, Abu Dhabi, Paris, or Washington DC.

Before our visit in July 2003, President Bush had announced on May 6 an acceleration of a new post-conflict administration, now headed by L. Paul Bremer, a counter-terrorism expert and distinguished former ambassador to the Netherlands. Peter McPherson, formerly director of USAID and Deputy Treasury Secretary and the president of Michigan State University at the time of his Iraqi appointment joined Bremer as his chief economic adviser. The new organization, the Coalition Provisional Authority (CPA), included staff from the UK, Australia, Italy, and other coalition members.

The shift of authority to Bremer was a watershed. In his first days he took a number of decisive steps, some of which had unfortunate consequences (e.g. disbanding the Iraqi Military and the de-Ba'athification order). He abruptly scrapped the plans announced by Garner to build up governmental structures and representation from existing regional power structures. Instead, Bremer appointed an ethnically and religiously representative Governing Council (dominated by Iraqi's returning after many years abroad) in a more top down approach and announced that elections would be delayed. Like ORHA, the ability of Bremer's team to formulate and implement new plans was hampered by its being under-staffed, and often under-experienced. The vast experience of the international community (IMF, World Bank) and private sector consultants normally provided by USAID was nearly all cast aside.

When we visited Baghdad in July 2003, McPherson pushed very hard for immediate enactment of licensing provisions so that foreign banks could begin to do business. He argued that adoption of the banking law could wait. But it is naive to imagine a bank applying for a license without knowing the legal framework in which it would have to operate. We strongly supported the prospect of foreign banks in Iraq, but argued for a single comprehensive law that took into account Iraqi attitudes and legal traditions. We were also concerned that existing Iraqi law did not allow foreign ownership of Iraqi companies, and that McPherson was not allowing for adequate consultation and Iraqi "ownership" of the dramatic, though desirable, reforms being

proposed.

We met with McPherson in his second floor office in Saddam's former Republican Palace and presented our arguments for a single comprehensive banking law, which we had drafted many of in the past. McPherson agreed to give the IMF until the end of August to draft a combined licensing and banking law. I then stated that our past experience had been that such a draft should be considered only as a working first draft to facilitate detailed discussion with Iraqi counterparts. In short, I said, we should return for such discussions and redrafting before we claimed to have produced an acceptable draft. McPherson responded immediately that of course there should be full consultation with Iraqis before the new law as adopted, but it never happened.

The banking law was adopted as Order #40 on September 24, 2003. Order #39 adopted on September 21 opened up Iraq to foreign investment. Neither underwent serious discussion on the Iraqi side, and the foreign investment order provoked very negative reactions in the Iraqi business community, primarily for nationalistic and protectionist reasons.

A year later, the law is largely ignored. The President of the Private Bankers Association of Iraq told me in July 2004 that the Arabic translation is of very poor quality and that no one understands what is in the law.

President Bush has claimed repeatedly that Americans came to liberate Iraq not to conquer it. He has been rightly critical of American "nation building." The record of success is poor. Though the stated aspirations of U.S. policy for the Middle East implied the need for nation building in Iraq, aversion to nation building made it difficult to plan adequately for it. Most Americans had little stomach for a long-term occupation of Iraq, let alone for the Bush administration's promotion of a "generational commitment" to the Middle East. Indeed, many of the problems today with post-conflict reconstruction in Iraq stem from the early and vociferous denial of occupation in both word and deed, which has made the U.S. intervention seem alternately hypocritical and incompetent, and, above all, ambivalent.

Pentagon planning seemed to prepare for liberation rather than the occupation and nation building the neo-cons had in mind all along. It badly misconceived what would be needed to realize the objectives of "peace and stability." The conditions for liberation—destroying the enemy and handing over the remnants to a new government—required that we have someone to hand over to. Indeed, that seems to have been the expectation of Pentagon planners, despite serious disagreements over which Iraqis were to be put in charge. The fuller realization of the neo-con's strategic hopes for the region, however, required a period of occupation and "nation building," which many Pentagon planners

neither embraced nor anticipated. In fact, the neo-cons who engineered our launch of this war, deceived the nation about its real purpose and nature. The resulting schizophrenia resulted in frequent adjustments and replacements of inconsistent plans and a complete lack of coherence in our approach.

From these early mistakes, the situation has deteriorated further, notwithstanding the new schoolrooms built, the increase in potable water, the restoration of oil output, a very modest increase in electrical output, and other accomplishments. They fall far short of Iraqi expectation and what was possible. This book documents what I saw and heard when I returned in May 2004 for two months and again in four two weeks through the end of 2005.



Across the street from our residence in Baghdad in July 2003. UN cars picking up Sergio de Mello, UN Head of staff in Iraq before he was killed in the Canal Hotel bombing.

The Setting

Arrival

My second trip to Baghdad came almost one year after the first one. On this new visit, now as a consultant for BearingPoint reporting to the U.S. Treasury, I would stay for almost two months and I was traveling alone from Amman on a commercial Royal Jordanian flight. I did not like the idea of being away from home for such a long time and the conditions awaiting me in Baghdad were significantly deteriorated from a year earlier. I also did not like arriving alone.

I boarded my May 6, 2004 flight from Amman to Baghdad with a mix of excitement and apprehension. As we assembled in the waiting room and then boarded the bus that took us to our plane, I eyed the other passengers. We were all going to Baghdad and I wondered what was bringing them and what they were thinking. On the plane I sat next to Jim, a retired U.S. customs official. He would advise the Coalition Provisional Authority (CPA) on the collection of boarder taxes. Jim was clearly excited and apprehensive like the rest of us.

The flight from Amman to Baghdad took not much more than an hour but I had been preparing physically and mentally to arrive for several months. These final minutes were filled with a rush of thoughts and emotions. Several planes had been hit by rockets and rifle fire while taking off or landing at the Baghdad airport so our approach entailed descending to 12,000 feet directly over the airport before completing the very unusual landing. The large area surrounding the airport was heavily guarded. To prepare us for what was coming our pilot warned us that we would undertake a “corkscrew approach”—a very tight downward spiral from 12,000 feet to the near sea level airfield starting directly over the airport. It provided a breath taking view of the city and surrounding dessert but made me somewhat dizzy. Both sides of the Tigris River were green to the edge of the dessert. Near the airport, in the middle of a lake, was what had to be one of Saddam’s palaces. Following the last steep bank of the plane we straightened out at the end of the runway and shortly touched ground. I am calm by nature but I could not help being excited.

Our Royal Jordanian F 29 jet taxied to a stop near the Baghdad International Airport (BIAP) Terminal. On my previous visit the terminal, formerly name the Saddam International Airport, was closed and our charter plane parked near a large receiving warehouse complex in another area of the airport. On the previous arrival we were each

photographed. On this occasion our arrival seemed almost normal other than the corkscrew approach. We descended the steps of the plane and walked the relatively short distance to the terminal. The afternoon sun was bright and the air was fairly hot but dry. Even the passport control officials seem more or less normal as did the baggage claim area and the bothersome waiting porters. I retrieved my bags with two months worth of clothing, medical supplies, emergency snacks and books and rolled out to the passenger pick up area.

T-mobile claimed that my new Blackberry phone would work in Baghdad, which would be a big plus if true. I had requested emergency contact phone numbers before I left Washington but was assured by BearingPoint that the armored car security detail would be there waiting for me and not to worry.

My pickup cars were not there. Jim, also a BearingPoint contractor, had followed me out. We were both looking for the same cars. Jim looked worried. A large and important looking Iraqi standing near us was on his cell phone trying to figure out why his transportation was not there. He determined that access to the airport had been closed for several hours because of a sniper attack somewhere in the area. He also reported to us that a suicide car bomb near one of the entrances to the Green Zone, the heavily guarded area in which my office in Saddam's Republican Palace was located, had killed a number of people that morning. This was a rather unnerving start. Several days later I found this same gentleman, Haidar Al-Uzri, sitting at a desk next to mine in Saddam's Republican Palace (between my desk and the Palace window)—the desk normally occupied by Ahmed Al-Samarrie. Haidar was the CPA appointed CEO of the country's largest bank, the state owned Rafidain Bank.

To my great relieve one of the passengers standing nearby identified himself as a fellow BearingPoint employee. He was returning to Baghdad from R and R in Amman and he had a phone with relevant phone numbers. I am not sure that I ever saw him again. After placing several phone calls he informed Jim and me that our PSDs (Personal Security Details) were caught in the traffic backed up at the airport entrance. They expected to reach us within an hour.

There were a few other BearingPoint people waiting as well. Once our four armored cars had arrived (two passenger cars and two backup chase cars) and our luggage had been loaded, I was handed a 35 pound bullet proof vest and helmet for the drive down the most dangerous road in Iraq—the BIAP road. My adrenaline level increased.

I remembered the drive down the same road the summer before. Most of the trees that had lined the road on that earlier occasion had been cut down. On that earlier

occasion I had hung out of our minibus window (no chase car) with my camera photographing the war damage along the way. On this occasion the bullet proof windows of our armored vehicles remained closed and I had no inclination to hang out of it. The armed and body armored driver, and the equally armed and body armored “shooter” in the front passenger seat carried long guns, pistols, and packs of ammunition.

About half way to town, the cars in front of us began turning around and driving toward us. Dozens of cars were stopping and turning around. What did they know that we didn't? Our shooter was busily consulting on his radio. We stopped and waited. My adrenaline was really flowing.

As was to be the case so many times, this was a false alarm. One panicked driver frightening the rest. We proceeded on to the Green Zone and the BearingPoint Camp within without further incidence.

The Camp

I am one of those people who prefer the familiar, or at least in my more mature years I do. I prefer to return to a country and a central bank that I know than to start off in a new one. I am comforted when I am met at the airport, because at least one of us will know where we are going, and when I meet and work with familiar people. Though I had been in Baghdad the year before, every thing was new.

From the airport, I was delivered to the BearingPoint Camp for in-processing. I had already spent the required half day at Ft. Mead outside of Washington DC to fulfill the Department of Defense's requirements for permission to enter Iraq and to enter the Presidential Palace in Baghdad.

The outer appearance of the Camp changed dramatically in the coming weeks, but on May 6 it was located at the end of a road next to what had become the CIA headquarters in Iraq. It was only one very long block from Saddam Palace in which my office was located and which two months later became the United States' largest Embassy in the world. The Camp spread out to the left of that road behind so many tightly stacked white sandbags that you could only see the sandbags.

With the encouragement of BearingPoint's HR person, Kurt Martens, I dragged my two heavy suitcases and my computer bag across the dust and through an opening in the sandbags that led to the entrance to the first of a series of large trailer offices. It was filled with desks with busy looking people hunched over their PCs. There was just

enough space inside the entrance to stack my gear. I know many BearingPoint people from having worked with them in many other countries, but on this late afternoon there were no familiar faces. I kept close to Kurt.



Me with an Iraqi worker in the BearingPoint Camp in the Green Zone, May 2004.

Kurt showed me around—additional offices, high speed Internet access cables everywhere (plus WiFi), a lounge trailer with TV and canteen, and the security, dispatch center—and made some introductions. First days in a new place are pretty much a blur to me. I don't remember any ones name. But the in-processing was simple. I was given a very heavy bullet proof vest, helmet, cell phone, and pen concealing a memory stick and was told to return them all when I left. I signed a piece of paper. What I really wanted to know and see was where I would live for the next two months.

If I was lucky, my house mates would cook collective meals at my residence. Otherwise my meals would be served in the Palace in one of the immense ballrooms there. Military mess in a Palace, one of the many strange absurdities of war. So Kurt took

me to the Palace and had me photographed for my Palace entrance ID to compliment my DOD entrance ID and took me to the second floor of the South Wing to meet Betsy White, the person I was replacing as Senior Monetary Policy Advisor to the Central Bank of Iraq.

Betsy had just retired from the Federal Reserve Bank of New York. She was an attractive and very fit lady with short grey hair. She had been very helpful with my preparations. We had exchange a lot of emails and documents and it was very nice to meet her in person. In fact, one of the reasons I had not changed my mind about coming in the face of deteriorating security was that if this woman was willing to take the risk how could I not.

I sat down with her next to her small, crowded desk dominated by a PC screen and she began showing me some of the documents she had saved for me. As it was already about 6:00pm, we decided to save the rest for the next day and went down to the mess for dinner.

The Palace Mess

There are several messes in the Palace but now I am speaking of the dinning room. It is a cafeteria, really, but I call it a dinning room because a room so grand just cannot be described as a cafeteria. The room used for serving all of us breakfast, lunch and dinner has a ceiling fifty or sixty feet high with some gigantic chandeliers hanging from various spots. I later decided never to sit under one of them after a rocket finally succeeded in hitting the Palace roof nearby (no damage was done to the dinning room). The room is immense. I assume that it was a ballroom, though the Palace has many rooms that could fit that description. No one seemed to know what it had been used for before.

Because someone thought it was a scandal that Kellogg Brown and Root (KBR), the Halliburton company that prepares the meals and provides other Palace services, made and billed for more meals than probably were eaten, everyone now had to sign in as we entered the massive room. In 26 years of working for the IMF, I never memorized my staff ID number. After several days of signing my name and BearingPoint ID three times a day I no longer had to put on my glasses and look at my badge for the number. From the sign in table we lined up on either side of the hall until we reached the front of the hall to collect our trays, when there were any, and plastic knife, fork, and spoon. The large number of plastic plates were separated and stacked in a staggered fashion to make

it easier to pick one up. We would pick up our plate and hand it to a server in one of the many processes that made no sense to me. The food of the day could be seen through a glass shield, but was also identified by name—fried chicken—to remove any remaining doubt. After reconnecting with our plastic plate, now filled to our specification, we proceeded to the drinks—warm cans of familiar soft drinks, coffee and tea, and on rare occasions ice. The ice, on those rare occasions, had to be scooped up with a large spoon and guided into a paper cup on the tray carefully balanced in our other hand.



Republican Palace Mess Hall, May 2004.

This brought us to the center of the service line and face to face with those coming from a duplicate serving line starting from the opposite side of the Hall. Turning ninety degrees and heading back into the middle of the Hall, there was the salad bar, which usually had fresh lettuce, a tuna salad that was actually quite good, and other starchy things I was determined not to eat. This was followed by the dessert table, which I always skipped. There was even ice cream at the back of the Hall, which I had once during my two months as a special treat.

On this occasion, thank God, I had Betsy to sit with. Normally I had to choose among the sea of strange faces, mostly military, and share a table. I would normally greet the strangers as they or I sat down and again as they or I left. On a few occasion, a talkative, invariably southern boy would ask where I was from and what I was doing etc.

I regret that my natural shyness kept me from having more such conversations. Most soldiers had a rather touching quality about them, or maybe it is only those who introduce themselves and their questions. They seemed so young and innocent. A surprising number of them would prey before beginning their meals. Occasionally I would spot one of my colleagues from the Economic Policy Office or from BearingPoint and join them. Most often I ate in solitude.

I asked Betsy why she had taken two forks. “You will know after a few days,” she said. Indeed it did not take long to break one of these plastic forks necessitating a return to the serving line to get another one.

The Rest of the Palace

Saddam’s Republican Palace was extraordinary. I don’t mean only its grandeur. I also mean the strange mixture of people who now inhabited it. The structure itself is very large. Its total height is no more than three floors (with very high ceilings), but it is very spread out. The South Wing, where my Economic Policy Office of the CPA was located on the second floor, also housed the dinning mess. Across from the mess is the Chapel, another cavernous room, which at one point slept 300 GIs and others waiting for better facilities. The Chapel is dominated by two huge mosaics facing each other from across the open space. One depicts scud missiles aimed at Jerusalem, which is depicted on the opposite side of the hall.

When I visited Baghdad in July 2003 there was no running water in the Palace. Thus none of its many toilets worked. The walk from the Economic Policy Office in the South Wing to the rear exit at the beginning of the North Wing and the port-a-johns

outside was long enough to require advance planning. Fortunately, by this visit the water problem had been fixed.



Front view of the Republican Palace and Inside the Chapel of the Palace, May 2004.

The interior walls of the Palace are made of multicolored marble inlaid with intricate tiles and mosaics; Saddam's name is frequently worked into the design. The South Wing entrance by which I first entered the Palace in July 2003, and most often entered it ever since, opens into a very high ceilinged room the size of an upper middle class home. A beautifully, marble framed small balcony to the right caught my eye as the place from which Saddam might have liked to watch his guests arrive. The opening was closed by a curtain shielding the "ICE Room" from view. The ICE Room, the name put on its entrance by its current occupants, was a few doors down from my office on the second floor and was the nerve center for the Iraqi Currency Exchange the fall of 2003.

To the Palace as Saddam had left it and meant it to be, you must now add a number of incongruous changes. These included temporary wood dividers cutting up the large spaces into office areas, desks and chairs, occasional royal looking sofas, and power and telecommunications cables of all sizes and shapes all over the place. But the strangest of all changes were the new inhabitants of the Palace.



Front of the Republican Palace, September 2004.

For most of us, the Palace mess was the only place we could eat. It attracted those of us with offices in the Palace, large numbers of soldiers taking refuge from the fierce heat outside, and those who lived in the trailers that had been set up just behind the Palace (or in some cases in rooms of the Palace itself). Each diner dressed accordingly. Thus the halls and the lounge areas (where Saddam never meant them to be) were full of soldiers, contractors, and CPA staff in every imaginable dress. Some were in the dress military uniforms I see at home in the Crystal City underground (next to the Pentagon) as officers walk briskly from meeting to meeting. Some were in camouflage fatigues with long guns hanging from their shoulders or M16s in their hands. Some were heavily packed with combat gear just back from the “field.” Special Forces guys liked to strap their pistols to their thighs. Bank examiners preferred the more traditional belt holster; three bank examiners in my office carried pistols. Almost everyone was armed. Shuffling in between these were men and woman in flip flops and shorts on their way to or from the shower or heading for a lounge chair to relax or maybe coming from or going to the swimming pool behind the Palace. I have never seen such a strange mix of people in such

a strange building.

The area behind the Palace now houses hundreds of CPA officials in trailers well hidden by thousands of white sand bags. The sand bag cities contrast sharply with the luxurious swimming pool, party area, and park immediately behind the central part of the Palace. Here I could see General's Sanchez, Kermit and others relaxing at the end of the day. It was also the scene of a growing number of farewell parties as the hand off of sovereignty approached and CPA staff went home. Young Marines could generally be found there showing off from the high diving board. Unfortunately I never went swimming there and visited the pool only for the farewell parties. While watching American Marines splashing in the pool, I could not help but speculate about the parties Saddam must have there.



Pool behind the Republic Palace, June 2004.

The White House

Following dinner with Betsy, I walked back to the BearingPoint camp to gather my luggage and finally see where I would live. I was driven directly from the Camp to Alpha 3 (radio code for my residence to avoid giving too much information to the enemy), known to BearingPoint advisors as “The White House.” Our White House had none of the charm of the other one. It was a relatively large and spacious modern home (thus ugly) in an affluent, walled and guarded neighborhood just outside the Green Zone. It was very close to the El Rasheed Hotel, which was just inside the Green Zone.



Entrance to the White House (my BearingPoint residence) neighborhood just outside the Green Zone, Baghdad, May 2004

In addition to the wall around the neighborhood, each house was generally protected by its own wall. BearingPoint was renting six houses in this neighborhood and each one of them had two Iraqi guards 7/24. Thus BearingPoint was maintaining a small army in the neighborhood. The guards had brown uniforms and M16s.

On this first evening, arrangements had been made for one of my housemates,

Rob Walker to accompany me from the Camp to my new home. After our two armored car convoy pulled up to the house and one of the waiting guards opened the gate to our yard, Rob unlocked the front door and showed me in.



The White House (my home) in Baghdad, May 2004.

The house had six bedrooms, four of them (including mine) with their own bathrooms. Two of the bedrooms were down stairs with the anteroom, reception room, large living room and dining room, and a large kitchen with an eating area (plus storage and laundry rooms). It was large and had high ceilings. My room was one of the four bedrooms on the second floor, which also included two relatively sizable sitting areas. Each bedroom and the living room had satellite TV and both cable and wireless high speed Internet access. To deal with the five to ten daily power outages, we had our own emergency power generator. We also had stairs to the roof from which there was quite a nice view of the surrounding area.

While the house was comfortable with adequate furniture, it did not really feel comfortable. I had four other house mates, one of whom, George, left after my first week.

We rarely eat together, though we did spend more time together in the later weeks. Every thing seemed a bit awkward, though I tend to feel that way in new places anyway. So for a while, all of my meals were in the Palace mess. After several weeks I took advantage of the “Fixer,” someone hired by BearingPoint to run errands, to buy some orange juice (canned), milk, and cereal so that I could have breakfast at home on those days when I went directly to the Central Bank. I also bought (through the Fixer) a night lamp, flash light and rubber bath matt for my bath tub. Some of my scariest moments in Baghdad were trying not to slip in the shower in the morning. The tub had a rounded bottom and seemed to have a film that was extremely slippery.

My room was large and had a large window overlooking a very large open area where several streets came together. The glass was covered so thickly with an anti-shatter material that I could only see very vague outlines of what was on the other side. It let in light but little else. None-the-less, every evening I pulled the drapes to deter snipers from seeing my outlines in the night lit room. There was not very much furniture in the room—a queen sized bed, a large TV, a desk and chair against an interior wall, and a wardrobe. I dragged in one of the easy chairs from the sitting area outside and spent most of my hours in the room sitting in it with my PC in my lap.

We had two “house boys” who cleaned the house and did our laundry and made our beds every day. The “house boys” were Iraqi men in their late 30s or early 40s. One of them is the husband of a woman who had previously performed these tasks and the other is the brother of the other woman who had worked there earlier. Some months earlier the women were threatened if they continued to work for the Americans. I never really understood who was threatening—Baathist insurgents, unhappy neighbors, or someone else. Thus they stopped coming and the men took their place.

The bed was on the wall furthest from the window and the room was not strictly square—a modern touch, I guess. Thus the wall the head of the bed was against was at more like a 120 degree angle to the window rather than the usual 90 degrees. This provided some measure of protection from anything that might come through the window.

When I first arrived, the TV sat next to the bed between it and the window. In that position it blocked the view of the window from the bed. My colleague, Jay Doeden, who lived in The Park House two blocks away, had had his windows blown out by the explosion of a rocket that hit near his house (twice actually) These rockets were probably meant for the El Rasheed Hotel very near by. The flying glass from his window shredded the clothing in his closet but missed him. This was very much on my mind as I examined the lay out of my new room. It seemed to me that the position of the TV was meant as an

added bit of protection against flying glass. None-the-less, I decided to move the TV across the room away from my bed where it would be less intrusive. I am not very fond of TV, but I did watch the news each morning as I dressed and each evening when I returned home to see what had happened in Baghdad and Iraq that day.



John Stonham using my PC in my room in the White House, June 2004.

The house mate in the room next to mind, John Stonham, introduced himself and explained how the satellite TV worked. I never would have figured out on my own the combination of buttons needed on the two remote controls. John adjusted the volume down to a relatively low level and explained that he was very sensitive to noise—VERY sensitive he said. John was a handsome, well build man in his mid 30s. He had been in Iraq for almost a year and had worked on the currency exchange project. He was a communications technician.

Robert Walker, the other second floor house mate, was a Harvard Ph.D. in economic. We would work together at the Central Bank. Rob was very pleasant and always helpful and seemed to almost enjoy his role as house warden. He was the point of

contact on security issues, which he seemed to scoff at, and for all contact with BearingPoint/Kroll dispatch and thus my transportation anywhere. He was hoping that his life would continue as it was. He was up at 5:00 am or so every morning to make the coffee and study Arabic. A few years earlier he had been the Treasury Economic Liaison at the U.S. Embassy in Riyadh for two years and liked the Middle East very much.

Rob also seemed to relish the dangers of our situation. The sound of machinegun fire, or rockets or mortar explosions always brought him to life. One particularly bad morning toward the end of June, the Arab TV reported two suicide bombings and two other explosions in Baghdad. We feared that the expected on slot of terrorism leading up to the turn over of sovereignty to the Iraqis might be underway. While we were questioning whether we should go out at all, Rob appeared in my door way with a big smile wearing a cloth around his head claiming it to be a martyr's scarf and that he was ready to go.

Neither Rob nor Hashim Al-Ali, my fourth room mate and also a Ph.D. in economics, wore body armor, which they continually reminded me was useless against car bombs, the form of attack we were most likely to encounter they thought. Rob was also continually grumbling about other security measures like varying our times and routes with the result that we were out and exposed for longer periods (though less predictably) than if we came straight home.

Hashim is a Canadian Iraqi. He grew up in the southern part of Iraq but did his graduate studies in England and just stayed abroad. He is a macro economist who was dividing his time between the Central Statistical Organization of Iraq and the Central Bank. His evenings seemed to be spent working on a macro model of the Iraqi economy he hoped to use in the future. He was the only one of us who ever cooked. He also let out loud whoops many evenings after a cocktail or maybe while watching TV. The first time I heard him and ran out of my room to investigate, John from the next room said, "Oh that's just Hashim. He does that. Strange huh."

Like Rob, Hashim had been in Iraq for close to a year.

Coming home on subsequent evenings I tended to go directly to my room for the rest of the evening, which is what the others seemed to do as well. The White House was a quite place, especially the first month.

Armored transport

Aside from a few short strolls in my neighborhood to other BearingPoint houses, accompanied by armed guards, I was never allowed outside of The White House, the

Central Bank, or the Green Zone unless I traveled with two armored cars with armed PSDs (Personal Security Details). The PSDs were generally South African, Australian, or English ex-military. However, our drivers were sometimes Iraqis. There were even several women drivers and shooters (as the PSD in the front passenger seat was called).



Two PSDs (Personal Security Details) and me with our armored car in the BearingPoint Camp in the Green Zone, August 2004.

Starting around 6:45 each morning our neighborhood came alive with the high pitched whine of the hard shells (armored cars) arriving for their “packs” (packages). I was “pack 26”. Real names are not used on the phone or radio for security reasons. Our destinations had code names as well. When our transportation arrived, a PSD would ring our door bell. I would ready myself in advance, checking to ensure that I had my two cell phones, appropriate computer gear, two security passes (one for DOD and one for the CPA), reading and sun glasses, memory stick, keys to the house, and the list of emergency phone numbers. I saved putting on my body armor for last and lugged myself and all of this gear downstairs when the bell rang for me. The local guards and the PSD would escort me to one of the two waiting cars and we would be off. The scene was repeated in reverse in the evening.

I couldn't help but think of the typical American suburb waking up in the morning to the sounds of cars starting up and driving off to work—wives taking their kids to

school and husbands to work (or husbands taking their wives to work, or whatever). Our Baghdad neighborhood was surreal.

Normally Kroll, BearingPoint's security firm, operated an armored shuttle service from our residences outside the Green Zone to the "car park" near the Palace in the Green Zone between 6:45 to 8:45 am and back again from 6:00 to 8:00 pm each evening. From the car park I would walk weighted down by my 35 pounds of body armor to the pedestrian check point/entrance to the Palace grounds. After walking to my second floor office in the Palace and dropping off my computer and armor I would have breakfast in the Palace mess. Back upstairs I would check my ORHA email, put my body armor back on and return to the car park to take another armored car provided by the CPA's security firm to the Central Bank as part of a convoy of armored cars and CPA advisors. For a while I traveled to the Central Bank four times a week with the CPA and twice a week directly from The White House with Kroll. In my last few weeks I traveled almost every day directly to the Central Bank, as the CPA was increasingly canceling its trips on the grounds of uncertain security.

Each security firm had its own approach and procedures. In the case of Kroll, we always had a chase car with empty passenger seats. Each car had a heavily armed driver and shooter (who also maintained communication with the dispatcher at the BearingPoint Camp, in addition to our being tracked by GPS). They each had long guns as well as pistols and an arsenal of ammunition and emergency medical equipment. Up to three of us "packs" would ride in the back seat of the first car. The back seat of the chase car was empty and could be used to evacuate us if the first car was hit and undrivable. Both cars had to be able to carry three people in the back seat (with body armor) before they could take three.

The Control Risk Group (CRG), the CPA's security firm, also always had at least two cars with two armed PSDs in each but would put two "packs" in the back seat of each one. In addition, for areas like the Central Bank, they employed Iraqis who walked the streets in the area of the Central Bank before we arrived or left and reported on conditions by radio. CRG drivers drove very aggressively. When turning corners, one car in the caravan would pull out to block the traffic until the rest of us had passed. We often went down the wrong side of the road or even on the sidewalk. It was embarrassing really.

Kroll preferred what they called the low profile approach. For many destinations they preferred the less conspicuous soft-shelled cars (regular cars with light armor) but with the same configuration of a chase car with empty back seats and two armed PSDs in each car. However, they always assigned hard-shelled (armored) cars for trips to the

Central Bank. They drove less aggressively than CRG. In fact, most deaths of advisors were in very conspicuous armored SUVs preferred by CRG. You (and the enemy) could see them coming for many blocks. I can hear my environmentally conscious friends cheering.

Rob watched Arabic TV stations and normally had reports on any early morning incidences before we left The White House each morning. Early morning seemed to be a favorite time for car bombs, but they could go off at any time during the day. Explosives were put in almost anything and set along the edge of the road (so called IED—improvised explosive devices). Even the dead body of a dog was used once to hide explosives inside its body. IEDs could be set off by a cell phone call to the detonator or triggered by contact (land mine).

Approaches to the Green Zone were favorite venues for car bombs. Generally we chatted and joked in the cars or discussed central bank or CPA issues. I generally did not think about the potential risks of the trip, though I particularly hated entering or leaving the Green Zone. Rob was insistent that we be fully aware of the dangers, so that we could properly enjoy them, and was continually reminding me that there was nothing we could do about them but stay home, which is not why we came. There were periods after some weeks of this routine and especially after a morning incident, that I began to tense up a bit whenever we passed an abandon car along the road. Unfortunately there were many of them and I secretly shuttered at the sight of them.

I never really figured out whether the variations in security routines reflected intelligence of possible threats or mood swings at Kroll. Some days when we arrived at The White House I was told to stay in the car while my PSDs jumped out of the car and looked around. We were always met by the local Iraqi guards, who let us into the yard. On one occasion my PSD preceded me into our walled yard, looked around and then waved me in. Whether there were specific threats over and above the ongoing threat, I have no idea. But we had no doubt that these guys were prepared to die to keep us as safe as they could.

The Green Zone

Following the “capture” of Baghdad, the Coalition Forces took over a four square mile area along a bend in the Tigris River that houses Saddam’s Republican Palace, Palaces of Saddam’s sons Uday and Qusay, large sports and cultural facilities, and some of Baghdad’s better neighborhoods, and secured it for their use. The area was called the

Green Zone. During my May-June visit, the Green Zone housed the offices of the Coalition Provisional Authority (CPA) in the Republican Palace, trailer homes for about 5,000 Americans and some military facilities, including a helicopter landing and servicing area. The Convention Center access from the El-Rasheed hotel, both in the Green Zone, was a convenient meeting place with Iraqi officials (convenient for CPA officials and less so for the Iraqis).

Entry into the Green Zone was through four or five check points (sorry, I never really checked the number) guarded by machine gun bunkers, tanks, sand bags, and lots and lots of concrete barriers. High concrete barriers ran along both sides of the entrances and low ones were placed in the roadway so that we had to slowly zigzag to pass through. The roadway was also full of “speed” bumps made of tank tread, to further insure slow passage. Iraqi workers in the Green Zone, generally on foot, and residents, generally in cars, as well as all CPA workers like myself could only enter or leave the Green Zone via one of these check points. There were long lines of cars and pedestrians most times of day. We could swing around the line of cars and enter directly. Several months later, when the Green Zone had been renamed the International Zone and had been even further fortified, separate lanes were provided for civilian and military personnel. We could use the military lane.

Though I always ate in the Palace when I was in the Green Zone, free meals were also served to CPA staff and military in the El-Rasheed hotel and a few other places I heard of but never saw. In addition, there were a few restaurants, which beside the “Alone Star” and the “Green Zone Café” I was never in. I was surprised one day to overhear one colleague asking another whether she would like to eat Chinese that evening. So life within the Green Zone offered some limited opportunities for variety.

There was also a very pathetic PX on the far side of the car park opposite the Palace and two gyms (also never seen by me). The pool behind the Palace was a major social center. It surprised me what a short period two months is. If I had been there for three or four or five months I have no doubt that I would have been forced to visit all of these facilities out of pure boredom. However, within my two months I never really caught up with what I was doing and never had an extra moment. Thus when I was in the Green Zone I was either in the Palace, in the BearingPoint Camp, at the bus stop/car pick up in the car park across from the Palace or walking between them.

My very first memory of the Green Zone is of the car park across from the Palace. In July 2003 the IMF team I was part of was driven from the Canal Hotel (UN headquarters in Baghdad) to the car park in order to gain access to the Palace where we were to meet with CPA staff dealing with financial sector issues. We stood in the shade

of the trees across the street from the entrance to the Palace grounds while waiting for someone from the CPA to come to escort us into the Palace. It was at least 120 degrees in that shade. I remember the entrance and the trees well.

When I returned in May 2004, I passed through the same entrance almost daily. This time I had a pass that admitted me without an escort. The entrance had changed very little, but the huge busts of Saddam that had been seen atop the Palace in several places were gone (an incredible war trophy some where). Razor wire had been installed to form a waiting line at this entrance. American soldiers stood in the sweltering heat in their body armor checking passes and frisking visitors. Soldiers and other armed persons entering the Palace grounds were required to fire their pistols into a barrel full of sand to insure that the chamber was empty and to remove the clips from their long guns. I would pass the line of waiting visitors (mainly Iraqi workers) to have my two passes examined before proceeding up to the actual gate and into the Palace grounds. My suit coat was worn over my body armor. Visitors and non-military, non CPA workers were searched and vouched for. If they had work passes they could enter without escorts.

Throughout my May - June visit, construction work around the Palace and its entrances was never ending. One day in June my usual entrance was closed and a new one was opened a block further away from the car park and configured to screen those entering.

Deep holes were dug at some entrances and security equipment installed to stop cars from entering without permission. Concrete guard buildings were constructed at key entrances by Turkish construction workers. In the mean time, the street between the car park and these entrance, in other words the street on which the Palace was located, was lined with concrete barriers, sandbag pill boxes, humvees and tanks with soldiers poking out of the top on guard duty day and night. I walked by this amazing sight at least twice almost every day.

When I returned in late August, the changes to the entrances to the Palace grounds and the Palace itself continued to evolve. As I lived at the BearingPoint Camp during this and subsequent visits, I walked to and from the Palace from the Camp at least once each day. The distance was 300 or 400 hundred yards along the 15 foot high, thick concrete wall that had been put up around one of Saddam's son's palace that now housed CIA operations. Both the BearingPoint Camp and the CIA headquarters were now totally lost to public view behind these walls. The opposite side of the street as I walked from the Camp to the Palace had a concrete wall set further back from the board boulevard the hid view of the heliport.

In August the entrance to the Palace grounds had moved back to its original

location and was now a permanent, well-fortified concrete structure with a better organized cueing area. Across the street on the car park side, the old barrel full of sand was again in use by those with arms (almost everyone). It continued to amuse me to see men and women walk up to the barrel, pull out their pistol, aim, and pull the trigger.

There were so many of such sights I wanted to take pictures of. I was restrained by my natural shyness, by the NO PICTURES ALLOWED signs, and by the general understanding that military assets (tanks, pill boxes, i.e., all the interesting stuff) could not be photographed. This was impressed upon me when one of my CPA colleagues from the Banking Supervision team (Steve Strasser of the OCC) was pulled over in his armored car by Iraqi police for a drive by photograph of military personnel guarding the entrance to something or other. This was very much in my mind as I walked from the Camp to the Palace one day and was held up by a passing convoy of tanks and humvees. A young soldier was poking his head out of one of the armored personnel transports with his camera taking pictures of every thing I was afraid to photograph. I would love to have taken a picture of that.

The Green Zone was also a coveted target for the enemy. RPGs (Rocket Propelled Grenades) landed somewhere in the Green Zone a few times a week. Fortunately it was hard for this enemy to hit anything with accuracy. Nonetheless, during my stay several helicopters and cars in the Green Zone were destroyed by rockets. My desk on the second floor was very close to a large window and on several occasions I dove for the floor and under the table next to me at the sound of nearby explosions. Following this initial reaction, every one quickly moved out of the room with windows into the inner hallway with no windows to wait for the all clear. On several occasions we were required to move to a basement shelter area.

During my last two weeks of my two months stay a rocket succeeded in hitting the Palace for the first time. It struck the roof close to Paul Bremer's office in the North Wing. A second rocket in that attack exploded in the grassy area next to the swimming pool behind the Palace.

During my first few weeks in Baghdad, I learn two useful bits of information about threatening noises. During my first week a rather loud explosion went off at three o'clock one afternoon when I was in the Palace. Everyone started, looked at their watches, and continued working. "If the explosion is on the hour, it is probably the planned destruction of explosive material," I was told. Also, during the few days of overlap with Betsy, a helicopter flew over the Palace near our window. She saw my distraction and said: "Helicopters are good. We have them and they don't."

If you lived in the Green Zone, you could walk around freely without body armor

or guards (although this began to change later in the year). There were even cars available that you could drive over to the convention center or to one of the several restaurants in the Zone. There were also shuttle buses to the same places. Unfortunately many people living and working in the Green Zone found it convenient and relatively safe to stay in the Green Zone most of the time. As a result, their contacts with Iraqis were limited. Rather than spending most of their time with the Iraqi's they administered or advised, they spent it in the Palace with other CPA staff. It was not a healthy environment in which to rebuild the country or develop democracy.



The El-Rasheed Hotel inside the Green Zone from the roof of the White House (outside the Green Zone), June 2004.

The Background

Efforts to achieve US goals in Iraq—a politically stable and peaceful Iraqi—have not gone well. From my first visit to Baghdad in July 2003 I have been concerned that the approach being taken by the US, to the extent I understood it, was not promising.

By attacking Iraq, the United States and its allies took on the moral and legal obligation (under international law) to secure the safety of the Iraqi people and to administer the provision of their social services until a new Iraqi government could take over those basic functions of government. Whatever your views on the wisdom of the U.S. attack (whether it was justified and whether it was in the United State's best interest), every reasonable person must believe that it is in everyone's interest (except for the loosing Ba'athists) for Iraq to become a politically stable and peaceful member of the world community as quickly as possible. The reasons for the failure to achieve these laudable goals to date (November 2004) are complex and precede in many cases the war itself. In order to evaluate the situation as I found it in mid 2004, some background information is needed.

Inadequate preparations

As far back as the spring of 2002 the State Department had initiated a *Future of Iraq* project involving detailed working groups on everything from sewers to constitutions to lay the groundwork for the establishment of a post Saddam government. The project was reminiscent of USAID's brilliantly successful support of the G-17, a non-partisan group of Yugoslav scholars seeking a democratic, market economy future for Yugoslavia, over the several years preceding G-17s virtual take over of the Yugoslav government with the fall of President Slobodan Milosevic in 2000. Drawing on this earlier experience and the *Future of Iraq* project, as the prospects of war increased in January 2003 USAID began planning for several quick, sole source (i.e., noncompetitive) contracts in order to be able to hit the ground running with post conflict reconstruction.

One month later, more than a month before the beginning of the war, USAID awarded multimillion-dollar contracts to the Air Force Contract Augmentation Program (AFCAP) for theater Logistical Support and to the International Resources Group (IRG). It also engaged BearingPoint (formerly KPMG consulting/Barents) in preparatory discussions for financial sector work that could lead to a sole source contract in that area. USAID had considerable experience and a good track record with the use of private

sector consulting firms in Afghanistan, Kosovo, Bosnia and Herzegovina, and Serbia to name a few. In the financial sector area with which I am concerned, USAID sought to bring a highly qualified private sector team of banking, accounting, finance, payment, and currency experts and its project management systems and expertise to Iraq within days of the end of the fighting.

Sole-sourcing contracts can encourage favoritism and corruption and generally should be avoided. However, it can also offer quick solutions while a public bidding process takes many months. When USAID knows the capabilities of private consulting firms in various areas, it can get the best team in place in the shortest time using the exceptional procedures of sole-source contracting. Thus, in March and April, USAID awarded five more multi-million dollar sole-source contracts to American firms in the areas of seaport administration, primary and secondary education, local government, public health, and capital construction. Some of the largest contracts, namely the one awarded to Bechtel for \$680 million over 18 months for capital construction, and the massive Pentagon contract to a subsidiary of Vice President Dick Cheney's former firm, Halliburton, for rebuilding Iraq's oil infrastructure, prompted international criticism of favoritism toward American firms. USAID was on the brink of awarding a sole-source contract for economic reconstruction and reform to BearingPoint, when a public outcry over sole-sourcing led them to turn to the more time-consuming process of competitive bidding. Thus financial sector assistance was delayed by about four months until mid August 2003.

Pentagon control

The first, all-American, phase of Iraqi reconstruction is to be managed by the Office of Reconstruction and Humanitarian Assistance (ORHA). It will place its people in all Iraqi ministries, first to run them, then as advisers. It is headed by a retired general, Jay Garner, who reports to the overall commander in Iraq, Tommy Franks, and to Donald Rumsfeld, the defense secretary. In other words, this is a takeover of Iraq's administration by the Pentagon—"unilateralism on steroids", as one American critic complained.

It was not just the use of competitive bidding that delayed the deployment of private sector experts. Turf wars were rampant within the U.S. government. In the case of economic reform, the U.S Treasury initially wanted to do it itself and put a hold on USAID's private sector contracting in this area. Eventually this particular inter-agency

struggle was settled with Treasury made responsible for policy and USAID primarily responsible for implementation. This resolution of turf was sensible in terms of the respective competencies of the two agencies. BearingPoint subsequently won a competitive bid for the economic reform contract on July 25 and had a large team of experts in Baghdad two weeks later. But the bureaucratic football cost the economic reconstruction efforts almost four critical months and the Pentagon's mania for control and continued inter-agency tensions resulted in the under-utilization of these experts even after their arrival in Iraq.

I have seen turf wars in every post conflict country I have worked in. However, with reasonable care and effort they were always fairly quickly settled so that everyone could move on to doing the work that needed to be done. The turf wars in Iraq were more serious than in earlier post conflict reconstruction efforts because traditional turf assignments were overturned by the unilateral nature of the U.S. invasion and occupation of Iraq and by President Bush's decision to give the responsibility for post war reconstruction to the Department of Defense (DOD). This unusual decision came after months of interagency bickering, exacerbated by strong doubts in parts of the U.S. government that an attack on Iraq would service U.S. national interests. The White House was either unwilling or unable to resolve key differences – notably over the role of the controversial Iraqi exile, Ahmed Chalabi, who allegedly harbored ambitions to step quickly into Saddam Hussein's shoes. This “destabilizing and wasteful quarrel” proscribed the usual – and in this case, critical – process of interagency coordination.

On January 9, 2003 Undersecretary of Defense for Policy Doug Feith, acting on behalf of Secretary Rumsfeld, asked retired General Jay Garner to lead the reconstruction planning. A few weeks later President Bush established the Office of Reconstruction and Humanitarian Assistance (ORHA) under the Department of Defense and Secretary Rumsfeld appointed Garner as its Director. The General had a good record of previous experience in Iraq and was a good manager. Relying on DOD recruiting initiatives, he assembled a team of experts by the end of February.

These “experts” were not recruited in the usual ways. DOD invited a large number of U.S. government departments and agencies to provide people to the Iraq effort. These bureaucrats would be twinned with Iraqi counterpart departments and agencies. Though dangerous, this was an exciting prospect for many well-intentioned civil servants. It was a potentially career enhancing opportunity to prove themselves. Many were eager to go and to bring American know how and ways to Iraq. The problem was that few had relevant experience in providing the type of assistants needed and DOD had no systems in place or experience with recruiting, placing, and supervising such

people in the field. The predictable result was a lot of dedicated, hardworking people, learning as best they could on the job and accomplishing very little. The Pentagon's decision to staff the project "in-house" (i.e., from within the U.S. government) very often resulted in people with inappropriate skill sets, who were inadequately supervised to achieve ill defined tasks. On top of this, the initial team was too small by at least half and supported by inadequate resources (including military).

Near the end of my two month stay in Baghdad, I overheard the following dinner table conversation between two Army officers who had just discovered that they had been in some of the same posts at different times in their careers: Officer one, "It has been interesting but frustrating here. I wish that I could have done more, but I was assigned to work that I had no experience with. Now that I am almost on top of it I am being rotated out and will be replaced by someone who also has no relevant experience either. Everything will be lost and they will just start over again. I have never seen such a mismatch of skill sets to tasks." Officer two: "Yeah, I am afraid that has been my experience too."

DOD post war planning proceeded without serious benefit from the work done at State under the *Future of Iraq* project or the expertise and experience of the IMF, World Bank and foreign aid agencies. The *Future of Iraq* work was almost entirely ignored by the Pentagon during the first critical six months of occupation. In a later PBS interview by Mike Wallace, Jay Garner said that the work of the project was good, and that he did not know why it had been shelved, a remarkable statement from the person presumably leading the effort.

As late as July 26, 2003 Secretary Rumsfeld sent a memo to many departments of the US Government with specific requests for them to assign additional staff to posts in Iraq out of their own budgets (i.e., the cost would not be covered by supplemental appropriations), thus perpetuating the in-house approach to reconstruction (while attempting to hid the cost). A U.S. Treasury official described the job descriptions for the 18 "experts" Treasury was instructed to provide as "ludicrous." Treasury refused to provide more than a few of its staff from its own budget but reluctantly agreed to supply names of experts that could be hired and supervised directly by DOD. "We were reluctant to provide names of competent people to work under those conditions for fear that the experience would make them unwilling to participate in our technical assistance programs in the future." This proceeded at the same time USAID was finally fielding experts in the same areas.

When the war began March 22, 2003, Garner and his team proceeded promptly to Kuwait City to be in position to deploy in Iraq as soon as conditions permitted. In the

financial area, the assembled team was prepared with rather detailed plans that reflected the work USAID had done in preparation for the sole source contract that had been blocked the month before. These plans were further refined by the team in Kuwait while waiting until it was sufficiently safe to enter Baghdad. In the event, the wait was surprisingly short.

The plans developed by ORHA presumed that the existing central bank and commercial banks would continue to function and could be utilized by the interim U.S. administration to implement its financial policies. Toward this end the team met with and advised the US Army on strategic targets that should be spared during the war and secured following the end of hostilities. These included the Central Bank of Iraq (CBI) in Baghdad, and its regional offices in Mosul and Basra, the headquarters of the Rasheed and the Rafidain Banks, and as many of their branches as practical.

Inadequate resources

Mr. Wolfowitz said the estimate in congressional testimony by Gen. Eric Shinseki, the Army chief of staff, was "wildly off the mark." He said it was difficult to understand how someone could predict that the occupation would require more troops than the invasion itself.

I think we could have used more troops inside Baghdad at the end of the war, yes.

When a large crowd of jubilant Iraqis and an American tank toppled the large statue of Saddam Hussein on April 10, Garner and his team were sitting in hotels in Kuwait City. They would not arrive in Baghdad for two more weeks, prevented by military commanders who could not spare the soldiers to protect them amid the tremendous chaos then underway. When Garner's team arrived in Baghdad on April 23, 2003, a week before President Bush declared the active phase of the war over, the buildings of 17 out of 23 ministries had been destroyed by looters the coalition forces had been unable or unwilling to stop. Most of these facilities were destroyed beyond use. The relatively new CBI headquarters building was declared so unsafe that bodies on the upper floors had to be left to rot in the hot summer heat.

The CBI was closed and no banks were operating. Initial meetings between ORHA financial experts and CBI officials were held in the street. The six vaults in the basement of the CBI's facilities in Baghdad were spared but were still quite damaged. Other CBI resources were stolen or destroyed, including all of its computers, furniture, records and lending files, though generally electronic back up records were preserved. Moreover, the Minister of Finance and Qusay Hussein, one of Saddam's sons, stole

almost one billion dollars worth of foreign currencies from a vault of the CBI. Although the U.S. military eventually recovered most of this, they classified it as “booty” and did not return it immediately to the CBI. Other looters ran off with an estimated 400 million U.S. dollars and 2.5 billion dinars.

The failure of the coalition forces to secure the three offices of the CBI and the headquarters of Rasheed and Rafidain Banks is estimated to have added \$100 million to reconstruction costs and substantial delay, not to mention consigning most of ORHA’s financial rehabilitation plans to the dustbin. The efforts of Garner’s team to establish contact with their Iraqi counterparts and develop a new plan were greatly hindered because there were initially no working phones to set up meetings, few usable premises, and far too few soldiers and humvees to escort officials around the still very dangerous capital.

The reconstruction of Iraq was off to a bad start because planning had started late, the U.S. military had not fulfill the security requirements for the stabilization phase of the war, and because turf battles within the US government led to the placement in Iraq of a largely inexperienced team, which was too small in any event. Poorly chosen personnel assignments wasted good talent and produced poor results.

The Coalition Provisional Authority

‘The General has no plan, or even the idea of a plan, nor do I believe he knows the meaning of the word “plan.”’ When he wrote these words, the Duke of Wellington was referring to the blunders of Sir Hew Dalrymple in Portugal, in 1808. He might as well have been talking about the CPA in post-Saddam Iraq.

Following poor reports about Iraq in the media, President Bush announced on May 6, 2003 an acceleration of a new post-conflict administration, now headed by L. Paul Bremer, a counter-terrorism expert and distinguished former ambassador to the Netherlands. Peter McPherson, formerly director of USAID and Deputy Treasury Secretary and the president of Michigan State University in early 2003, joined Bremer as chief economic adviser. The new organization, the Coalition Provisional Authority (CPA), included staff from UK, Australia and other coalition members.

The shift of authority to Bremer was a watershed. In his first days he took a number of decisive steps some of which had unfortunate consequences (e.g. disbanding the Iraqi Military and the de-Ba’athification order). He abruptly scrapped the plans announced by Garner to build up governmental structures and representation from

existing regional power structures. Instead, Bremer appointed an ethnically and religiously representative Governing Council (dominated by Iraqi's returning after many years abroad) in a more top down approach and announced that elections would be delayed. Like ORHA, the ability of Bremer's team to formulate and implement new plans was hampered by its being under-staffed, and often under-experienced. The vast experience of the international community (IMF, World Bank) and private sector consultants normally provided by USAID was nearly all cast aside.

Neither Bremer nor McPherson managed the inadequate resources under their supervision effectively. In the area of my competence, neither of them had any current knowledge of financial sector reconstruction and reform best practice. McPherson was particularly miscast in his new role. In short order he drove away much of the original Garner economic team. He resisted increasing USAID's involvement, shoved certain policies (e.g., licensing of U.S. banks) down the throats of bewildered Iraqis, and left unresolved important decision like the monetary policy regime. Communication with the Iraqi people about CPA goals and activities was poor.

In the summer of 2003, I was working in Iraq as an IMF consultant (having just retired from the IMF). In previous post-conflict countries I had worked in, we counted on USAID to mobilize experts quickly. On many of these occasions I had worked closely with BearingPoint (and other private sector consultants) under USAID programs with considerable success. I was eager to see them hit the ground in Iraq. Thus I was stunned sitting in Scott Brown's office in the Canal Hotel in Baghdad in July 2003, when he handed me an email he had just received from McPherson saying that he was really not eager to see USAID's consultants arrive anytime soon. Mr. McPherson had once headed USAID and I was shocked that he did not see the inexperience of his own more politically appointed CPA staff and the desperate need for real experts. Now that my own work in Iraq is paid for by BearingPoint/USAID I may be considered biased, but this was not the case in July 2003.

Moreover, the overall direction of policy under Bremer remained unclear. As a consequence, the reconstruction effort grew even more politicized and superficial. Whatever Garner may or may not have accomplished on the ground, his chief failure was to look ineffective. Bremer – who, unlike Garner, wore a coat and tie in Baghdad's scorching summer heat -- would make appearances a top priority.

Bremer's De-Ba'athification Order (#1) on May 16th is a good case in point. Section 1, paragraph 2 states, "...Senior Party Members are hereby removed from their positions and banned from future employment in the public sector....Section 1, paragraph 3 Individuals holding positions in the top three layers of management in every national

government ministry, affiliated corporations and other government institutions (e.g., universities and hospitals) shall be interviewed for possible affiliation with the Baath Party.... Any such persons determined to be full members of the Baath Party shall be removed from their employment...”

Bremer argued that the Iraqi public needed to be assured that Ba’athists were being removed from power. However, the result of Order #1 was to deny the services of nearly all the experienced managers in the country at a time when they were urgently needed. Worse yet, none of the Senior Advisors in the CPA working on economic issues were made aware of the policy until they were ordered to enforce it. Any potential wisdom behind the policy thus took a quick back seat to the appalling consequences of its implementation. A year later Bremer issued a “clarification” of the original order meant to open the door to a larger number of the earlier Iraqi middle management.

A somewhat similar story can be told about Bremer’s order disbanding the Iraqi armed forces, which was a disaster of major proportions. Several million professional soldiers, who had no stake in Saddam’s rule, were put out of work and their incomes cut off. Not only were their badly needed services not available, their sudden poverty turned them into unnecessary enemies. Following demonstrations by Iraqi soldiers demanding their pay, the CPA decided to provide monthly stipends to the idle soldiers for a while. In response to later criticism of his order to dissolve the military, Bremer defended himself by saying that there had actually been no military to disband by the time he did it. I think that the psychiatric profession calls this “denial.”

The New Currency

In the financial area, CPA’s first responsibility was to restart government wage and pension payments, for which it needed a viable currency. In addition to monthly wage payments to 1.4 million government employees and to 1.8 million pensioners, the CPA made several \$20 emergency payments to government employees and pensioners and later paid back salaries to former Iraqi soldiers as noted above. The logistics of such an undertaking if starting from scratch would be very complex and demanding. They were demanding enough as it was. In Iraq existing employee and pensioner records and procedures were intact and could be used to ensure that the money was paid to the right people and only once per month. However, the existing salaries were linked to involvement in the Ba’ath party. To eliminate this bias from the old regime, the CPA introduced a new temporary salary structure and made arrangements to transport and

secure the currency needed to open bank offices and other distribution points. The CPA, working with the Central Bank of Iraq, Ministry of Finance, and other government agencies, worked out the complex approvals required by U.S. law and the local logistics in Iraq very quickly and payments were resumed by early May.

Iraq had a limited supply of so-called Saddam dinars -- locally printed currency with Saddam's picture on the notes and of low quality. Out of print "Swiss" dinars still circulated in the Kurdish regions in the north with a much higher market value (about 200 Saddam dinars per Swiss dinar). The story of the Swiss dinars is told in a later chapter. When U.S. forces arrived, there were only 260 billion Saddam dinars in the vaults of the CBI, and 130 were required to make one month's salary payments. Ninety percent of the dinars in the CBI vaults were 10,000 dinar notes which were discounted in the market by about 25 percent because of counterfeit potential and the inability to use them for smaller ordinary purchases. Moreover, the vaults in the CBI had been flooded. When the area was finally pumped, it was discovered that 40 percent of the dinars were wet and of marginal use.

The tricky part of the resumed payments was choosing the currency to use in the absence of enough Saddam dinars. The acute shortage of Iraqi currency demanded a quick decision about the monetary regime for the immediate and near term. The IMF provided background papers to the U.S. Treasury and the CPA in April and May on the issues and options for the monetary regime. But IMF officials were not brought into substantive discussions of the issues with those making the decisions on the ground.

For a number of reasons, a very strong case could be made for dollarization. The IMF had proposed this approach for Afghanistan for similar reasons (speed, stability of the dollar, lack of capacity for the central bank to implement monetary policy, immunity to political pressure to print money). In the end, the critically important decision about what currency to use was made without the benefit of a decision about what monetary policy would protect its value (a decision, remarkably, that still has not been taken in any clear way when I arrived the second time in May 2004).

The first payments (for April 2003 salaries and pensions) were made over a three week period starting May 24. In the non-Kurdish areas, i.e., those using Saddam dinars, the payments were in 10,000 dinar notes because there were not enough of the more popular 250 dinar notes. A 30 dollar per person emergency payment was made in U.S. dollars. In the Kurdish area, where the "Swiss" dinar was used, both the salary and emergency payments were in U.S. dollars. One, five, ten and twenty dollar notes were flown into Iraq and despite the logistical difficulties it caused, the CPA used numerically more ones and fives to facilitate the use of dollars for smaller transactions. The May and

June salary and emergency payments were made in about the same mix U.S. currency and dinar. The resulting increase in the supply of 10,000 dinar notes caused them to depreciate 20 to 30 percent in value relative to the more useable 250 dinar notes. But the available supply of dinars was running out and the economy was suffering from an acute lack of liquidity. The need to use dollars for a number of months strengthened the already strong case for dollarization, which could be followed in due course by a currency board arrangement, which Iraq had adopted with good success from 1931 to 1949.

The dollars used for government cash payments could have formed the basis for dollarization. The redemption of Saddam and Swiss dinars for U.S. dollars could have been carried out with relative ease in July and or August and these currencies demonetized by September at the latest. This would have ended the counterfeiting problem and given Iraq adequate amounts of a stable currency.

Instead, the U.S., fearing bad publicity from “forcing” dollars on Iraq, chose to issue new Iraqi bank notes. In July the CPA announced its plans for the new currency, which provided for a three-month conversion period and made no provision to end the legal tender status of (i.e., demonetize) the existing dinar. Earlier experiences with the introduction of a new currency suggested a much shorter conversion period followed by demonetization of the old notes. In Iraq, the lack of security made a shorter period difficult.

By using the earlier De La Rue printed Swiss dinars with modest changes, the CPA was able to print and put the new currency into circulation in record time and began issuing them on October 15. However, the acute currency shortage during the interim period caused the CPA to authorize the printing of additional Saddam banknote (against the wishes of Washington), which could be done locally without any real delay.

The two Saddam dinar notes in circulation -- the 250 dinar note and the 10,000 dinar note -- were notoriously susceptible to counterfeit, in part because one of the missing local printing presses was rumored to be the hands of Saddam loyalists. The market value of the remaining 250 dinar note ranged from 15 to 20 cents. Without a clearly explained monetary policy, the exchange rate between the dollar and the dinar fluctuated widely. In fact, initially the Saddam dinar appreciated against the U.S. dollar.

The responsibility for this critically important currency project passed through several inexperienced civilian hands over the summer until retired army brigadier general Hugh Banks Tant III took over. The undertaking was very large and complex and accomplished with unparalleled speed. 2,200 tons of currency was airlifted into Baghdad. Of the 27 flights planned in Boeing 747s, nineteen had been made when on November 22 a DHL plane was hit by an anti aircraft missile over the Baghdad airport. The remaining

flights were made by smaller Boeing 707s to facilitate the corkscrew landings over the airport needed to minimize exposure to missiles. Of this amount 45,000 cases worth 6.37 trillion dinar (over \$4.2 billion at USD1 = ID1500) were delivered to 250 exchange points at commercial banks and the Central Bank during the currency exchange.

My British colleagues, Simon Grey, Bank of England, and Jacob Nell, UK Treasury, have written a fascinating history of the Iraqi Currency Exchange (ICE) that covers almost every aspect of the project that is universally acknowledged as the most successful reconstruction project undertaken by the CPA. The following passage from their account provides interesting perspective on one aspect of the challenge:

Overall during the currency exchange one Fijian Guard Force soldier was killed in action, four were wounded in action and five were injured on operations (in traffic accidents and one injured his shoulder moving the money boxes) and had to return home on medical grounds, while six had to be medivaced to Kuwait for treatment for sand-fly bite.

John Stonham, my housemate in the next room, had participated in ICE (the Iraqi Currency Exchange) and was clearly very proud of the job done. In late May, I had dinner in the Palace with Scott Heyer, a colleague of my friend David Zimov. David and Scott worked in the White House Situation Room. Scott had followed Robert Blackwill, Deputy Assistant to the President and Coordinator for Strategic Planning for the National Security Advisor, to Baghdad to look after the communications aspects of his visit. During dinner he gave me a medallion sent to me by David from the White House Situation Room. It was a strikingly attractive medallion and when I showed it to John the next day, he wanted one. A few minutes later he returned to my room with a medallion of his own from the currency exchange. It read: "Iraqi Currency Exchange – We delivered under fire, 2003." We agreed to swap our medallions on the condition that David could get me another White House Situation Room medallion, which he did.

The Work

The CPA up close

When I returned to Baghdad in May 2004, Peter McPherson's office was occupied by Olin Wethington. Olin was very experienced in international financial affairs having been in and out of the government in high-level positions since graduating from Harvard Law School. His home base was the law firm of Steptoe & Johnson in Washington. He had moved from there to the government and back on several occasions, serving in the Commerce Department during the Reagan Administration (raising to the post of Deputy Under Secretary for International Trade) and in the George H.W. Bush Administration as Special Assistant to the President and Executive Secretary to the Economic Policy Council at the White House and later as Assistant Secretary for International Affairs at the Treasury Department. Olin clearly brought considerable experience and political clout to his post in Iraq.

The space outside Olin's office had been rearranged some since my visit the year before. None-the-less, my desk, as the successor to George Mullinex, and Len Lipedis (and later Bill Dewald and Betsy White) was in more or less the same spot. However, it now faced away for the large second floor window nearby. In addition, the large rest room just outside Olin's office, which included a large bath tub in which various supplies were stored, was now open and working (most of the time). George Wolfe, who had taken over from McPherson for a while in the fall of 2003, had returned to the U.S. Treasury where he was the Deputy General Council and then returned again to the CPA as the Director of the CPA Office of Management and Budget and the CPA's senior advisor to the Ministry of Finance. George now had his office at the far end of our area opposite his old and Olin's new office. He was another lawyer (graduating from the University of Pennsylvania Law School) and was a partner in Nelson, Mullins, Riley and Scarborough, a 270 attorney firm headquartered in Columbia, South Carolina for almost twenty years before coming to the U.S. Treasury in Washington then Iraq.

It is hard to say what else had changed. A few brave and dedicated people had been there—I am speaking only of the Economic Policy Office and know nothing about anything else—for a very long time. Bill Brock, a very capable and pleasant young Ph.D. in economics had been more or less (or maybe exactly) in the same spot when I visited in July 2003 as he occupied when I came in May and June of 2004. Most of the rest of the faces were new to me—a part of a rotating army of people, like myself, who wanted to

help make a difference in Iraq.

Many of these people, for example the very likable and capable group of banking supervisors from the U.S. Treasury's Office of the Comptroller of the Currency (OCC), where clearly experts in their fields (Cathryn FitzGerald, Steven Lane, and Steven Strasser). The person at the desk next to mine, Raleigh Tozer was Deputy General Counsel and a Senior Vice President at the Federal Reserve Bank of New York responsible for payments law, banking supervision, and related legal matters. He clearly came to his work with the CPA and the Central Bank of Iraq with very considerable experience.

Some others, like 25 year old Craig Lund, with three years of investment banking under his young belt, had simply responded to the ads for adventure in Iraq in the patriotic service of his country. Unlike many others, however, Craig took to the assignment of helping the Ministry of Finance and the Central Bank launch a new government securities market like a seasoned pro. He basically forced his way into that particular project, as his energies were not being challenged by anything else, and preformed magnificently.

But the whole did not equal the sum of its parts. None of the above people had any experience with providing technical assistance. The CPA did not foster an atmosphere in which people worked well together. It was never clear to me what impact the military control had as it was rarely visible to me. I received occasional requests for information from military people, generally to brief the generals. They would approach us apologetically asking for help in briefing their bosses about things they did not understand, knowing that they were wasting everyone's time. I felt sorry for them as they were doing the best they could. Their ultimate control did not seem to impact directly on our activities, unless it was behind the mania for control that seemed to float around the Palace.

The antagonisms between CPA and USAID and its contractors (like me) were all too clear, however. BearingPoint contractors were supposed to work under the direction of CPA staff (who often knew far less about the subject of a particular project than the BearingPoint expert). However, USAID was so paranoid about its position, that it effectively blocked any direct discussions between BearingPoint and CPA that might have improved working relationships. CPA management in turn were so paranoid that they would not leave any USAID proposal untouched by heavy and often pointless review.

I was a real anomaly for every one. They did not know how to categorize me or relate to me. I was the CPA's Senior Monetary Policy Advisor to the Central Bank. I was

following in the footsteps and sitting in the same chair (or at least at the same desk as chairs tended to move around) as Betsy White, Bill Dewald and others who were paid for and supervised by the U.S. Treasury. I was also recruited by and supervised by the U.S. Treasury but was under contract to and paid for by USAID/BearingPoint. The U.S. Treasury had reluctantly agreed to this deal breaking demand of mine. I insisted on it because I had previously committed myself to the BearingPoint team of experts for Iraq (and because the Treasury would only fly me in coach and I just don't do that across long distances any more). My CPA colleagues in the Palace often said, with some surprise, "Oh, that's right, you are BearingPoint," as if there was some significance to the distinction. My Palace pass said on it "BearingPoint" in very big letters, but my office was right there in the Palace with the other CPA staff. Other BearingPoint staff had offices several blocks away. I was part of the CPA. This left everyone confused.

I had difficulty understanding these distinctions. We were all there to help rebuild Iraq and should be working as a team in whatever way used our talents best toward that goal. But that was just not how USAID and CPA saw it. Thus for a long time BearingPoint talent was underutilized. They were marginalized and those in the CPA, often with less relevant expertise, ran the show. The "Iraqis" were more or less left out of the picture all together.

The intensity of interagency rivalry was brought home to me most forcefully in my last week in Baghdad. The week before, I had received a very cryptic message from an aid to Ambassador Richard H. Jones. Ambassador Jones was Chief Policy Officer and Deputy Administrator of the CPA—Bremer's number two. In this way I learned that it was possible to have two Ambassadors at the same post. The aid's first email had come while I was "out of country" (rather than "in country") as Foreign Service types would say. His name was unfamiliar and I had overlooked it. Thus a week or so had passed by the time I read it and replied. The Ambassador, he said, would like to meet me as soon as possible. The aid seemed to be assuming that I would understand what the meeting was about. I returned an equally brief response to the effect that I had no idea what he was talking about. His next message contained a bit more information and asked if I could meet with the Ambassador at 2:00 that day. It was one of those days I had gone directly from the White House to the CBI and I didn't see the message until I had returned to the White House at 4:00.

After several rounds of emails of this sort an appointment was made that I could keep. By that time I had also discovered to my embarrassment that I had received an earlier email from Ambassador Jones with a somewhat fuller explanation for his desire to meet with me. Secretary of the Treasury Snow had recommended me to be the new Iraqi

Prime Minister's Economic Advisor on financial sector issues.

Ambassador Jones, who I had never heard of or dealt with in any way, proved to be a very pleasant guy. I thanked him for the offer and explained that I was unable/willing to say on. We had a pleasant chat about financial sector issues. I gave him the names of my two economist housemates, Rob and Hashim, as possible candidates. Both actually wanted to stay in Baghdad and were delighted at the prospect. Both met with the Ambassador in the next few days to discuss the prospects.

All three of us were BearingPoint contractors or employees and we were all being paid from a USAID project. When the USAID administrator in Baghdad learned that we had met with Ambassador Jones without informing him, and without his being present, he was apparently livid. We were not to do anything outside of our terms of reference without USAID permission. The brunt of this fell on Rob and Hashim. It was so outrageous that they did not even want to tell me about it. This kind of behavior helps explain one part of the Coalition's poor performance during its year of governing Iraq. At the end of the day PM Allawi refused to accept any foreign advisors proposed by the U.S.

In this structure and atmosphere it was difficult to get information on other projects that might affect my work at the central bank. I came across several being undertaken by BearingPoint, but even projects Raleigh Tozer was working on that materially impacted my work (modernization of the payment system) were hard to learn about. Though he sat less than one foot from me in the Palace I only learned of the project to use satellites and the VISA payment clearing net work as an interim way to improve non-cash payments in Iraq by riding in the same armored car with Chris Soares, who was also working on that project and sat a few desks away in the Palace), and asking him what he was working on at the Central Bank.

One of my co workers in the CPA, Phil Mistretta, introduced himself to me after I had been there about a week and explained what he was doing. He said that he knew there was no other way I would find out. His desk was about ten yards from mine at the opposite end of the room.

Phil was a U.S. Treasury advisor dealing with the large, state owned banks. He had led the most recent of the three assessments of these banks with the help of BearingPoint banking experts (one of the few examples of good cooperation between consultants and the CPA). Copies of the earlier assessments had been lost. Phil was bright, intense, and blunt. He complained that very little had been done over the past year to address the serious problems of the two big state banks. Much time had been wasted, he said. At the end of our discussion he said, "be careful who you ask for information. Your biggest enemies are in this building."

Phil's observations about the state banks have their counterpart in almost every area of reconstruction work I encountered directly or indirectly. Doctors complained of poor prioritization of efforts to address public health problems (e.g., lack of standard medicines and records of diseases). Promises to restore electricity to acceptable levels fell so far short that everyone complained. And the lack of security overwhelmed everything else.

The control mania of the DOD/CPA posed a particular danger to my work as the two months I had for my assignment required that I move very quickly. I largely succeeded because I convinced Olin and the U.S. Treasury to let me give uncleared drafts of sections of my report to my Central Bank counterparts as discussion pieces as I went along. Thus my work and the documentation of it in my report progressed day-by-day and week-by-week on the basis of these discussion papers on one topic after the other. This allowed good discussion of the issues covered with my Iraqi counterparts and greatly increased the prospects that they would actually understand my recommendations when they received my report at the end of my assignment. Without this freedom, I could not have progressed so quickly.

Baghdad

The security situation made it impossible to see much of Baghdad. All that I saw on these trips was from the window of an armored car or looking out of a Black Hawk helicopter. There were parts I saw over and over again—the outdoor market along Rasheed street approaching the central bank compound—the El Rasheed Hotel, Foreign Ministry and buildings near the entrance to my White House's neighborhood—the buildings at the end of the bridges we used to cross the Tigris River on the way to the Central Bank. The outdoor market along Rasheed Street was not much different than the many others I had seen in the Middle East. Outdoor display tables, bins, and shelves were filled with carefully placed merchandise, leading into shops. There seemed no shortage of goods or of shoppers to buy them. We occasionally saw the areas more familiar to TV viewers—the Sheraton Hotel and adjacent square, which had once held the famous, now toppled statue of Saddam; I occasionally saw more remote and out of the way neighborhoods with both broad and narrow streets that the security precaution of varying our routes sometimes took us through.

After the war and the looting that followed, Baghdad was a sad, heavily damaged and dirty place. Regrettably I had never seen it before the war. Most mosques seemed to

be standing unhurt, but a rather large number of larger buildings were either seriously damaged or completely gutted. Perhaps such damage was found in 10 to 15 percent of the larger (non-residential) buildings, but this is my pure guess. While most of the city seemed to consist of two to three or four story buildings mixing residential and office or shop space, the taller office buildings tended to range from ten to twelve or so stories tall. There was very little sign of construction, except of high concrete security walls going up everywhere in the Green Zone. This sad state of affairs was made worse by razor wire and concrete barriers set up most of the places I seemed to go. It was a pretty ugly mix.



Streets of Baghdad, June 2004.

From another perspective, the city was bustling. The streets were usually full of people, carts and cars. During the morning and mid afternoon, the streets were packed with cars stuck in slow moving traffic. On Rasheed street, which is lined with shops, our cars shared the street with carts that were pushed or pulled by hard working Iraqi boys delivering merchandize to the shops. Aside from the clutter, razor wire, and war-damaged buildings, the streets of the old city looked pretty much like a normal Middle Eastern old

town. Life was going on.

Trips across the Tigris could be amusing. The bridges were usually jammed with cars. We generally had a special lane kept free for us by the private militia of General Ali. His large muscular “soldiers” lined the bridge and kept the other cars from coming into our lane. Our own solidly built PSDs, commented more than once that these big guys on the bridge had to be on steroids. When we reached the other side (from the Green Zone and the White House) where the Central Bank was located, we turned left onto Rasheed Street and proceeded along the four to eight blocks (depending on which bridge we had crossed) to the Central Bank. Except on those days when our varied routine took us to the central bank before 8:00 am, the street approaching the Central Bank complex was jammed with people, carts, and some cars. This stretch of street was protected by guards hired by the Central Bank. There were three hundred of them and they stood almost shoulder to shoulder along the edge of the street.

Exploring the public market places (bazaars) is generally an interesting pleasure in the Middle East, but not here because I was not allowed to get out of the armored car to explore.

The Central Bank



Maysoon (Translator) and I in my Central Bank of Iraq office, June 2004.

The entrance to the Central Bank compound, which also houses the high rise head offices of Rafidain and Rasheed banks, the two largest banks in Iraq, is protected by sand bags around a guard stand and a concrete wall topped with razor wire. The guards in the guard stand would always quickly wave our familiar caravan into the large, cluttered and busy courtyard. Like the street leading up to it, and most of what I saw of Baghdad, the area was dirty and filled with debris.

Depending on which security firm was delivering me and who was in charge that day, we either drove into a protected area at the CBI's entrance or stopped in the courtyard between the CBI and the two big state banks. CRG thought the enclosed area at the entrance provided good protection from attack and delivered us there. Kroll thought that the enclosed area risked entrapment of our cars and delivered us to the more open courtyard.

Large amounts of cash (dollars and dinars) are stored in the CBI's vaults in its headquarters compound. At the time of my May-June visit, they held over \$5 billion dollars worth of U.S. dollar bank notes alone. We occasionally saw US military convoys in the courtyard when large deliveries of new notes were being made or when banknotes were being moved to other CBI branches for distribution to banks. The most unusual sight was when cash was being moved between the CBI and one of the two state banks that shared the compound. Bags of cash were stacked on carts that were pulled across the courtyard. The site of four or five Iraqis sitting on top of twenty to thirty large bags of cash, being pulled across the court yard by several other Iraqis was more reminiscent of moving a cart full of hay on the farm than of a movement of cash between banks.

The entrance to the CBI was enclosed on three sides by two other high-rise central bank building and was the area from which money deliveries and pick-ups were made. The tallest of the three buildings, directly in front of us as we pulled up to the main entrance to our left, was the new CBI headquarters building gutted by looters over a year earlier. It was about 12 stories tall.

Upon arriving I would slide out of my armored car and collect my computer and documents from the back of the car. If we were feeling lax about security and our PSDs allowed it, I would take off my body armor and leave it in the car, which waited there with an armed guard until I returned. On other days I wore all thirty five pounds of it up the four flights of stairs to my office on a secured floor also shared by the governor and deputy governors. I arrived on the fourth floor out of breath, panting and sopping wet with or without the body armor. Whether alone or with other CPA experts, or with Rob and Hashim, I was accompanied up the stairs by two armed guards from my car caravan. They remained on the floor or on whatever floor I moved to for meetings for as long as I

was in the building.

“My” office was spacious, well furnished and had internet access, when it was working. The anti-room to the office had a secretary, Ashwaq Maseeh from the Foreign Department and a sofa where visitors could rest or wait. The office itself, in addition to a large desk, two sofas on either side of a coffee table and a wall lined with basically empty book selves, also had a smaller desk and table across the room opposite the large desk. There was a refrigerator in the corner next to the large desk in which we kept our bottled water cold. Bottled water was basically a free good to us foreigners. It was available in boxes almost everywhere we went. The room was often used for meetings between advisors and CBI staff. The office was also a kind of public good for advisors.



Ashwaq and I in Central Bank of Iraq, June 2004.

Ashwaq was an attractive young lady in her mid thirties. She was the main liaison between the CBI and foreigners (IMF, World Bank, USAID, etc). She more or less served as my staff assistant when I was in Baghdad and even when I wasn't. She spoke English reasonably well, and was able to contact anyone in the CBI, not always easy given the condition of the phone system and general lack of email. All of my

appointments were made through her and she often interpreted for me during meetings.

During my first few weeks in Baghdad the big desk in “my” office was occupied by Ahmad Al-Samarrie, another Senior Advisor to the CBI. Ahmad was an American Iraqi, who had left Iraq in the 1950s and had served during the Reagan Administration as a senior official in the Office of Management and Budget. I had actually worked with his wife many years earlier when I had been in the Department of Finance at the IMF. Ahmad was 75 and had been in Iraq for a year. He had an advantage over the rest of us in that he had many relatives and friends in Baghdad and moved around freely frequently having dinner with one or another of his clan. He actually had official authority from the CPA to govern the Central Bank. I never really quite understood how that worked as decisions were deferred to Sinan Shabibi, the Iraqi Governor of the CBI appointed by the CPA (i.e., Paul Bremer). Ahmad helped me a great deal in setting up meetings in the Central Bank and attended my twice-weekly seminars with staff and contributed to the discussion. He was quite pleasant company and seemed to appreciate what I was doing for the Central Bank.

My happiest days were when I went directly to the CBI from the White House without going to the Green Zone first. On those days I missed the meals in the Palace, in the sense of not having them. Thus I arranged to have some canned orange juice and milk and cereal at the White House before leaving and had an Iraqi chicken or lamb sandwich brought to me in the Central Bank for lunch. Dinner was more of a problem and some times I went to the Palace after leaving the CBI mainly to have dinner. Staff at the CBI finished work each day at 3:00 (earlier on Thursdays).

My work at the Central Bank focused on four areas: the framework for developing and implementing monetary policy, policy instruments (and government securities market development), data collection, and data analysis. All of these were needed first in some ways. All of them were needed urgently. To the extent possible I worked on all of them in parallel.

The policy framework

I was expected to help the CBI fashion a framework for conducting monetary policy and to develop a coherent approach to formulating and implementing monetary policy. I discuss the second half of this—implementing monetary policy—below in connection with my discussions of data and data analysis. The policy framework really preceded and fashioned everything else but I only addressed it explicitly with the

authorities near the end of my visit.

I had been amazed and dismayed that no explicit monetary regime had been agreed, much less explained to the public, before the new currency notes were introduced in October 2003. In my view, it was extremely important to tell the public what would ensure the value of the new currency before it was exchanged for the old one. The new central bank law required the CBI to aim for price stability but left open the means for doing so. Would the value of the new currency be guaranteed by a “Currency Board” arrangement that fixed its exchange rate to and fully backed it with a foreign currency (the U.S. Dollar, or the Euro)? Or would monetary policy be anchored to an exchange rate target that could be adjusted if conditions changed, or to a monetary growth target or an inflation target? All of these monetary regimes aim to stabilize prices but by using different approaches. But no explicit approach had been agreed or communicated to the public.

Because the new central bank law forbids the CBI from lending to the government, the driving force of Iraq’s monetary conditions is the expenditures of the government from its oil revenues. When its oil revenues are spent abroad (for foreign goods and services needed in Iraq) there is no monetary impact. But when they are spent for domestic goods and services, domestic liquidity is increased (normally governments spend money they take out of the domestic economy through taxation or borrowing). This is true whether the domestic expenditures are in dollars or Iraqi dinars. In order to reduce dollarization once the new Iraqi dinars had been issued, the government began to sell its oil dollars to the central bank for dinars. When it spends these dinars to pay its employees and pensioners and for other domestic goods and services, the supply of dinars in circulation goes up (in the first instance) by that amount.

In October, 2003, the CBI established one instrument of policy, a daily auction of dollars to banks in Iraq. This one instrument affects both the exchange rate and the quantity of dinars in circulation. The dollars it auctions come from the oil dollars that are sold to it by the government. The auction of these dollars to the market reverses some of the increase in the dinar money supply caused by the government’s expenditures of the dinars it has purchased from the CBI.

The initial monetary policy question was how much the central bank should sell every day in these auctions? Following a few months of very volatile auction exchange rates, the central bank began to adjust the amounts it sold in order to stabilize (target) the exchange rate. Fortunately there was a large increase in the demand for the new Iraqi dinars during this period so that it was not necessary for the central bank’s dollar auctions to reabsorb all of the dinars that the government’s spending had put into the economy.

The simple math of the situation was that the CBI bought more dollars from the government than it sold to the market at its more or less stable target for the exchange rate. Thus it was able to stabilize the exchange rate and accumulate dollar reserves at the same time.

This approach had been very successful and it was clear to me that for the time being the CBI would want to retain an approach that targeted a stable exchange rate. My goal then was to develop an analytical framework in which to determine the actions needed by the CBI to enable it to continue successfully targeting the exchange rate as long as it remained economically viable and to adjust the target when it was not. There is a vast literature on this subject and my Report to the CBI, which sets out and explains the framework, is available to anyone interested.

I developed the approach (well known to anyone familiar with an IMF monetary program) over my two-month visit through twice-weekly lectures that I had with the staff. In this way, I also ensured that the framework would be fairly widely understood among the staff. Toward the end of my visit, I sent a draft of the framework to the governor and senior management and discussed it with them in a meeting chaired by the governor. It provided the framework into which were fit the staff analysis of economic developments that I discuss below.

Looking back, these staff lectures played an important role in whatever success I had in developing the CBI's capacity to understand monetary developments and to conduct monetary policy. Betsy White, who conducted such lectures before me, had convinced me to continue with them. I used the same conference room on the fourth floor of the CBI that she had. The room had a long table that sat about 20 people with a white "black board," as I still call them, at the head of the table. Until he left Iraq, Ahmad Al-Samarrie accompanied me to my lectures and helped out with useful questions and comments.

Betsy invited me to join her last lecture to her group and took the occasion to introduce me. I watched with interest as my future "students" entered the room one at a time or in small groups. All but three of the twelve to eighteen staff who attended these sessions were women. Most of these ladies seemed modern; a few covered their heads but none covered their faces. The most traditional looking of them was Dr. Mariem Hasoon Kadhim. Dr. Mariem was short and fragile looking in most senses of the word. She rarely spoke. For one thing, she, like many of the attendees, did not speak English. I later learned that she headed the Macroeconomic Unit in the Statistics and Research Department and had a Ph.D. in economics.

Those attending were those who wanted to learn. They distinguished themselves

among the staff, by still, or once again, having ambition. My lectures were interpreted by Miss Maysoon Mushahidi, Head of the Translation Unit, or Miss Ashwaq N. A. Maseeh, from the Foreign Relations Department and my assistant at the CBI. These attractive, cheerful, and helpful young ladies were not highly skilled interpreters but they did their best and I think we all got by fairly well.

I used these lectures to introduce the analytical framework of money supply and money demand determination of the price level and to discuss the monetary policy instruments that I planned to propose and that I discuss next. In time, the attendees were to become the team leaders and members of the Briefing teams I established to analyze financial data and its implications for monetary policy (discussed a bit later in this section). As the idea of the Briefing teams and the connection between their work and my lectures became clear and known among the staff, attendance to my lectures expanded to seventeen or eighteen people twice a week. It is always a good sign when there are people eager to take on new responsibilities.

Policy instruments

My second area of work, which was closely related to my work in developing of the government securities market, was to help the CBI redesign its policy instruments. The CBI did not have the data needed to closely monitor, much less control bank liquidity (bank holdings of central bank money or base money). Thus it was important to put in place facilities that would automatically stabilize bank liquidity and related interest rates. Furthermore, banks themselves could not easily forecast their liquidity and customer demands for it. Thus they tended to hold very high levels of idle cash (currency in their vaults and deposits with the CBI). Such “excess reserves” are the surest but most costly form of liquidity. They raise the cost to banks of intermediating funds between bank depositors and borrowers.

The instruments I proposed are quite standard and I have helped develop them in many other central banks in the past. The existing reserve requirement of the CBI required banks to place funds in a blocked account at the CBI in proportion to their deposit liabilities to their customers. Different proportions were required for different classes of deposits from the previous month. I proposed to replace this requirement with a uniform ratio on all deposits (whether foreign currency or dinar) that would be met by banks’ average holdings of dinar cash in their vaults and their dinar deposits with the CBI (so called reserve averaging). Such a formulation would maximize the CBI’s control over the money supply (by stabilizing the money multiplier—the ratio of the total money

supply to the monetary base of the central bank) and would give banks a liquid asset. The existing requirement with frozen deposits at the CBI did not contribute to banks' liquidity whereas the reserve averaging feature of the one I proposed would give banks a potentially very useful liquidity management instrument.



Governor Shabibi and I in his office in the Central Bank of Iraq, June 2004.

The CBI also had a discount window that was almost never used and could not be counted on by the banks as a source of liquidity. I proposed a collateralized lending facility that banks would have almost automatic access to if they met the established borrowing criteria. They would pay a modest premium above market rates for such funds.

In addition, I proposed a standing deposit facility that banks could place excess liquidity in over night at below market interest rates. These two facilities (and a few others related to them) were meant to stabilize market interest rates within the range set by the CBI's lending and deposit rates.

The most challenging part of these proposals was to define the lending and deposit rates. They are meant to straddle the prevailing market rates for overnight or very short term interbank borrowing and lending. However, in Iraq at that time there was really no interbank market and thus no market rates to use as the benchmark. I proposed that the CBI would establish a Policy Rate as such a benchmark. The Policy Rate was to be the interest rate that the CBI thought was needed in the market to achieve its goal of price stability. Obviously such an assessment would be challenging and not without risks.

My technique, once again, was to present the analysis to my twice-weekly seminars then to draft a paper that set out my proposals and the reasons for them. In my third week in Baghdad, I sent this draft to the governor suggesting a senior management meeting to discuss it. At that meeting, which Governor Shabibi chaired, I asked for his agreement in principle to the proposals and his permission to work with his staff to prepare draft regulations to implement them. He granted my request on the spot. I had the feeling that we were flying.

My CPA colleague Raleigh Tozer, who in fact sat three feet away from me in the Palace at the desk next to mine, took the lead in drafting the regulations. Our collaboration started out a bit rough but ended nicely. Raleigh wanted the regulation to state that the CBI had the right to reject any request from a bank for a loan from the standing lending facility. I wanted the regulation to ensure banks that they could borrow if they met the conditions. We had quite a discussion of this point. In the end, Raleigh offered language that we could both live with.

I think that Raleigh's and the CPA's approach would have been to submit the draft to all kinds of review at the US Treasury, Federal Reserve Bank of New York, and some review body in the CPA that I never quite understood and only then to drop it on the CBI as our recommendation. At that point the CPA was still able to force the regulation on the CBI if it wanted to. This was totally alien to the normal way of providing technical assistance that I have been accustomed to at the IMF. Instead, once Raleigh and I had agreed on the draft, we went to Mr. Hassan Al-haidary, the head of the Agreements and Loans Department, which would administer the regulations, to explain our views and obtain his on the features that the new regulations should have. Raleigh and I then made some minor adjustments to the draft and sent it to him for discussion. Within two more meetings, during which we went through the drafts line by line, we had

an agreed draft for the reserve requirement and banking facilities that we presented to the governor.

At this point we ran into the CPA bureaucracy. I had copied my email to the Governor with the drafts to Olin Wethington. Olin immediately email the Governor not to take action as the drafts had not yet been cleared by the CPA. That was in early June. Our rush was to have the new facilities in place and well understood by the banks before the first government securities auction targeted for June 23. The matter stood there without further progress for almost two months. The first government securities auction didn't take place until July 18 and the CBI's regulations for the reserve requirement and banking facilities were not approved until Aug 15, when its new Board met for the first time. They were issued September 23 from which date the Banking Facilities were in effect and the new Reserve Requirement went into effect November 1, 2004.

Data collection

My third area of work was to help the CBI improve its data. There were problems with the conversion of foreign assets and liabilities to dinar, the definition of the money supply being used, and with the timeliness of the data collected. In this area my work benefited considerably from the work Bill Dewald had started when he occupied my position (earlier in the year).

The data used to compile the money supply comes from the central bank's own operations and thus from its own accounts, and from information supplied by banks from their books. One of the several problems encountered with the monetary data resulted from the fact that the official accounts of the CBI continued to value its foreign currency assets and liabilities with the official exchange rate in effect at the end of February 2003. That exchange rate, already completely out of touch with reality even then, was \$3.26 US dollars per Iraqi dinar. At the time I discussed the problem with the Accounting Department of the CBI in May and June 2004, the market exchange rate was around 1460 Iraqi dinar per US dollar, i.e. 0.0007 US dollars per dinar!

I had seen directives from the CBI to banks instructing them to use current market exchange rates when computing the dinar equivalent of their foreign currency assets and liabilities. This instruction was in affect since January 2004. How was it possible that the CBI itself was not already using such exchange rates, I asked?

The head of the Accounting Department explained that the decision to adopt current market exchange rates was being held up by the Governor or a Deputy Governor.

I offered to intervene with the Governor to stress the importance of approving the change immediately. At my request the Accounting Department prepared a note, in the form of a letter to me, outlining the current accounting issues needing resolution. The letter explained that the exchange rates used by the Accounting Department for the CBI's official balance sheet are supplied by the Foreign Investment Department and that that department had stopped supplying the rates after February 2003.

The letter gave me pause. This was not a full explanation. Why had the Foreign Investment Department stopped supplying the rates? Why hadn't they resumed? Before meeting with the Governor I asked to meet with the Mr. Hasseb, Director of the Accounting Department, and Miss Hayfa'a, the senior staff woman who had signed the letter.

"Why had the Investment Department stopped supplying the rates," I asked? "The Governor must have instructed them to stop," the Director answered. I was trying to understand what he was saying to me and it wasn't making sense. The previous Governor, who would have been there when they stopped, was now in prison. "Why did the Governor instruct them to stop," I asked? "The Governor or Deputy Governor **must** have told them to stop," he said, "They would not stop on their own." I was rapidly sliding into a state of near shock. "You have not discussed this with the Foreign Investment Department, have you?" I was almost stammering. "It has been over 15 months since you have received an exchange rate and you are just waiting for them to restart?"

I paused to regain my composure and to formulate what to say next to the central bank's Chief Accountant. "You know..... I would be embarrassed to approach the Governor..... In the environment I am use to, if I were the Governor, I would expect my Chief Accountant to resolve any accounting issues. And if he could not on his own, I would expect him formulate a proposal or recommendation for my consideration and approval for overcoming the problems. Don't you think it would be better if you discussed this with the Foreign Investment Department and agreed to an approach to propose to the Governor (if the Governor's approval is really needed at all?" A silence followed that seemed longer than it really was. "Yes," he said, "that is what I should do."

The Director of the Accounting Department was right that he must have clear rules for valuing the assets and liabilities of the central bank. I have long been aware that the hierarchical organizational structure of centrally planned economies produced workers who were reluctant to take initiatives. That the Chief Accountant had waited for over fifteen months for his superiors to tell him what the new rules were, took my breath away.

A major problem for the timeliness of monetary data resulted from the lack of good communication between the hundreds of branches of Rafidain and Rasheed and their head offices in Baghdad and the lack of computerization in integrating those data. As a result, the CBI had for years accepted the individual reports each month of each branch office. Two projects had been started at the beginning of the year that were on the threshold of producing results when I arrived. One was the collection on a voluntary basis of weekly data for the so-called Dewald components of the money supply. These reports provided the data needed to compile a properly defined money supply. However, the data sent to the CBI by the two big state banks, Rafidain and Rasheed, came from the individual branches and were hand entered into spreadsheets and consolidated by the Forecasting Unit in the Statistics and Research Department of the CBI. No one was using these data. The second project by Craig Wilderman of BearingPoint was to help Rafidain and Rasheed semi automate the collection and consolidation of their branch reports of these same weekly data and to deliver the consolidated result electronically to the CBI. The results of this second project were basically in hand for Rafidain and a few months away for Rasheed when Craig was sent home because USAID had not yet extended a new contract to continue the work. He had not yet been able to work with the CBI with regard to receiving and consolidating these data electronically.

Another problem in compiling proper money supply data was the inability to measure currency in circulation correctly. Currency in circulation is normally computed by collecting data from the banks on their vault cash and deducting it from the currency issued by the central bank. Only bank vault cash in the currency issued should be deducted to know the amount of that currency in circulation. Any Iraqi dinars that were issued but returned to the CBI and destroyed because they were old or damaged or that were held in the vaults of the CBI pending reissue should also be deducted from currency issued to determine the net amount issued.

The exchange of Saddam and Swiss dinars for new dinars between October 2003 and January 2004 created some “challenges” for measuring currency in circulation. In order to take a fresh start at calculating the new Iraqi dinars in circulation, the CBI started with new ID issued (disregarding the old ones it had issued and that were no longer legal tender). Some, if not all, banks that were waiting for the CBI to verify and destroy their returned old (Saddam and Swiss) dinars, continued to report them as part of their dinar cash claims on the CBI (vault cash). Thus these old dinars were incorrectly being included in the vault cash amounts that were deducted from “currency issued” when calculating currency in circulation. No one at the CBI was aware of this problem. As a result, currency in circulation was understated. The problem was more serious in the early months of the exchange period when fewer of the old dinars had been returned and

checked. Thus the growth of the currency component of the money supply was understated in the earlier months of the currency exchange and over stated later. At my suggestion, the CBI issued an instruction to all banks to provide from October 2003 monthly data on the break down of vault cash into foreign currency, new ID, Saddam dinars and Swiss dinars.

Data analysis

My final area of work focused on the analysis of these and other data in order to help CBI management arrive at monetary policy decisions. All central banks are organized to analyze economic and financial developments that impact on monetary policy decisions. The staff of the Board of Governors of the Federal Reserve System prepare reports for the Federal Open Market Committee (the monetary policy making body of the U.S. central bank) on real economic activity, interest rates, inflation, money and credit, exchange rates and balance of payments developments. These are fed into a process for developing policy options or scenarios to help the policy makers evaluate what they should do.

In mapping out a similar process for the CBI I was very influenced by the work in this area of my IMF colleague Doug Laxton. While at the Bank of Canada, working under David Rose, Doug helped develop the Bank of Canada's quarterly inflation forecasting model in the early 1990s. He and David Rose later helped the Reserve Bank of New Zealand develop their policy-making framework and still later worked under my "supervision" to do the same for the Czech National Bank and the Central Bank of Turkey. While all of these central banks have "inflation targeting" regimes, which depend critically on integrating all available information into an inflation forecast. The process of collecting and analyzing information and bringing it to bear in a systematic way on the adoption of policy is applicable to any central bank that makes policy.

From these experiences Doug and his collaborators have developed a very clear and pragmatic understanding of the problem of extracting information from economic data that is relevant for monetary policy and of making it available to the policy makers in a useful way. This is an enormous challenge. I laid out the basic principles of this approach to the governor and senior management in a discussion paper. The paper recommended establishing cross-departmental teams to prepare the analysis of specific data in the form of policy Briefs. One part of the challenge was to foster information sharing among staff, especially across departments. The teams would meet mid way in the monthly cycle to share and harmonize their views developing staff consensus

forecasts. These in turn feed into policy options scenarios that would be presented to the CBI Board. At my request, the governor held a meeting of senior management to discuss my paper and gave his go ahead to developing the framework.

I established eleven teams, including the data management team and the team that formulated the policy options from the other Briefs. I provided examples of analysis as models for each team and met with each team individually to discuss their work. Rob Walker and Hashim Al-Ali supervised the teams in their areas of competence (real sector, exchange rate, inflation, balance of payments). By mid June, all of the required Briefs were prepared and submitted to the Governor.

My hope had been that the staff would present these briefs to the CBI's new Board of Directors while I was still in Baghdad. In this I was disappointed. The appointment of the new board came very late—only a week before the hand over of sovereignty from the CPA to an interim Iraqi government. More disappointing still, the governor did not attend the presentation, though we had moved it up to take place the day before one of his many trips abroad. The meeting was chaired by Mr. Ibraihi, the Senior Advisor to the Governor and was attended by Deputy Governor Al Juboori and most department heads. Mr. Ibraihi thought the meeting went very well—it was a totally new approach for the CBI—but I was disappointed.

The governor met with me immediately after the meeting to apologize for missing it, saying that meetings with other government officials prior to his departure had made it impossible for him to attend. It was not a good sign of his support of the approach I was building. He then asked if I could please stay and continue my work through the rest of the year. I was not willing to do that, but offered to return every other month (between my Cayman Island Monetary Authority board meetings) for a few weeks. He agreed to this arrangement and requested the IMF to finance my continued work.

The 25 Swiss dinar notes

One morning in early June on a day I was giving one of my regular seminars on the monetary policy framework and policy instruments to the staff, a handsome young man was sitting in the anti room to my office when I arrived. Ashwaq informed me that he wished to speak to me. I was out of breath having just climbed four flights of stair in my body armor and had just enough time to remove it and head off to my seminar. I informed him that it would not be possible to see him then and asked if he could please see me later. One and a half hours later when I returned to my office, he was still sitting

there waiting for me. I was embarrassed that he had waited so long. I had expected him to come back another day. I invited him into my office.

The young man, whose name I cannot use for his protection, explained that he was with the new Iraqi Army and that he had been sent secretly by “his people” to seek my help. I have no idea how he knew of me or that I was in the Central Bank, or how he got into the CBI and to my office. It is a bit scary.

We sat down across from each other on the sofas on either side of the coffee table in front of my desk. “So how can I help you?” I asked. He began speaking with full confidence as if he had full command of the English language. His people had many 25 dinar notes that they had not exchanged for the new Iraqi dinars and they needed my help to exchange them now that the deadline for the exchange had passed. In fact, I had great difficulty understanding what he was saying and it took a while to extract and distill even the above understanding. I suggested that he speak in Arabic and let Ashwaq interpret for me. He replied that he did not speak Arabic and that he would try again to explain his mission to me in English. “So,” I said, “you are a Kurd and your people are in the North.” “Yes,” he said.

What followed was a very difficult struggle to clarify his message. I shut down all other thoughts running through my mind and focused intently on trying to understand this very earnest and persistent young Kurdish soldier. I continued to wonder, “How did he find me, and how did he get in here?”

My visitor plunged into the history of the 25 Swiss dinar note. I understood little of what he was saying. At that time I was unaware of the 25 Swiss dinar note story and thus was unable to fill in the gaps in my understanding of his words. He was undeterred by my lack of understanding. His optimistic enthusiasm never waned. When I could not understand him, he would start with full confidence that I would get it this next time. What bits I thought I understood linguistically seemed incredible. Rather than exchange their 25 dinar notes for new Saddam dinar notes when they were introduced in 1993, many of “his people” had registered them with their local banks (their names and note serial numbers) and kept them. They were entitled to exchange them for 150 new Iraqi Dinars per Swiss dinar but had been prevented from doing so or had failed to do so for reasons I couldn’t understand.

After half an hour or so I promised to look into the matter and he gave me a number of documents, consisting mainly of correspondence with U.S military and government officials in Irbil, a Kurdish city in the North. The documents were almost as unintelligible as had been the young soldier’s oral explanations. He pleaded with me to keep his visit secret as his life could be in danger if it were known to the enemies of

Kurdish people what he was doing.

When I returned to the Green Zone, I attempted to familiarize my self with the 25 Swiss dinar note story. I walked down the hall from my office in the Palace to the ICE room. It was from this room that the Iraqi Currency Exchange operation had been run and some of the CPA people now in the room were ICE veterans. “Can any one explain the 25 Swiss dinar story to me,” I asked, and I briefly explained my encounter with the Kurdish soldier. The story of the Swiss dinar more generally will fascinate any student of monetary theory.

Following the Gulf War in 1991, Iraq was divided into the autonomous Kurdish regions of the North, protected from Saddam and Baghdad by the now famous “no fly zone” enforced by the U.S. Air Force, and the Sunni and Shiite regions of the south ruled by Saddam. In the face of UN economic sanctions, which among other things prevented Saddam’s government from importing new supplies of Iraqi Dinar banknotes printed by Thomas De La Rue, Saddam introduced new locally printed banknote bearing his likeness in 1993 (so called Saddam dinars). This gave his treasury the favorite instrument of taxation of many governments over history—the currency printing press. The existing notes printed by De La Rue before 1990, now referred to as Swiss dinars, continued to circulate as legal tender. Thus they remained a liability of the CBI. However, over time most of the Swiss dinars were exchanged (one for one) for Saddam dinars, except in the isolated Kurdish regions.

Amazingly, as the new Saddam dinars lost value in the south with inflation rates of 250 percent by the mid 1990s, the Swiss dinars, which could no longer be printed and expanded, remained relatively stable against the US dollar. The Swiss dinar actually appreciated against the dollar and thus appreciated a great deal against the Saddam dinar. In effect, the north and south had different currencies. Though the Swiss dinar technically remained the liability of the CBI, for ten years it was an orphan adrift on its own. Its value resulted from its fixed supply and a vague prospect of being honored in the uncertain future by the CBI. At times in early 2003 the Swiss dinar was as high as 300 Saddam dinars per Swiss dinar.

As a result of these developments, when the new Iraqi dinar was introduced in October 2003 two exchange rates were established for the two existing currencies. The Saddam dinar was exchange for the new Iraqi Dinar at the rate of one for one, while the Swiss dinars were exchanged at the rate of 150 new dinars for one Swiss dinar. While this rate was well below market exchange rates in the summer of 2003 it was still modestly above the purchasing parity estimates. The CPA wisely arrived at the rate from negotiations with Kurdish political leaders in the north who chose not to price their

region out of the trade market in exchange for a lower value for the existing stock of currency.

That is an extremely short version of the story of the Swiss dinar. However, I was learning that there is a special story connected to the 25 Swiss dinar notes. In May 1993 Saddam cynically demonetized the 25 Swiss dinar notes, which were the largest denomination in existence at the time. Other Swiss dinar notes remained legal tender of the CBI until they were redeemed for the new Iraqi Dinars in 2003. As most of the 25 Swiss dinar notes were held in the North (about 5 billion of them) and those holding them in the North were not able to travel to redemption centers in the south to exchange them for new Saddam dinars, Saddam was effectively repudiated them in the North.

The Kurdish government responded by recommending that those holding these notes register them at their local bank. Thus there were indeed, as claimed by the young Kurdish soldier in my office, lists of people with the serial numbers of their 25 dinar banknotes. The dilemma for the CPA and CBI when introducing the new dinars was that, unlike all other Swiss and Saddam dinars, the 25 dinar notes were no longer legal tender. They were no longer a liability of the CBI. But clearly those in the North had been unfairly treated during the earlier 1993 exchange and demonetization. Redeeming all 25 Swiss dinar notes outstanding at 150 to one would have cost the equivalent of \$500 million dollars at the prevailing exchange rate.

The resolution of this dilemma was to provide an extended period for those who had registered their 25 dinar notes in 1993 to exchange the amounts they had registered in 1993 (but they did not need to return the same notes they had registered). The extended period for these 25 Swiss dinar notes ran from January 17 to April 17, 2004.

When my young Kurdish visitor reappeared in my office at the CBI a week later, I was better informed to the extent that I understood more or less what he was talking about. His story was that some of "his people" had not taken advantage of the extended exchange period because their banks were charging exorbitant commissions (50 percent) for the exchange. Thus some still had their 25 Swiss dinars and he produced the bank list with names and series numbers and they wanted to exchange them now but the bank refused because the deadline had been missed.

My colleagues in the ICE room warned me that there were many scams by speculators trying to cash in their 25 Swiss dinars. I made a number of efforts to gather more information, largely believing in the sincerity of the soldier who had visited me and who was continuing to inquire by email into my progress. "The issue of illegal commissions is a criminal matter," I told him and "it will need to be pursued with the police and the courts. As for the missed deadline, it is up to the branch of the CBI in Irbil

to evaluate such claims and rule on them.” I gave the solder the name and email address of a British officer in the Irbil area he could contact. Over all I did not feel very good about my efforts and the outcome and after a few more always politely (but poorly) worded, cheerful emails from my visitor, they stopped.

The security situation

The security situation colored every aspect of my stay in Baghdad. Most of the time it was only the precautions that we took—the body armor, armored cars and PSDs—that gave evidence of a security problem. I never knowingly faced an enemy. I never looked the enemy in the eye. I was never required to be brave in the way soldiers are when they confront and fight the enemy. If bravery was involved, it took the form of living 24 hours a day with the knowledge that the enemy was out there and was striking a few times a day with IEDs, RPGs, car bombs, and ambushes. The chances that he would strike me, with all of the precautions taken on my behalf, were very low, maybe only ten times the risk of dying in an automobile accident on Memorial Day weekend in the U.S., just to take a wild guess. Many people still take trips on Memorial Day weekend in the U.S. and I was far from alone in accepting the risks of Iraq.

My generally approach was to suit up in my body armor, follow the directions of the PSDs, and keep my mind on my work. Especially riding with Rob or Hashim, we would discuss work or laugh about this or that to keep our minds off what could, but most likely would not, happen along the way. As we moved through the crowded streets, suffering only the inconvenience of heavy traffic, it would have been easy to forget the hidden dangers if it were not for our daily incidents reports and CNN. As time passed, an almost subconscious fear that I had been lucky so far but that luck could eventually run out tended to accumulate and build like a tocsin that the body accumulates and never discharges.

Lockdowns

The security situation frequently made it impossible to visit the Central Bank or to keep other meeting plans. This made adherence to my work schedule, already very tight, even more challenging. Early on I learned what a lockdown was.

On May 11, I was taken to the Central Bank in CRG cars with several other CPA

advisors (after having been delivered to the Palace for breakfast by two Kroll cars). Those of us delivered to the Central Bank in such a caravan must all agree on the time we will return to the Palace as the cars in the caravan must remain together. Those of us working in the CBI all worked on the fourth floor with the Governor and Deputy Governors, which has secured access from other floors. Two of our armed security officers remained on the floor throughout our visit. After half a day's work at the Central Bank, the four of us from the CPA there that day walked down the four flights of stairs, put our body armor back on and climbed into our two cars. Unlike Kroll, CRG allowed "packs" (as we were called) in both cars. We pulled away from the CBI building and started moving toward the entrance to the large compound that contains the CBI plus the headquarters of Rafidain and Rasheed.

Before reaching the compound gate, the shooter in my car (as we call the PSD in the front passenger seat) ordered the driver to stop and to wait as he listened to further instructions on his radio. He then asked the driver to back up, back into the more protected area we had just left and to park there. We were "locked down." Our PSD had received a report that two car bombs had been found unexploded at two points on Rasheed Street, the street we used to enter and exit the Central Bank compound. We would remain locked down until the situation was clarified by CRG's street contacts. After about a 45 minute wait in the cars, we received an all clear and our caravan moved out again and returned us to the Palace in time for lunch. It seems that the bombs were not on "our" street and it was "safe" to leave.

About a week later, in the middle of our meetings at the central bank and Rafidain bank we were suddenly ordered to the cars by one of our PSDs to be evacuated immediately to the Green Zone. We gathered in our four cars and started out of the central bank compound only to stop and back up to our original positions. The PSD in my car said that it was now too unsafe on the road to return to the Green Zone and we would be safer staying where we were. So we were again locked down for about an hour until the PSDs allowed us to return to our offices in the central bank. As it turned out, Mr. Izzedin Salim, the current President of the Iraqi Governing Council, had been blown up in his car at one of the gates to the Green Zone. It was a sad event and a set back to the preparations for handing over sovereignty to an Iraqi government.

And Things that go bump in the Night

There was no escaping the ongoing impact of the security situation. On some days we were simply not allowed to go to the Central Bank. But on all days (and nights) the

ever present specter of attack was never far from our minds. Most often attacks were accompanied by and associated with noise.

My second night in Baghdad was disrupted by the loudest and longest firefight I was to hear during the entire two months. I am not a weapons expert. I cannot really tell the difference between the sounds made by one kind of weapon or another, but the gun fight that started in the middle of the night and lasted for a good, very long seeming, three or four minutes was no ordinary machine gun fire. The exploding bullets, one immediately after the other, had a high pitched, piercing sound that resonated around each burst of fire. Perhaps the bullets were fired from a tank. The gunfight had probably taken place in the park a few blocks away from which the enemy sometimes launched rockets at the Green Zone. It took me a while to fall back asleep.

There were additional gunfights in the neighborhood about once a week on average. But none was as loud or as long and with such a strange sound as that first one.

Then there was my air conditioner. It was a large window unit that provided all of the cold air anyone could want. However, it was loud. Its real problem, however, was the very loud boom it produced when the compressor cut off as it did frequently to regulate the temperature. The boom sounded very much like a RPG (rocket propelled grenade) exploding a few blocks away. Anyone standing in my room when it went off generally jumped as I did frequently my first few days there. The outside temperature much of May was rather pleasant and I left the AC off for several weeks. Once I got used to the boom I decided that it was not such a bad thing because I was better able to ignore the sounds of the real thing (if they were far enough away).

The boom of RPGs was another fairly frequent event. In early June, after the restriction against visiting other BearingPoint houses in the neighborhood had been lifted (if accompanied by an armed guard), Rob, Hashim and I walked the few blocks to the Purple House to participate in the farewell party for the house dog. The dog had developed more bad habits (such as chewing on the legs of guests) than the House could tolerate any more and the dog was to be put down. And besides, having pets was against the rules.

The party was one of the stranger gatherings I have ever attended. About half of the ten people attending entered the house fully armed. They would set their machine guns and ammo packs in a corner and take off their side arms. Two of them sat down and played with their pistols for a while before putting them away. In the midst of the proceedings a fairly distant boom stopped all conversation. Our host announced that there would be three more and proceeded to count them off with each additional explosion. I looked at him quizzically and he said: "they almost always come in four and sometimes

six rounds.”

Our neighborhood was on the edge of the Green Zone very close to the El Rasheed Hotel. Rockets were often launched at the Green Zone from a near by park on our other side putting us in the middle. Twice rockets that were probably meant for the Green Zone landed two blocks away in front of Park House, another BearingPoint House, blowing out the windows of Jay Doeden’s room. Jay was Chief of the Financial Sector projects of which I was a part.

And then there was the night that the White House itself seemed under attack. Guns seemed to go off all around us. As I ran from my room to be away from the windows, it seemed to me that I heard rockets overhead as well. Rob came from his room on the same floor as well. We meet in the interior lounge that connected our two wings of the house. John, who had been on the roof, came down and into the same room yelling. “Did you see that? They are shooting at us.” And then it died out and was silent. A bit later Rob, who returned to watching an Arab news show on TV, informed us that the Iraqis had just won a Soccer match with Spain or someone and the whole town and the whole country was celebrating. Almost everyone in Iraq had a gun and when they were very happy they loved to shoot them into the air. Casualties were usually fairly modest. I was told that fifty or so people die each year in this way (what goes up must come down).

Like helicopters, not all explosions were bad. The Army deliberately detonated confiscated explosives from time to time. In order to reduce public anxiety over such explosions, they established the practice of undertaking them on the hour. Thus in the Palace when we heard an explosion, every one looked at the watches first before deciding whether to evacuate.

The more lighthearted moments were mixed with more tragic ones. On May 24, 2004 a car bomb killed two CPA colleagues from the office just below ours in the Palace and two CRG PSDs. This was close to home emotionally and you could see the depression setting in on almost every ones face. It was, in fact my most depressed day in Iraq. The next day my trip to the central bank was canceled and I just stayed home despite having almost no food there.

On May 26, CRG again canceled travel to the Central Bank so I spent the whole day in the Palace. I suspected that their loss of two colleagues in the car bombing two days earlier was making them overly cautious. It is hard to lose a day when there is so much to do and so little time. Mid morning my friend David Zimov called from the situation room in the White House (he was on the night shift at the time) and brought me the first news of another (less damaging) car bomb that had gone off near the Australian

Embassy in Baghdad 20 minutes earlier. It is strange to get news about your neighborhood from half way around the world.

Video Conference with US Treasury

Soon after I arrived in Baghdad I began preparing for the next regular video conference on monetary policy between the Policy Taskforce (of which I was a member) John Taylor, the Undersecretary of the U.S. Treasury (and also famous for the so called “Taylor rule” of monetary policy), Tom Simpson, on loan to the Treasury from the Board of Governors of the Federal Reserve System (and a former classmate of mine at the University of Chicago), and Larry McDonald, head of the Iraqi Financial Taskforce in the Treasury. The MPTF consisted of the CBI board plus Olin, Bill Block and Ahmad Al-Samarrie and me from the CPA. In Baghdad we used the videoconferencing facilities in the same Convention Center building in which the first trial of an American soldier for prisoner abuse in Abu Ghraib Prison was held. It was safely located in the Green Zone behind the El Rasheed Hotel. The Abu Ghraib trial was scheduled to start the day after the videoconference.

Quite a lot of work was involved in defining the topics to be covered and preparing or assembling the background papers for each topic. To a large extent I used papers that had been prepared by others. The day of the planned videoconference came one day after the car bombing death of Izzedin Salim, the current holder of the Iraqi Governing Council’s rotating presidency. A memorial service was held for Mr. Salim the day of the planned videoconference. At the last minute our videoconference was canceled because the Governor and Deputy Governors did not feel safe leaving the Central Bank for the TV facility in the Green zone.

I was very disappointed. We reschedule for the next week. Treasury Undersecretary John Taylor was traveling the following week and not able to participate in Washington so Assistant Secretary for International Affairs, Randy Quarles, took his place. The meeting actually went very well. The Governor provided a good discussion of economic and financial developments in Iraq and Vice Governor Hadji Faleh gave a good account of the negotiations with the Minister of Finance over rescheduling the central banks claims on the government.

In the middle of the videoconference I saw Randy Quarles pull out his Blackberry and check a message. Ten minutes later he was able to report to us that the IMF had just released its analysis of Iraq’s debt sustainability to the members of the Paris club. This

will be the basis of the Paris Club debt reduction negotiations and every one in Baghdad was eagerly awaiting the release of that document (which shows the need for very deep debt write-offs by foreign lenders to Iraq (like France and Russia). So we were informed of the release real time via the videoconference and email. Modern technology is amazing and works through very unexpected channels.

That evening at 7:00, we had a farewell gathering for Ahmad Al-Samarrie. The event took place at Saddam's pool just behind his Republican Palace, now our Palace. As Marines were diving off the high board in the background, I looked around at the lawn and palm trees and wondered who Saddam would have had with him there a year plus a few months earlier. Rob, Hashim and I got late armored transport home (leaving at 8:30-- a really late night out for us).

By this time, almost a month after my arrival, I was enough on top of things to contemplate spending time in the evening on something other than work. I had brought five, carefully selected, but heavy books to read and had not yet cracked the cover of any of them. In fact, I was never able to do so as long as I was there. I began to pester my friend and nominal BearingPoint boss, Jay Doeden, to invite me over to the Park House for dinner. Unlike my White House, his well organize residence had “family” dinners most evenings in their lovely dinning room. A starched tablecloth and proper place settings, and well prepared meal and good wine were the normal fare I yearned for.

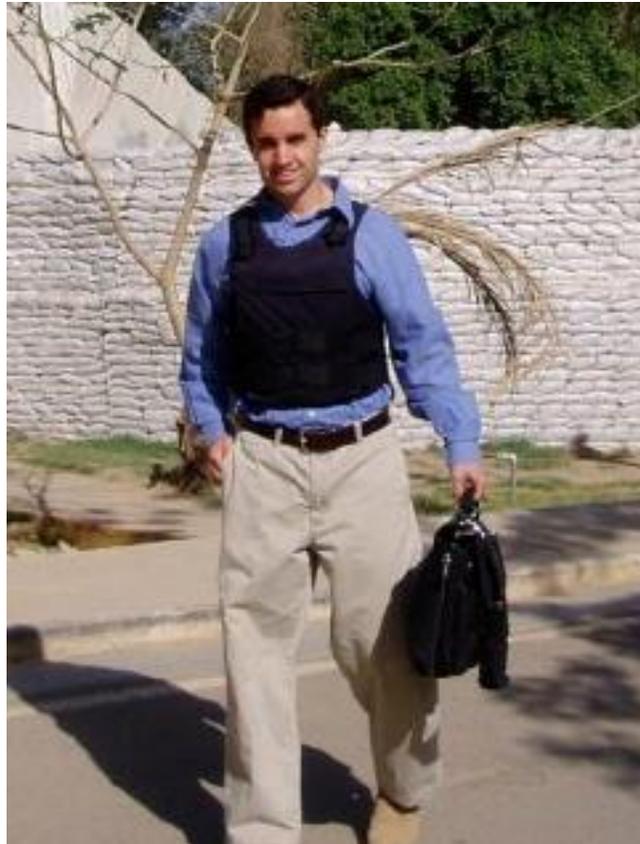
Finally, on June 2 the need for Jay and me to discuss project related topics resulted in the long sought after invitation. Jay’s housemate Alex Seleznyov (a Russian from Kazakhstan) was the chef of the group and was still away in Almaty, but our get together just couldn’t be put off any longer. His house was only two blocks away and one of our house guards walked me there in a few minutes. Getting out of the White House in the evening itself was a treat. And the visit with Jay and his housemates and the wonderful dinner were a very welcomed change of pace.

A Trip to Abu Dhabi

Monetary policy is implemented in most countries through the central bank’s purchase and sales of the government securities it owns. Before a central bank can undertake such, so called, “open market operations,” there needs to be a secondary market in government securities. For all practical purposes, Iraq didn’t really have a government securities market.

For the past decade or so, securities were “issued” by the MOF when its overdraft

credits from the CBI reached certain limits. These “securities” were kept in book-entry form in records maintained by the CBI. Primary issuance of these securities was thus solely to the CBI, but the CBI stood ready to sell and buy these securities to and from the commercial banks at the initiative of the banks. When a sale or purchase was made, the transfer of ownership was recorded in book-entry form. All of these securities had a 6 percent interest rate and were traded at par.



Craig Lund, CPA (Coalition Provisional Authority) staffer, May 2004.

Under the new Central Bank Law the CBI is no longer allowed to lend to the government, though purchasing government securities in the secondary market for monetary policy purposes is permitted. Thus the MOF needed to issue securities directly to the market in order to finance budget revenue shortfalls. The sale of such securities, guaranteed by the full faith and credit of the Iraqi government was authorized by the Public Debt Law that went into affect June 16, 2004. While the government had no need to raise new funds in the domestic market at this time, it did need to refinance the existing stock of its debt as it matured.

Development of a liquid market for government securities is very desirable for a number of reasons:

- It contributes to the feasibility of a clear end to monetary financing of the government;
- It supports the government's borrowing needs at the least medium term cost with minimum risk;
- It allows the development of market asset price formation;
- It facilitates central bank monetary policy implementation;
- It facilitates bank and firm liquidity management; and
- It provides the market (banks, firms, and households) with a safe and liquid investment instrument.

A reliable market in which the government may borrow, helps insure that it will not need to borrow from the central bank with potentially inflationary consequences. A well-developed and liquid market reduces the (default and liquidity) risk premiums the government needs to pay when borrowing in a free market. This lowers the cost to government of borrowing in the medium term. Short term cost reductions by forcing a captive market to buy government securities at low interest rates will prevent the market from developing and will thus increase costs in the medium to long run.

A well developed and liquid government securities market requires and produces interest rates that reflect actual monetary and financial conditions in the market. Such information is of great value to all participants in financial markets and in particular to the central bank in evaluating monetary conditions and thus in setting its monetary policy. Furthermore such a market plays a key role in monetary policy implementation. The purchases and sales of government securities by the central bank (open market operations) are an important instrument of monetary policy and an important transmission channel for monetary policies influence on economic activity and inflation.

A well developed and liquid government securities market also lowers the ease and cost to banks of managing their liquidity more carefully. As a result, banks can operate with lower excess (idle) reserves on average, which allows banks to reduce the spread between their borrowing and lending interest rates. This benefit extends to all firms and household that must manage their liquidity. Government securities also provide all segments of the market with a low risk investment with a reasonable rate of return.

I worked with George Gainaris and Craig Lund in advising the CBI and the MOF on how to establish and promote the development of such a market. Though the securities

were the liability of the MOF, the CBI was intimately involved. The CBI conducted the primary auctions of these securities as agent of the MOF, maintained the registry and book entry system that recorded who owned them, and operated the clearing and settlement of transactions in them.

IMF staff had not returned to Iraq after the bombing of the UN's Baghdad headquarters in the Canal Hotel. In order to help as much as possible from outside Baghdad, the IMF organized a number of workshops in Amman and Abu Dhabi to which they invited Iraqis from appropriate agencies. The IMF organized a workshop on government securities auctions for June 9 – 11 in Abu Dhabi that Craig Lund and I were to attend along with 11 Iraqis from the CBI and MOF. When the planning first started I doubted that I could spare the time. But as the time approached I was grateful for the chance to get out of Iraq for a few days.

The day before Craig and the Iraqis were to leave and two days before I was to leave (I was skipping the overnight in Amman), four security people from another security company were killed in a “rolling ambush” on the road from downtown Baghdad to the Baghdad International Airport. On that same morning, 26 Iraqi banking supervisors with three of my OCC CPA colleagues had loaded into a military bus in the Green Zone for the drive down the same road in order to fly to an IMF workshop on banking supervision. The OCC advisors had been ordered home for security reasons a few days earlier and where to travel on from the Workshop back to Washington. The attack led the Coalition Forces to close not only the BIAP road but all travel in and out of the Green Zone (which I had already traveled into) for the rest of the day. I sat at my Palace desk trying to work as Olin and the OCC advisors frantically tried to organize alternative transportation, such as a military convoy, for those on their way to the Banking Supervision Workshop. It was not to be that day or for quite a few days. Despite Olin's quite urgent and pressured request, the security people refused to transport the group. Many of the Iraqi's going had never been outside of Iraq. Everyone was deeply disappointed.

The next day I stayed home still hoping to leave for Amman and Abu Dhabi the following day. The airport road remained closed and Craig was unable to take his flight to Amman. The Iraqis, however, not governed by the CPA in these matters, took their own routes to the airport and caught their Royal Jordanian flight to Amman. Crain now hoped to fly with me the next day, June 8, and as a precaution got us on the waiting list for a helicopter from the Green Zone to the airport.

I was up at 6:00 am the next morning for a 7:00am pick up to the airport. When the two armored cars and four PSDs arrived they informed me that the BIAP road was

still closed. So we activated plan B—the helicopter. As we started out for the Green Zone, the chase car got a flat tire—not among the problems I had anticipated. Fortunately we were still within our protected neighborhood. Within two minutes two new cars arrived and I transferred my suitcase and computer to the new car and we were on our way. I was delivered to the heliport next to the Palace in the Green Zone where Craig and an interpreter were already waiting. Craig had been there since 6:00am and he informed me that the chances of getting on were slim.

At 7:45 six Black Hawks landed and at 8:00 every one was boarded except for five of us, which include me and Craig. Somehow the interpreter had been boarded and Craig went ballistic. The poor guy had been in Baghdad for six months with no break and desperately needed one. There was no way he was going to let the interpreter go when he wasn't. We were in the midst of explaining to the dispatcher that the wrong person from our group had been given a seat when he received word from the Black Hawks sitting outside on the helipad, blades still whirling, that there were five more seat in one of them.

The Black Hawk is the helicopter the guys hang out of with their machine guns and cannons. It is open air. Try to picture yourself settling into a normal airplane seat and the stewardess chastises you for not putting your computer in the overhead bin. I naively asked the soldier helping me board where I should put my suitcase and computer. He looked at me for a few seconds as if I were stupid and said, "Try your lap."

The flight of our six Black Hawks to the airport was quite an experience. The rush of air in the open plane was so strong that it distorted the skin on my face. We flew very low over Baghdad so that we would not be seen in advance by those who would like to shoot us down. The view was magnificent. We landing in the military area of the airport, and someone volunteered to drive us to the civilian terminal.

Our plane to Amman didn't leave until 11:30 am and we spent the time worrying whether Craig would get on. He was scheduled to have gone the day before and didn't have a reservation on Royal Jordanian for our actual travel day. He made it on and after another corkscrew take off we flew off to Amman to meet up with the eleven Iraqis we were accompanying to the t-bill workshop in Abu Dhabi.

I was to be met in Amman by someone with my ticket to Abu Dhabi. No one was there. I called BearingPoint in Baghdad. It turned out that because the road to the airport was closed the Amman agent assumed I would not come to Amman so he didn't come to the airport to meet me. It was all sorted out; I got my ticket and got on the plane to Abu Dhabi a few hours later. For three days in Abu Dhabi I greatly enjoyed some good meals, walking around without body armor and guards and the company of some old IMF colleague, and Simon Grey from the Bank of England, who are putting on this workshop.

Returning to Baghdad, I had to overnight in Amman to connect with the Royal Jordanian flight to Baghdad. Peter Arnet (the CNN newscaster) was on our plane back to Baghdad.

Olin's Farewell Dinner

Late in the afternoon of June 15 George Gianaris, asked me if I could join a farewell dinner for my Baghdad boss, Olin Wethington. We were to gather at 7:00pm to drive to "Alone Star" restaurant in the Green Zone. There are a few private restaurants around the Green Zone but I had not yet had time to try any of them. I called our security office to see if I could get a late ride home as the latest regular ride is at 8:00 pm. Until then Rob had always been my go between in arranging transportation so I didn't really understand how it worked. I called BearingPoint with the request and was told that they would contact Kroll to see if it was OK. After a few hours no one had called back so I called a phone number I had for Kroll directly and understood the person I spoke to to say that they could pick me up at the Alone Star at 8:30.

Dinner was pleasant and it was very nice to eat outside the Palace. Nice things were said to Olin about his leadership for the past six or so months. This was my second farewell party with more to come as the CPA began wrapping up in what seemed to me to be a cascading collapse. At 8:30 I said goodbye to Olin and excused myself (after slipping into my 35 lbs of body armor plus computer).

Outside the Alone Star there were all kinds of armored cars lining the street but none were mine. I called Kroll and they informed me that the pick up had been canceled: "Sorry. You will have to sleep at the BearingPoint camp near the Palace." This did not go down well with me at all. On another occasion, spending the night at the Camp might have been an adventure I wouldn't have minded, but on this occasion I had a very critical meeting at the Central Bank the next day and was in no mood for anything extra. Besides, if I stayed in the Green Zone, there was a bigger risk that transportation to the Central Bank the next day would be canceled than if I were going directly from the White House. I struggled, with only modest success, to keep my occasional, Irish temper under control. Several phone calls to various places followed.

While waiting to see what Kroll was prepared to do, a guy who had been at the dinner walked out and seeing me standing there in my body armor asked if I needed a ride. "I would love a ride," I replied. I explained that I lived outside the Green Zone (people who drive around in the Green Zone generally don't leave it) but he did not bat an eye. He opened the door to his car and moved some body armor to make a place for me in

the back seat. He put on his armor, cleared the chambers on his long gun and his pistol. He put the rifle across his lap and his pistol next to him and informed me that he would have to pick up his "shooter" from another bar in the Green Zone for the "run." And off we went. His friend, when we picked him up, went through a similar routine with his guns and we speed away. Was I out of my mind or what?

I indicated the entrance to my neighborhood and was about to explain where the roundabout was that we would need to turn around at, when my driver cut across the on coming lane, proceeded another thirty to forty yards going against the on coming traffic and slipped through the neighborhood entrance. The Iraqi guards at the entrance let us in after checking our IDs as they didn't recognize the car. When we drove up to the White House, Basel (I had actually heard stories before about riding with crazy Basel Abushaban) ordered me to stay in the car until he and his friend had checked things out. I was then released to our house guards. After I was in the house, the Iraqi house guards rang the bell and demanded to know what was going on as I had arrived in an unfamiliar car. If people weren't being blown up or kidnapped every day, it would have been a complete laugh. As it was, I was very glad to be home.

Early Departure

In mid June, with no prospect of an extension or renewal of its USAID contract for many months, BearingPoint began to wind down its operations. Announcements were made every other day of people being sent home early. I insisted that I needed to stay until July 1.

As the planned turnover of sovereignty to the Iraqi's at the end of June approached, fears of increased terrorist attacks increased. The CPA announced that no entry into or exit from the Green Zone would be allowed from June 25 to July 5. Then suddenly on June 17 BearingPoint announced that everyone would be sent home or moved to Amman by the 24th except for a small caretaker group at the Camp in the Green Zone. I no longer resisted.

On June 19 I received a ticket to leave for Amman on the 23rd. The next day was the big meeting at the CBI at which the staff presented their briefs to the senior management (because the new Board was not able to meet yet—in fact its first meeting was not until August 16th.) with their monetary policy recommendations. We took pictures afterward and some unusually nice things were said about me (best advisor they have ever had, and that they want to continue to work with me, etc.). The Governor met

with me privately afterward and asked me to please return as often as I could (two or three weeks every other month is what I said I was willing to do--starting in September and assuming the security situation is better). Aside from my strong disappointment that the Governor had not chaired the Briefing meeting, it was a very nice way to end my hard work there.



Farewell picture with my counterparts in the Central Bank of Iraq, June 2004.

That morning on the way to the Central Bank (I was going directly from White House as I preferred, rather than going into the Palace first--which is just an added risk) we passed camera crews and a bunch of debris a few blocks from the Central Bank just after crossing the river bridge. That afternoon my PSD took me aside and explained that a bomb had exploded there just after CPA cars (like ours) had passed earlier in the morning. He didn't know if the CPA cars had been the target or just happened to pass at that time. But he urged me to leave the Bank by 2:00 if possible while the streets were still crowded as the insurgents are somewhat less likely to attack in the midst of large crowds, he added, "They surely know we are here." The meeting described above and my follow on meeting with the Governor weren't over until 2:30 but we had no trouble on the way home.

Every thing was winding down. I no longer wanted to remain and counted the few remaining days until I was relocated to Amman to continue my work by email, which I continued later from home in Arlington Virginia.

My First Follow-up Visit

August 28 – September 9, 2004

When I returned to Washington in early July I met with John Taylor, Undersecretary of the Department of the Treasury, to brief him on my work in Iraq. He urged me to return to Baghdad in August. The IMF was unable to engage me for the arrangement I had planned (two weeks or so by email one month and two weeks in Baghdad the next month), so I continued the arrangement with BearingPoint and began planning for my return visit. While I was more hopeful of progress with the new interim Iraqi government headed by Ayad Allawi than I had been under the CPA, security deteriorated significantly as the summer progressed. While planning for my return to Baghdad, I received the following email from Kevin Taecker, the U.S. Treasury's Liaison officer in the US Embassy in Baghdad.

Warren,

August 22, 2004

I hope you will coordinate directly with me about trips out in general and to the CBI in particular. Your own security is ultimately your own choice, but in my office we are trying to be very rational and deliberate day-by-day about decisions to go out. Since my return to Baghdad on 20 July I have been to the CBI compound only once last Thursday. Prior, my PSD assessed that there was a '100% probability of attack' for this trip. Conditions have changed for the worse since you were here. We have strong reasons to believe that the enemy has placed spotters on Rashid Street to observe those going in order to plan attacks for when they come out. Most recently, CBI guards thwarted (barely) two attempted suicide bomber attacks (individuals wearing explosives belts). The reported 'mortar' strike near CBI was really a car bomb. I am told fortifications around the CBI have improved, but CBI guards live in Sadr City where the strikes remain heavy, making attendance spotty and perhaps eroding guard force loyalty. I would use the greatest caution in planning trips to the CBI compound itself and keep these to 2 or less per week, planning to go very early and ideally leave early before the exit route becomes congested.

This said, anticipating your arrival I have been working hard to make it possible for you to meet as frequently as possible with those at the CBI who are most important to your work. New clandestine offices for the top officials have been established at a discrete location equipped with Internet well away from the CBI itself. 1 or 2 days a week you will be able to meet with people there. Several of the private banks have also offered the use of good spaces at their locations for

meetings between ourselves and CBI and other IIG officials. These sites would also be available 2-3 days per week.

Of course, the CBI personnel feel the dangers also. Compared to before, they are now more willing to come out from the bank area in order to meet us at other locations. But this all takes more advanced planning than what you knew before.

I understand that you have very few days to work with and will agree that the first day or two should involve trips to the CBI as the best way to see the most people in the shortest time. I would urge you strongly, however, to use those initial days to arrange a schedule that provides for maximum use of alternative sites. For both the PSDs (who will recon' each site daily in advance) and for our hosts (the bank managers and the CBI alternative site director) we need to give advance notice. You must also be prepared to have your trips cancelled on short notice without explanation, meaning that you will want to be able to make maximum use of phones and internet to keep the work flowing.

John Dulle should coordinate with me directly on any matters related to PSDs. My office has the dedicated service of 2 CRG details. Kevin Woelflien will also be back and wanting to go out I am sure. I need a detail 2-3 times per week to maintain my calls, and the budget advisors in our office have similar requirements. If we all coordinate and cooperate, we should have sufficient coverage. All said, however, the decision whether it is safe to go out are made daily according to the best available intelligence where my general rule is to err on the side of caution.

I look forward to seeing you and am delighted you are making the trip.

Kevin

Kevin's email almost led me to cancel the trip. Governor Shabibi's telephone call to me a few days later, and his personal plea that I come, tipped the balance. I left Washington the evening of August 24 arriving in London and the Bank of England the next morning just in time to join Simon Gray in our regular conference phone call with Baghdad, the US Treasury, the FRBNY and the IMF. The next day I proceeded to Amman and arrived in Baghdad on the 27th.



BearingPoint Camp in the International (Green) Zone, June 2004

This time around I stayed in one of the trailer rooms in the BearingPoint Camp. These rooms were the size of a typical hotel room and each had its own bathroom. Each room had satellite TV and wireless Internet access. There were five rooms on each side of the hallway down the middle of the two very large trailers joined together. In addition to four such configurations the Camp also had two large offices formed by joining two large trailers together and a recreational trailer with a pool table, large TV, kitchen and two meeting rooms.



Burst sandbags at BearingPoint Camp, August 2004.

In its hey days before the June wind down, BearingPoint had around 120 people working for it in Iraq, far more that could sleep at the Camp, which is why I lived outside the Green Zone in May and June. Now the Camp, still fully intact physically, was largely deserted. Two other people lived in my Trailer's ten rooms. The offices were largely empty, as was the recreation room. As at The White House, someone cleaned my room every day and did my laundry. There was a sort of running battle between the cleaning people and me over my daily underwear. I attempted to hide them until I had a decent

number to wash. Most often I failed and returned home each day to a freshly washed pair of underpants.



Road between Camp and Palace. Behind the new wall between Camp and Palace is the Intelligence compound.

My first night there Iraq's Olympic soccer team played Italy (I think). I was warned that if they won, we could expect some of the bullets and rockets shot into the air to celebrate to land in the International Zone where my trailer room was located. The sides of our rooms were protected by sandbags but the roofs were not protected against direct hits or objects. Thus I was advised to move to the laundry room following the match if the Iraqi team won. The laundry room had a concrete roof.

I was so jet lagged that I knew I could not stay up until 11 PM or so when the match was expected to be over. So I put pads on the floor of the laundry room and fell asleep there around 8 o'clock. A bit before 11:00 I rolled over and stretched and was suddenly aware of some living thing messing with my fingers. I jumped up in the dark, suddenly very awake. I stumbled through the dark to the door and turned on the lights. Chances are that I shouted something or other as I leaped to my feet. With the lights on, I saw a small mouse running frantically around the room until it vanished into a corner. It

had not bitten my finger, but had sort of nibbled on it I guess. Iraq's team lost its match so there was no celebration anyway and I returned to my room and bed. But I was not able to go back to sleep for a few hours.

Changes

The next day I walked from the Camp to the Palace entrance and called Kevin on my newly issued Iraqnet phone and asked him to meet me at the entrance. My BearingPoint and DOD security cards no longer gained me access to the Palace grounds without an escort. After a two-day wait, Kevin was able to get me one of the limited visitor's passes (good for two weeks at a time) that allowed me to enter the Palace without an escort. This was one of many changes I encountered on this visit.

The entrance to the Palace grounds had moved back to its original location, but was now a permanent, well-fortified structure. The entrance to the Palace itself continued for a few days to be the North Wing entrance I was using when I left in June. A few days later the South Wing entrance I had used when I first arrived in May reopened in considerably refortified condition. The South entrance was to be the very well fortified main entrance to the US Embassy and new elements of fortification continued to be added during my stay.

Across the street from the South Wing entrance, under the same tree under which I had stood in July 2003 with my IMF colleagues waiting for an escort into the Palace, stood the same sand filled barrel into which those entering the Palace grounds were again firing their pistols to ensure that the chambers were empty. Inside the entrance, the trailers to the right of the South Wing entrance were still hidden behind white sand bags. However, like all of the other sand bags I saw around the Palace and the Camp on this visit, the mixed burlap-plastic bags had burst in the summer heat and much of the sand had leaked out. What had once looked neat and clean, now looked semi collapsed. Read into that what you will.

The Palace dinning room had not changed, though it had ice every day this time. However, when leaving the dinning room the trashcans had been moved so that you passed them before reaching the table on which the empty trays were placed. During my May-June stay we had to walk past the table for the empty trays to the trashcan to empty the tray and then had to return to the table to leave the tray. Every day as I left the dinning room I quietly complained to myself about the ridiculous arrangement and swore that one day I would rearrange them. Someone finally had. Things were starting to change now that the State Department was in charge of the Palace rather than the DOD.

Other changes, which I could monitor each day, were the gradual replacement of the one year old temporary cables that ran down most halls of the Palace with permanent wiring for phones and electricity. While I was there new telephones and a new telephone system replaced the old one and a new state department email system replaced the old “@orha.centcom.mil” addresses. The CIA headquarters next to the BearingPoint Camp was now totally hidden behind a 15 foot concrete wall as was much else in the International Zone. The amount of concrete in the International Zone was astounding.



Entrance to BearingPoint Camp

Deteriorating security was evidenced in other ways as well. Most of my meetings

with CBI staff were now held at locations outside the Central Bank because of the risks of going to the Bank. Some were at private banks and some at a discrete facility the CBI had in the Mansuar District. One was in a dusty office that BearingPoint had used in the Tax Commission. When I returned again in November after the end of Ramadan and Eids, I got no closer than Amman and my Iraqi counterparts were flown from Baghdad to Amman to meet with me or we meet virtually by videoconference.

One of several advantages of living at the Camp and thus in the International Zone, was that I could actually walk around in the evening without body armor or PSDs. Also I was usually able to pickup my security detail for trips out of the International Zone right at the Camp. Because there were just a few of us with BearingPoint, coordinating security with Kroll was much easier and they picked me up and returned me to the Camp rather than the car park across from the Palace. In addition, CRG had their residence just next to our Camp and were also happy to pick me up there when the Embassy provided my security. The only down side was the short walk through the thick summer dust in the Camp “yard” to the cars. My special rubber soled Iraqi, “dress” shoes would kick up small clouds of dust, some of which would settle on and cling to them the rest of the day.

New People and Places

At the end of my first full day, Greg Robins, one of my BearingPoint colleagues and an across the hall neighbor in my trailer, took me to the KBR mess for those who could not get into the Palace (like himself) or who wanted a change. We slid into one of the several cars available to us at the Camp—a very dusty BMW—and drove to what for me was a new site. The very idea of just hopping into a car and driving some where in Baghdad, even just within the Green Zone, seemed strange to me. But Greg made it seem almost normal. He found easy parking in a lot across the street from the large war damaged structure set well back from the road we seemed to be heading for. It was named the Wolf Den after the Army division that had first occupied it. It had a new name now, after the new division in residence but every one still called it the Wolf Den.

The entrance to the area was just off the street. We showed our DOD badges to the guard and starting the long walk between razor wire to the large structure I assumed was our destination. As we approached the building, a sign identified an undamaged wing as the U.S. Post Office. Greg waved me on and we walked around the building to a much smaller single story structure behind it. This was the mess. Once inside it looked quite different from the Palace mess but still seemed familiar, especially the food. A sense of dread descended on me as I reluctantly adjusted to the prospect of two more weeks of this food.

Following our meal, as we started our long walk back to the street and our car,

Greg pointed to a group of guys between the building we had just eaten in and the main building it was behind. In the street between these building several guys were twirling lassoes in the air before attempting to lasso a wooden cow. Some one was pushing a wooden hobby horse around to be lassoed. “They always seem to be there,” said Greg. And so they did. It is no stranger, I guess, than seeing a soldier ride up on horse back with an M16. No, I didn’t actually see that.

During this visit my old friend Enrique (Rick) Ortiz was acting Commerce Department Liaison to the US Embassy in Baghdad. Rick had spent over six months in Baghdad with the CPA before I arrived in May and had already left by that time only to return for a few more months at the end of the summer. One of his projects was helping to establish the US Iraqi Chamber of Commerce of Iraq. Its first meeting and celebration of its formal chartering was held on September 1 and Rick invited me to attend. U.S. Ambassador John D. Negroponte spoke at the function, which was the first time I had seen him.

Rick was tied up with his official functions and when dinner was served I wound up sitting at a table with Steve someone who worked for one of the private contractors in Iraq. He had previously lived in Saudi Arabia for many years working in the oil sector. Steve was about my age and was engaging in the noncommittal chatter common at such functions. I am normally equally unengaging among strangers at such gatherings. At first Steve sounded like the typical displaced and naive businessman. However, Steve and I had each had enough to drink that after a few bland rounds we managed to plunge into a serious discussion of the mess we were all a part of. Steve was for flattening Fallujah: “they only respect power and force in this part of the world.” But he was more interested in attacking U.S. support of the Royal Saudi Family as the root of all evil in the Middle East: “Without U.S. support they would have been ousted long ago.” The Royal Family’s Faustian deal with the fanatical Wahabi sect of Islam, the sect to which Osama Ben Laden belonged, had resulted in Saudi financed Wahabi schools through out the world indoctrinating hundreds of thousands of Moslem youth in their puritanical and fanatical version of the Koran. The Wahabi’s protected the Royal family and the Royal family financed the Wahabis. While the Wahabis were expanding their outreach and influence, the U.S. was gradually reducing the number of its foreign students in the U.S. in the post 9/11 panic to further isolate our selves from the rest of the world. It was refreshing to have a real conversation about real issues, but very disturbing at the same time.

Midway through my visit, Kevin Taecker introduced me to Jim Aguirre, a young economist with the American Embassy, who suggested that I meet Anna Derse, Minister Counselor for Economic Affairs at the Embassy. A meeting was arranged for September

6. As I had been instructed, I notified David Wall, my USAID contact in Baghdad, so that he could join the meeting if he wished (he didn't). Ms. Derse's office was in the Ambassador's suite in the Palace's North Wing—a rather long walk from my office in the South Wing. In fact, her office, shared with three other embassy economists, was in the same room in which I had met Ambassador Jones several months earlier to discuss the prospects of staying on as an economic advisor to Prime Minister Allawi.

Our meeting started at 2:00 PM. I briefed Ms. Derse on my work and went into some detail on the problems with the new government securities auctions, the disastrous agreement between the Central Bank Governor and Minister of Finance for restructuring the CBI's claims on the Government, and the continued accumulation of US dollar bank notes in Iraq because of the risk of creditor attachment of any deposits abroad. Midway through our meeting Ambassador Negroponte walked by and Ms. Derse introduced us and my topics. The Ambassador asked if I could stop by to brief him at 3:00. I was supposed to meet Kevin Woelflein at 3:30 to drive over to the Convention Center in the International Zone to meet with Fouad Mustafa, President of the Private Bankers Association. I quickly rearranged my schedule and Mr. Mustafa rescheduled for the next day.

My meeting with the Ambassador lasted about three quarters of an hour. Ambassador Negroponte had inherited Paul Bremer's office, which I had never been in before. It was a medium sized room with a large executive desk and a sofa, coffee table and two easy chairs. The walls were lined with books. The office was rather modest but certainly adequate. Ms. Derse had accompanied me. I repeated the key points from my earlier briefing. When I began discussing the new government securities auctions, the Ambassador wanted to know the US dollar equivalent of the 150 billion dinar that were sold in the most recent auction. The math is quite simple. The exchange rate at that time was 1460 Iraqi Dinars per US dollar. Rounding that up to 1500 ID per dollar allowed easy mental division of the 150 billion ID to give 100 million. None of us seemed quite up to mental arithmetic under these circumstances, certainly not me. After a few faltering attempts to do the math in our heads, the Ambassador pulled out a yellow pad and pencil and did the math on paper. It was clear that he had time on his hands that afternoon.

Security is always the issue

My late summer visit was dominated by security issues. On September 6th Kevin Taecker, Kevin Woelflein, and Bob Jelnick joined me on a trip to the CBI. CRG provided our security so Kevin W and Bob were able to ride in one car and Kevin T and I road in the other one. We went at 8:00 AM in order to leave at 11:00. The day started with a

meeting with Deputy Governor Hajji Faleh and Mr. Hassan Al-Haidery. I went to the Deputy Governors office and he said, "Let's meet in your office where no one will find me and interrupt us." Following a good discussion of the CBI's claims on the Government, the government securities market, open market operations, and the urgent need to accept payments abroad in order to stop the shipments of U.S. dollar banknotes into Baghdad, I had an important joint meeting with the leaders of all of the Briefing team. At about 10:45 Kevin T stuck his head in the conference room in which I was meeting with the Briefing teams and reminded me that we had to leave at 11:00. I finished five minutes early and looked for Kevin. He was still meeting with Hajji Faleh, so I joined them.

When Kevin finished his meeting with the Deputy Governor we all stepped into the hall. Kevin continued talking with the Deputy Governor. As I was standing there waiting, Miss Sahar Majidup and asked me a question. After what seemed a minute or two of conversation with her my PSD walked up and said that the others were waiting in the car. I immediately hurried down. Cooperation on leaving times was an essential part of our security. I arrive at the car waiting outside and began putting on my body armor. Kevin T curtly ordered me into the car: "get in, you putting us all at risk. This is simply unacceptable." I was mortified. I had not meant to be late and surely wasn't late by more than a few minutes. I had been very fond of Kevin, but was stunned by the harshness of his reaction. It took me awhile to get over the incident.

On September 7th I visited the Ministry of Finance for the first time. The visit was the occasion of one of my most unnerving experiences. I traveled from the Camp with Linda Casella and Greg Robins, two other BearingPoint staff who worked regularly in the MOF. They also had their rooms in the same trailer I did. Three of us fit into one armored car. After leaving the International Zone our PSDs became concerned that the chase car might have a problem. Someone standing on the street had pointed to its wheels. We allowed the chase car to pass us temporarily to examine its tires and indeed the left rear tire was flat. The chase car again pulled in front of us and both cars stopped on one of the bridges across the Tigris. Our car blocked the oncoming traffic while the two PSDs in the chase car changed the tire. One poor guy crawled under the car in his body armor while the other stood guard. We were extremely exposed and vulnerable. The change only took four or five minutes and we were off. Before we left the bridge we discovered that the left front tire of the chase car was also flat. It was similarly replaced while we were still on the bridge using the spare tire in our car. No one expressed their concern out loud, but we all felt it. With no spares we returned to the International Zone and to the Camp for new cars before proceeding to the MOF.

I was determined on this visit to see a bit more of Baghdad, even if it was only in the International Zone. During my May-June stay I had only eaten outside of the Palace (and the White House) once, which was at the “Alone Star Café” for Olin Wethington’s farewell dinner. During my first week of this return visit I ate there again, this time with Rick Ortiz. During the second week we met for dinner at the Green Zone Café. The Green Zone Café was a canvas covered canteen erected on what had been a corner gas station. Rick brought a bottle of wine he had picked up at the PX, which we could drink there.



The Green Zone Café after the suicide bombing in October 2004.

On October 14 in the comfort of my Arlington Virginia home I was horrified to learn that Ramadan had been launched in Baghdad with two suicide bombs inside the International Zone. This was the first such attack inside the former Green Zone. The explosions killed four American employees of DynCorp and six Iraqi’s. Twenty others were injured. Two Iraqi’s had walked into the Green Zone Café wearing back-packs. After talking intensely together for a while, one of them left and rode a cab to the near by open air market near the US Embassy annex. A short while later, within the first hour of

Ramadan (after midnight), an explosion was heard in the Green Zone Café from the nearby market. Within seconds the Iraqi who had remained in the Café blew himself up taking several of the other Café patrons with him (to where ever he was going—though they may have gone to different places).



The Green Zone Café after the suicide bombing in October 2004.

My Second Follow-up Visit

November 22 – December 2, 2004

My second follow up visit didn't make it all the way. The security conditions in Baghdad had deteriorated so much that I was forced to stay in Amman, Jordan and meet with Iraqis from the Central Bank who will fly there to see me.

There are advantages to meeting in Amman that somewhat balance the obvious

disadvantages. While I am only able to meet with the few people who come, I have their full, undivided and uninterrupted attention for the duration of their visit. Though they must make their own way to the Baghdad airport, using back roads to avoid Iraq's most dangerous stretch of highway that connects the city to the airport, and without the benefit of the security we have, they none the less like the opportunity to get out of Iraq for a while. And Amman is a very decent city. It has many first class hotels and restaurants and shopping for those into that, which does not include me. The climate most of the year is hot and dry, just what I like. Amman is a nice place to visit and we can move around freely with body armor and PSDs, etc.

While in Amman I wrote the following note to my friends back home:

"I did not feel safer on my flight to Amman because I had a plastic knife to eat with over the Atlantic. Fortunately most European airlines do not adhere to such silliness for their non U.S. flights so I had a real knife for the Frankfurt Amman leg of my flight on Lufthansa. I did not feel safer because every one took their shoes off and put them through an X-Ray machine before boarding my plane. Or to be more accurate, I do not think that any increase in safety from x-raying shoes is worth the cost we are paying for it. I would be safer saying home than driving to the theater in the evening (42,643 people died in traffic related accidents in 2003 and three people died every 200 million miles traveled in the US in 2001), but the quality of my life would be reduced if I did so (and was lucky enough to survive). I am leaving aside the well-known fact that most accidents happen in the home (but where else can we go to hide).

"I do not think that the greater ease with which John Ashcroft could put people in prison (Guantanamo) without explanation or court approved reasons increased my security enough to justify the increased risks of government abuse of my constitutionally protect rights. In earlier years we all condemned the Soviet Union for this kind of behavior ((the Gulag). We haven't fallen that low yet, but as my neighbor Senator John McCain, who knows a lot about the treatment of prisoners of war, said the other day, by overlooking the Geneva Conventions and our own earlier norms of acceptable government behavior "we put ourselves on a slippery slope." My greatest shame is that now when asked by curious venders on the streets of foreign countries where I am from, for reasons of safety I reply that I am a Canadian (no offense to my Canadian friends). The world is a more dangerous place for Americans today than it was three years ago (both at home and abroad), primarily because of the policies we have chosen to follow.

"Personal liberty always suffers in a state of war. That President George W. Bush has chosen to put us into a state of war in response to the terrorist attacks on 9/11 must be an unexpected victory for Ben Laden. The risk of terrorist attacks will be with us the rest

of our lives, and in fact has always been with us, but the individual freedom under the rule of law that has helped make us the super power that we have become will not survive under a permanent war on terrorism. Perpetual war and the powers governments assume when at war will eventually destroy us from within. The rolling yellow and orange security risk levels in Washington DC and elsewhere and terms like “homeland security” are more reminiscent of George Orwell’s classic novel of state oppression, *1984*, than of the America God blessed. Our British friends survived the many years of terrorism from the Irish Republican Army (IRA) without declaring a war on terrorism. We should try to learn from them how to minimize the risks of terrorism without destroying our way of life.

“One of America’s many great strengths is its capacity to learn from its mistakes. It is too late to undue the war in Iraq. Let’s hope that it is not too late to leave Iraq a better place than we found it (within our life time), nor to restore a more appropriate balance in protecting our domestic security.

“I am putting my life on the line here to do my bit, but the U.S. government’s many mistakes in recent years are putting me and all of you at unnecessary risk. I have held back these unpleasant remarks until after the election because I did not want you to think that I was being partisan. I am speaking out for the America I love. God bless American, she needs it.”

My Third Follow-up Visit

March 22 – April 5, 2005

Though I work with the Central Bank of Iraq almost every day by email, I had not returned to Baghdad since September 2004. Working from home provided a calmer environment in which to reflect on why American efforts to “nation build” a new democratic Iraq has gone so poorly.

Being in Baghdad again, two developments give me more hope for Iraq than I had a few months again.

The Coalition Provisional Authority had governed under a Transitional Law of its own drafting. When the CPA folded up and passed the torch, Ayad Allawi was appointed interim Prime Minister. Allawi had left Iraq in 1971 to complete his medical studies in the UK and never returned, because of his opposition to Saddam Hussein, until after the American invasion. He carries a very visible scar in his forehead where an

intruder into his bedroom in England in February 1971 had buried an axe, leaving Allawi and his wife for dead.

On January 30, 2005 elections were held for a transitional National Assembly, from which was appointed the Iraqi Transitional Government. The transitional National Assembly was charged with writing Iraq's new constitution. Saddam and his Baathists were relatively secular Sunni Muslims. Of the 70 plus percent of Iraqis who are Arabs of one sort or another (17% or so are Kurds, who are also predominantly Sunni) the Sunni minority dominated the military and ruled the country. With the fall of Saddam, the Shi'a majority, with great glee, expected to take over. The challenge for the future of the country was for the new Shi'a leadership to oversee an inclusive government in which all three major populations (Kurds, Arab Sunnis and Arab Shi'a) felt properly represented. As the Kurds have been ruling themselves under the protection of the U.S. enforced no fly zone for ten years, this largely meant reassuring the Arab Sunni minority that had previously ruled the country that in their new lower status their rights would be respected.

The election in January was a very important success, though it has not yet produced in a new interim government and regrettably the Arab Sunnis largely boycotted it. Only about 2% of them voted in Anbar province. The United Arab Alliance, the predominantly Shi'a party received 48% of the votes, the Democratic Patriotic Alliance of Kurdistan received 26% and Prime Minister Ayad Allawi's party, the Iraqi List with a sectarian, Sunni mix, received 14%.

Signs are quite positive that a government will be formed in the next few days and that it will be as inclusive (Shi'as, Sunnis, and Kurds) as one could hope. It will be years before we will know whether the new regime in Iraq is successful or not but the quicker decent governance develops in credible Iraqi hands the better. It would help as well to confine American Armed Forces to their barracks immediately and to withdraw them gradually but completely over the next two or so years.

The other positive development is President Bush's second term, mid course corrections. His first term foreign policy scared honest people around the world to death. America seemed to be on the road to World Empire. Many people simply stopped trusting the good intentions of what seemed an Imperialist American. Our abuses of human rights (mistreatment of prisoners) both at home and abroad have gone largely unpunished. However, a few weeks ago a Bush appointed judge ruled that Jose Padilla had to be charged with a crime or released. Mr. Padilla, an American citizen, had been held for almost three years without charges or access to a lawyer. Judge Floyd stated that: "to do otherwise would not only offend the rule of law and violate this country's

constitutional tradition, but also would be a betrayal of this nation's commitment to the separation of powers." Score one badly needed point for our traditional values.

The President's second term has started off in quite a different way than his first. His inaugural address was brilliant. He rightly established the importance of democracy and prosperity abroad to our safety and interests at home. He rightly said that democracy couldn't be imposed by force. His more nuanced actions since seem consistent with the bold vision of the Inaugural. To my mind he has found about the right balance in encouraging democracy on our undemocratic allies (e.g., Egypt) and in adjusting our relationship with Russia and Saudi Arabia. Maybe he will even be more even handed in the critical Israeli/Palestinian negotiations. When the assassination of Lebanon's well liked Prime Minister Rafic Hariri on February 14th brought large numbers of Lebanese to the streets demanding the withdraw of Syrian troops, it was a new George W. Bush who demanded jointly with the French and other old Europeans that the Syrians must leave.

My good mood was also boosted when my Air France flight from Paris to Amman actually gave us real knives to eat with. The Air France flight from Dulles to Paris also used real knives. That old American rebelliousness against silliness and stupidity (plastic utensils in the name of security) is still alive (if not so well), but in France. Bless them.

It didn't take long back in Baghdad to become depressed again. Among the CPA's biggest mistakes (in addition to disbanding the Military, inadequate security/looting, and excessive deBaathitization) were not eliminating the food program, which was totally corrupt and not raising gas prices. When Bremer turned down these proposals, **Marek Belka** (now Polish PM) resigned. These will become huge costs on the Iraqi government and sources of corruption and will now be much harder to get rid of.

I keep asking myself how this could have happened? How could a country that likes to think of itself as so clever, do such dumb things? I am sure that historians will write about this with better answers than I can come up with (if only we would ever learn from our history or the histories of others). I keep coming up with three interrelated factors. First our war with Saddam was ill considered and ill advised from the start and without much thought of the long run challenges that it would create. Secondly, the first wave of colonial occupiers and rulers were largely eager, ideologically driven, amateurs (Bush friends). Many were well indeed but totally unequipped kids in their twenties (literally). They tended to treat Iraqis like children. Finally, lacking a clear long run strategy and lacking real enthusiasm for what long run success implied and required, the CPA administration of the process was cut in half and never finished.

If Iraqi democracy is a success, it will improve the lives of most Iraqis and

accelerate the democratization of the region. Having attacked and taken over the place, whatever you might think of that, it is surely worth finishing up the job properly. If the new government fails, it is likely to throw the entire Middle East into turmoil. We should know in five to ten years.

But its time to leave again. My friend and fellow Cayman Islands Monetary Authority Director, Richard Rahn, published an op-ed column earlier this week in the *Washington Times* about the inefficient, costly, and burdensome security procedures at U.S. airports. I agree with him fully. His column prompts me to share with you the even more amazing procedures for flying out of Baghdad.

My flight on Royal Jordanian was scheduled to leave Baghdad International Airport Thursday morning at 10:15 on the last day of April. I was told to be ready to leave by 8 in the evening Wednesday, the night before. For security reasons the travel time to the airport varies and cannot be told much in advance. At 8:30 p.m. Jay knocked on my trailer room door at the BearingPoint Camp in the Green Zone where I lived during these shorter visits and said that I was to report to the loading area at 9:15 p.m. At 9:20 I concluded that Jay had meant to say 9:50. At 9:50 two armored Toyota SUVs pulled up to take me and two other BearingPoint contractors to the boarding area for the Rhino buses that would take us to the airport.

The Rhino staging area is near the US military hospital in the Green Zone. As we pulled up to the area two medical helicopters passed overhead on their way to the hospital, an indication of casualties in that night's encounters with insurgents near Baghdad. Floodlights carved out an area of activity in the otherwise shadowy night. Several dozen people, mainly military, were standing around waiting. Three armored Rhino buses sat near by.

The Rhinos were meant to protect us as we were transported down Iraq's most dangerous road. The highway from Baghdad's Green Zone, now the International Zone, to the Baghdad International Airport (BIAP) had sustained more fatalities from terrorist attacks than any other road in Iraq. Ten to fifteen people had died each month on the BIAP road, nicknamed IED Alley, over the past year. Our Rhinos would be accompanied on our trip to the BIAP by six humvees and two overhead Backhawks. The inability of American forces to protect the road had been embarrassing (and fatal to the unlucky).

Unlike our armored Toyotas, which look normal, though it is hard opening and closing their very heavy doors, the Rhino buses looked like nothing I have ever seen before. Their very appearance says heavy ARMOR. The windows are high and small. The Rhinos look like vehicles in which murderers would be transported to the gas

chamber. I have no doubt that Saddam, now that he has been found, has been or will be transported in one of them. When we arrived at the Rhino loading area in the Green Zone, Patrick, Colin and I unloaded our bags from our Toyotas and joined the one hundred or so mostly military people standing around the area. Patrick, a Ghanaian former Economics Professor at UCLA, was heading to Dubai for R and R and Colin, an electrical industry and regulatory lawyer, was returning home in the States.

We chatted idly for about an hour until an Army Captain stood on a table and directed us to line up to be manifested: “Any one with emergency leave first, those on military flights second, those on civilian flights after that, then KBR employees, etc. After reaching the head of the line, showing my DOD badge and signing in, I took my luggage to the luggage truck and reported to Rhino bus number 27, where I signed in again and boarded. We were instructed to put on the body armor and helmets provided there and given a security procedures briefing. At around 11:30 p.m. our three Rhino buses pulled out, traveled about 200 meters and stopped with the lights out. We remained there for about 20 minutes until our 4 Humvees and two Black Hawk escorts arrived. The 30-minute drive down Iraq’s most dangerous highway, the BIAP road to the airport, was uneventful.

Upon arrival at Camp Stryker on the airport grounds at around 12:30 a.m., Patrick, Colin and I collected our bags, located our waiting PSDs (Personal Security Details) and cars and were driven to Camp Liberty, where Saddam is also being held. There was little moon light when we were delivered to our tent at 1 am with its two rows of neatly lined cots. Kroll kept two PSDs at Camp Victory to assist BearingPoint employees and contractors, of which I am one, as we arrived in and departed from the country. In the near total darkness, the tents, carefully placed next to each other in perfectly straight rows, were barely visible. Ours, number 87, was on the outer edge of the camp near the armored Suburban in which I had left my luggage. It had a light on inside and its door was ajar to show the way in the darkness.

We were shown to our three cots in the tent used by the Kroll security team for the night’s sleep. One of the Kroll PSDs woke us at 7 a.m. and took us to the mess hall tent nearby for breakfast. I looked down at my scrambled eggs and appreciated that the fruit cocktail was fresh. Helicopters passing overhead and tanks occasionally passing by drowned my thoughts out. I am sure that every thing had been flow in from some safe place from the sugar pops to the plastic forks and spoons. The largest gifts of America to Iraq so far have been tons of plastic and concrete.

My PSD was seated across from me looking down at the food he was eating. He had not spoken since tapping me on the shoulder and asking, “Do you want breakfast.”

He looked like I felt at 7:00am with little sleep. I looked past him in the large Camp Victory Cafeteria at the Delta Special Forces guys, the KBR workers on their way home, PSDs working or returning home for Christmas, and other contractors like me. A young Army soldier walked by and I wondered if he was wearing body armor or not.

A small group of very dark skinned construction workers were conversing as they ate at the table next to yours. But mainly the cafeteria was filled with heavily armed soldiers. Weapons were everywhere, adding to the surreal atmosphere as I waited for the coffee to work its way to my brain. Almost everyone had pistols on their hips or strapped to their thighs and many had machine guns slung over their backs or laying on the floor next to where they sat breakfasting. Some were seasoned officers in their thirties and forties, but most were 18 to 20 year old kids.

Twice in the course of my six-hour sleep I had gotten up from my cot, slipped on, but not tied, my shoes and shuffled through the chilly night to the row of porta-johns near our tent. The johns were unlit and I could barely see the hole. I could not see the door latch in the dark and gambled that no one would come along at whatever awful hour it was. The runway lights of the airport were too far away to help.

While there were no towels (other than paper ones) in the shower room (we had separate port-a-johns near by), there is still no other country in the world that can afford to keep its soldiers billeted as comfortably as ours. All of these tents (and my trailer room in the Green Zone) have TV and air conditioners and thus obviously electricity. We rough it with luxury (my trailer had Wi-Fi internet access as well).

At 8 a.m. our PSDs drove us to the airport terminal for the final rounds of procedures. The closest we could be dropped off was several hundred feet from the entrance. Before dragging our luggage very far we were required to show our passes and tickets to someone along the way. When we reached the entrance we were required to line up our luggage for inspection by a bomb-sniffing dog and had our passports and tickets inspected again. Once inside the terminal building we presided to the line up for the X-ray machine where another person examined our tickets (writing something on them) and a second person checked our passports. Once through the X-ray we proceeded, with the unwanted but remunerated help of porters, to the Royal Jordanian check in counter. From there we lined up to have our passports and tickets checked again before entering the waiting area. These were the official immigration booths where our passports were stamped. Before reaching the booth a lady insisted that everyone come to her counter first to pay an airport tax (which I am exempt from because of my diplomatic passport). Once all the way inside we had only another hour to wait before our 9:45 a.m. boarding.

After a final passport inspection we boarded a bus to the plane. However, as we climbed off the bus a half dozen heavily armed soldiers and an equal number of other officials lined us up with our remaining hand luggage for a final sniff from the dog. We stood there in the hot sun staring face to face at the soldiers between us and our flight out. The guy next to me started laughing somewhat uncontrollably and apologized to me that when he gets excessively frustrated he just laughs. It reminded me of the sign at the entrance to the road to the BearingPoint Camp, which announce another facility a bit further down the road: “This way to the Stress Control Center.” We were then allowed to go find our checked luggage waiting next to the plane in order to have a security sticker attached before it was loaded. I was at least able to say that I saw my bags actually loaded into the plane (just in case that might be useful when I arrived in Amman).



We finally boarded more or less on time (10:15) and took off for Amman about twelve hours after I had started for the airport from the BearingPoint Camp.

When we landed in Amman, they drove a portable X-ray truck up to the plane and everyone had to put their hand luggage through the X-ray there on the tarmac next to the plane. The guy who had stood next to me in Baghdad was beyond laughter. We were

safely out of Iraq again.

My Final Follow-up Visit

November 17 – December 8, 2005

My final visit to Baghdad, though far from my final visit with my Iraqi counterparts in other safer parts of the Middle East, has been my most challenging. Along with my usual monetary policy assistance, I have been dragged into bank resolution challenges.

The U.S. Treasury bank supervision team from the Office of the Comptroller of the Currency had locked horns with their Iraqi counterparts in the Finance Ministry over the resolution of its state owned banks. The OCC guys insisted that as required by the banking law all insolvent banks, including those owned by the state, should be closed and liquidated and that those whose regulatory capital had fallen below 50% of the minimum required amount must be put into conservatorship. While the OCC guys were right both about the law and about best practice, their dogmatic insistence on the most extreme implementation of these principles (liquidation) had resulted in the MOF refusing to deal with them. The USAID (US Aid for International Development) by whom my work was paid via BearingPoint, asked me if I would intervene and deal with the MOF on this issue. I agreed only on the condition that the US Treasury accepted this arrangement, which they did.

As background, all foreign accounts of Iraqi banks were frozen as a result of Iraq's default on its debt held abroad. Any new export revenue, such as from the sale of Iraqi oil, would be immediately impounded in these frozen accounts. The Oil for Food program provided a partial circumvention of the embargo on oil revenue by setting it aside for humanitarian purposes. Thus in order to enable Iraqi companies and the Iraqi government to pay for imports until its foreign debts could be renegotiated and its deposits unfrozen, the CPA had established a temporary bank for this sole purpose—the Trade Bank of Iraq. The TBI took over the operations of the Oil for Food program and was run in New York by a consortium of American banks headed by J.P. Morgan Chase. The traditional state owned Iraqi banks, the largest and most important of them being Rafidain and Rasheed, were insolvent and barely functioning.

My goal was to reach agreement with the Finance Minister, Ali Allawi, and the Central Bank on resolution strategies for the state owned banks that respected the spirit and essence of the U.S. Treasury proposals but also respected Iraqi political sensitivities. When I arrived at Minister Allawi's office in the Finance Ministry November 18, CBI

Governor Shabibi was there as well, a good sign I thought. Ali Allawi, who I grew to respect a great deal, is Deputy Prime Minister Ahmed Chalabi's sister's son as well as the former, Interim Prime Minister Iyad Allawi's cousin. For security reasons my subsequent meetings with Minister Allawi were rotated between his home, his office, and the Green Zone Conference Center. Ali Allawi had previously served as the Defense Minister and Trade Minister. He was wrapping up his term as Finance Minister and told me that he had accomplished all that he had committed to do except the resolution of the state owned banks. He was now running out of time. Our preliminary discussions of options went very well and I reported on the meeting to Kevin Taecker as follows:

Kevin,

This morning I had a very positive meeting with Minister Allawi. We will meet again Wednesday to work through the attached PowerPoint presentation as background to more focused discussions of resolution options under conservatorship (he readily accepted that the law requires conservatorship given the findings on the conditions of Rafidain and Rasheed). I would welcome any comments or suggestions you might have on the planned presentation. I will suggest to him that after the general Wednesday presentation we broaden the participants to include a few experts from US TRE and BearingPoint for the more detailed discussions.

The Minister seems wide open to any resolution options that fulfill Iraq's situation and requirements. I am very encouraged by this. He wants to initiate actions that are as irreversible as possible before he leaves office (i.e. in December). However, he also does not want the resolution of SOBs to become a campaign issue. He would not like to be explicit up front about whether rehabilitated banks(s) would be privatized or not (though he personally agrees they should be) or that the lay off of employees would be involved (though he accepts that it will be). Over the next two weeks I think that we will be able to agree on the details of a conservatorship that would be instituted just after the December election. This will require a very large TA effort at the CBI and within the conservatorship itself.

Warren

My more detailed presentation of resolution options was scheduled for Wednesday, November 23. The day before that meeting Kevin sent the following memo to our bosses in Washington:



**Office of the U.S. Treasury Department Financial Attaché
Embassy of the United States of America - Baghdad, Iraq**



Date: November 22, 2005
To: Deputy Secretary Kimmitt
Thru: Larry McDonald
From: Treasury-Baghdad – Kevin Taecker
Subject: Decision Memo: Disposition of the State Owned Banks of Iraq

In coordination with USAID (Bearing Point) we have completed our assessment of the financial and operational conditions of the six state owned banks that served Saddam's Iraq (excluding the Central Bank and the newly formed Trade Bank of Iraq). We are now prepared to present the findings of this report, along with recommendations and suggested follow-up actions to the Minister of Finance (the owner) and the Governor of the Central Bank (the regulator).

Findings:

Operationally, the state owned banks are dysfunctional; they can barely perform even the simplest of banking services (e.g., handling cash distributions to meet government payrolls). Their contributions to credit formation and financial intermediation are negligible.

Financially, their net worth is deeply negative, with liabilities of almost \$21 billion compared to assets of only \$7 billion. Almost all their income is from Iraqi T-bill holdings left-over from the Saddam era. Most disturbingly, their liquidity appears precarious. Even if all their obligations to creditors (other than depositors) were forgiven, and all their assets were liquidated at book value (a dubious assumption), the proceeds from assets would fall short of meeting depositor demands by \$0.7 billion.

Recommendations:

The government of Iraq must take decisive action on an urgent basis to restructure the banks – operationally and financially. This should be accomplished taking maximum advantage of Iraqi laws which would place the banks into conservatorship and eventually receivership ('good bank' – 'bad bank') with the ultimate goal of privatization.

Modalities:

Under the laws, the Central Bank will need to make some hard choices. Paramount are decisions for who will be involved in the conservatorship, and how the receivership and subsequent restructuring of the banks will be handled. On both levels, the Central Bank of Iraq is incompetent. They will need to hire outside help.

Once the decision is reached that restructuring is imperative, the CBI's role will be to contract the

expertise needed to oversee and manage the entire process. Such decisions will ensure the continuity of the effort from the current Transitional Government to the new Constitutional Government of Iraq.

Next Steps:

If you concur in these recommendations, we will set to work launching the restructuring and filling in the managerial gaps. Working with the Iraqis, we will identify the conservators and receivers needed for CBI and MoF to oversee and manage the entire process of restructuring Iraq's state-owned banks.

The current Minister of Finance, Ali Allawi, wants to have the whole plan irrevocably in motion before leaving his current position. He is prepared to make the essential decisions before December 5, when he plans to leave for Singapore for 2 weeks.

Decision:

Your concurrence is requested for us to deliver the assessment and recommendations, and to work with the Central Bank and the Ministry of Finance to deliver the assessment and put the state bank restructuring plan into motion.

Wednesday afternoon on the 23rd we gathered in the section of the Green Zone Conference Center reserved for Iraqi officials. Ali Allawi had invited the President of the Trade Bank of Iraq, Hussein Isam Al Uzri, who is a nephew of Ahmed Chalabi, as is Ali Allawi, so I assume that these two are cousins. My 18 slides Power Point Presentation, which was printed out as there was no projector, summarized a wide range of resolution options and I was excited to discuss them. I put greatest stress on the good bank bad bank split for Rafidain and Rasheed, as this would be less disruptive than simply closing them and liquidating them, which few governments would be willing to do. This approach creates a new bank from the good assets of the insolvent bank and assumes all of its deposits liabilities that it can (a purchase and assumption). The original/bad bank is then closed and liquidated.

As I got underway, Ahmed Chalabi himself walked in and took over the meeting. He flipped through my PPP and without a pause said "there is no way we are going to break up and privatize these banks." It was his grandfather, I think, who had started Rafidain in 1941. The public would not understand why the government could not take care of its own banks. I struggled to regain my composure and to make my case but I was no match for the infamous Mr. Chalabi.

My next meeting with Minister Allawi was in his home, located at the end of a short blocked off and well-guarded street in an affluent part of town. Ali Allawi is a very

intelligent but gracious man and it is a pleasure working with him. He was now caught between what he knew needed to be done one way or another and his uncle Chalabi's limitations on what those ways might be. We began to discuss alternative means to the same ends. The following week we met again in his Finance Ministry office and essentially agreed on the following reformulation of the resolution strategy documented in my following memo.

Revised Bank Resolution recommendations

Original Recommendation: The Government of Iraq takes advantage of Banking Law of Iraq and places the State Owned Banks into conservatorship and eventually receivership ("good bank"/"bad bank") with the ultimate goal of privatization.

Restructuring/resolution discussions: Recent discussions with the Minister of Finance resulted in the following with regard to Rafidain and Rasheed:

- Rejection of the strategy to place the banks in conservatorship
- The Central Bank of Iraq would forbear from exercising their responsibilities to place the banks in conservatorship in return for Ministry of Finance agreement to certain conditions. This agreement will take the form of a supervisory MOU agreed to by the CBI, MOF and managements of each effected bank. (the MOU will be developed in much the same way and time frame as a Conservator would develop his resolution recommendations for MOF and CBI approval.)¹
 - Bank restructuring unit in the Ministry of Finance
 - Legal review of forbearance agreement, bridge bank, receivership and attachment risk issues.
 - Government assumption of all foreign liabilities of the banks
 - Contract for immediate replacement of management with managers with experience and expertise in restructuring banks/crisis management
 - Banks cease lending
 - Continue essential banking functions
 - Arrange for liquidity support (collateralized by government

¹ The Banking Law requires MOF agreement to any rehabilitation plans and MOF funding.

- securities)
 - Strategic planning
 - Fully develop restructuring and implementation strategy
 - Contract for professional audit
- Explore resolution strategies that would accomplish the same goals of rehabilitation/restructure without formal conservatorship. The Minister has suggested the following options:
 - Option 1- Good Bank/bad bank
 - Trade Bank of Iraq would be the good bank
 - Liquidate Rafidain and Rasheed
 - Management contract for liquidation
 - Assess capacity of Trade Bank to perform and impose (MOF) appropriate systems, procedures, business plan objectives on board/management
 - Option 2 – Rehabilitate Rafidain Bank (good bank) and liquidate Rasheed bank (bad bank).

Current Situation: The Minister’s strategy is to seek Council of Minister’s endorsement of program to resolve the State Owned Banks and authorization to undertake the actions and spend the funds needed to do so, including contract for management, auditors and banking experts.

If only Minister Allawi were staying in the job for a while longer I would have more confidence that this agreement, which is a good one, would be implemented. But after saying good by to my friends at the central bank it is time for me to go.

My exit journey to the BIAP had started at 11:59 pm the “day” before. My orders had stated exactly 11:59 pm for whatever reason. Kat, my immediate BearingPoint boss, knocked on my trailer room door at 11:50 to help me with my luggage and to say goodbye. She liked it when I came to Baghdad. Otherwise, we were in almost daily contact by email. “You don’t have to put your body armor and helmet on until you are in the Rhino,” she advised. “But then, wearing it is probably the easiest way to carry it.” She is motherly toward me, though she is somewhat younger. Though quick to judge her fellow countrymen with an acid tongue, she has a heart of gold.

Kat is also tough as nails and courageous. The week before as we were driving to

the Central Bank, she commented to me and our two armed PSDs in the front seat of our armored SUV, that it had been exactly one year since an IED (Improvised Explosive Device) had exploded next to her car in exactly the spot we were passing. No one in the car was injured, though it filled up with smoke making it very difficult to see as they sped on down the narrow road to the Central Bank and the presumed safety of its high walls and small army of guards. Twenty three Iraqis outside and near the car had died from that explosion.

I gave Kat a farewell hug and climbed into the front seat of our SUV. I am sure that Kat and I will meet again.



Kat and her buddies

An Assessment

Juan Cole, a University of Michigan professor who has specialized in Iraq, described Zarqawi's pledge of loyalty to bin Laden "a worrying sign that even the divided, small radical guerrilla groups are being "picked up" by al Qaeda."

He attributed the consolidation to a “result of Bush’s aggressive invasion of Iraq and the botching of the aftermath.”

The U.S intervention in Iraq has been disappointing to many Iraqis and to many Americans who are paying the lion’s share for it in blood and treasure. The thrilling sight of cheering Iraqis and an American tank pulling down a statue of Saddam Hussein quickly gave way to frequent confrontations between angry Iraqis and occupying American soldiers. Expectations on all sides may have been unrealistic to begin with, but the process of post conflict reconstruction and reform has been poorly managed. Notwithstanding considerable progress in many important areas and the enormous risks and sacrifices taken by the hardworking staff of the CPA and private contractors, reconstruction in many important areas during the 15 months of Coalition control of Iraq’s government was dangerously slow.

Both opponents and supporters of military intervention agree on the importance of leaving behind a stable and peaceful Iraq. If the U.S.-led war is to achieve these objectives, Saddam’s Baathist loyalists, the growing number of foreign terrorists and Iraqi dissidents, and mafia and common thieves must be defeated, basic services more fully restored, and a viable economy and political system developed. However, the enormous resources and determination of the United States to rebuild Iraq have been stymied by the combined impact of many mistakes, misjudgments, and bad luck.

The active combat phase of the war was won with unexpected speed. Post conflict reconstruction efforts, on the other hand, were thwarted by inadequate planning, sabotage and guerrilla warfare by Saddam loyalist and others, the lack of experienced personnel and other resources, and the lack of a clear, and clearly communicated, strategy for restoration of Iraqi sovereignty. American efforts also confronted an enormous lack of trust of its true motives. Many of my American friends do not understand the extent to which many in the world, even among our allies, have lost faith in the honorableness of our intentions. Our purposes in the world are no longer trusted by many. This is a great loss and hard for many of us to understand. We are used to believing that we occupy the moral high ground.

Security

President Bush’s May 1, 2003 declaration that the war had been won has become a bad joke. The coalition’s failure to provide security adequate to allow reconstruction to proceed as rapidly as it needed to is the first and most conspicuous of the factors

threatening failure to achieve U.S. objectives in Iraq. U.S. and Iraqi deaths in Iraq were greater in 2004 than they were in 2003, which includes the active phase of the war. Coalition Casualties averaged 1.9 persons per day from the formal end of the war (May 1, 2003) until the hand over of sovereignty to the interim Iraqi government June 28, 2004 and rose to 2.3 deaths per day since (through end October 2004). Coalition estimates of the number of insurgents have grown considerably, when it needed to be falling.

Saddam loyalists chose the only strategy with any hope of success against the powerful American military—guerrilla warfare. But this could have been foreseen. The inadequate troop levels, wrong headed disbanding of the Iraqi military, and ill-advised firing of all Baathist associated management almost certainly made the insurgency far worse. When confronting insurgency, the strategy must involve gaining sufficiently broad public support for the liberation forces and whatever government they put in place to make it possible to isolate and defeat the insurgents.

Success against insurgents requires the careful use and balance of diplomacy and power. The neo-con view seems to be that resolute and forceful use of our military power is a necessary and sufficient condition to prevail in most situations. Many Iraqis complain that the use of American military power has been excessive and that the “collateral damage” from even American’s expensive smart bombs has been unacceptably high. Many if not most Iraqis, like much of the world, simply do not like being occupied by foreign troops. Many other Iraqis complain that we have allowed the bad guys to run around to freely. In fact, I do not know what the best balance of force and diplomacy is. Neither I nor the Coalition forces and intelligence know who to trust. Different Iraqi friends tell me different things depending on their place in Iraqi society.

Iraqis will not simply side with whom ever they think is stronger, though that is important. They will support the group that they believe best promotes their interests. A significant majority of every major group in Iraq (Sunnis, Shiites, and Kurds) needs to believe that it has a positive stake in the future Iraq we are trying to build. Will we reduce the number of insurgence and their supporters by flattening Fallujah or by negotiating with its leaders, or by something in between? The day following the U.S. lead “liberation” of Fallujah, retired Army General Wesley Clark wrote that, “the outcome of the battle must be judged ... not by the seizure and occupation of ground, but by the impact it has on the political and diplomatic process in Iraq. Its chances for success in that area are highly uncertain.... The success of our military efforts in Iraq is thus directly connected to the skill of U.S. diplomacy in the region.”

The more troops we have on the ground the more judicious we can be in using them, giving more scope for diplomacy. For whatever reasons, security is poor and does

not seem to be improving. In the same article General Clark offers the following reasons. “Which brings us back to some of the factors that made last week’s battle of Fallujah inevitable: a series of circumstances and errors in 2003—an initial coalition occupying force too small to achieve dominance over a historically restive population, the lack of a skilled political corps to reorganize the local inhabitants, the proscription of Baathist participation in the early postwar recovery and the disbanding of the Iraqi military.... While Saddam Hussein’s security forces may have always had a plan to resist the occupation, it was the failure of American policymakers to gain political legitimacy that enabled the insurgency to grow.”

Inadequate troop levels are a particularly sensitive topic. In retrospect everyone but Rumsfeld and his close advisors (and by extension the President and Vice President) has acknowledged that the Coalition did not have enough troops on the ground in Iraq to do the job properly. Jay Garner and even Paul Bremer have publicly complained of inadequate troop levels (in the Financial Times in October 2004, after his return to the U.S.). Nation building is a slow, labor intensive undertaking. But Bush and Rumsfeld were against nation building (even if key neo-cons semi-secretly supported it). They wish to build an agile, powerful military force that can drop precision bombs anywhere in the world quickly and with deadly force. Mobility and technology rather than large troop numbers are the key. Moreover the neo-cons were eager to use such force often and on America’s own terms. The military Rumsfeld dreams of would not be well suited for maintaining the peace after conquest and during the nation building that might follow. The strategic differences of view within the Pentagon have manifested themselves in Iraq.

From early on the DOD planned to build up Iraqi security forces to replace the unwanted peace keeping role forced on Coalition troops. But progress was terribly inadequate. Part of the failure of efforts to build a satisfactory Iraqi capability during the first year of occupation reflects the unwillingness of the U.S. Administration to ask Congress for the funds needed to do the job properly (knowing that most of our traditional allies would give us the finger and little else). The \$86 billion dollar supplemental for Iraqi reconstruction was no more than half what was really needed but significantly more than the Administration had expected.

In October 2004, the Washington Post reported that: “The new Pentagon plan, devised over the summer, centers on enticing more Sunnis into the political process while targeting the Islamic extremist groups for elimination. It depends heavily on building up Iraqi security forces more successfully than in the past year and breaking the bureaucratic logjams that have stymied flows of reconstruction aid into formerly rebel-held cities such

as Samarra to win over civilian populations. ‘The aim is to drive a wedge between the Sunni Arab projectionists and the incorrigibles,’ said one senior official involved in policymaking in Iraq.”

This is standard procedure for dealing with insurgency. The extraordinary thing about the above story is that it was written about the summer of 2004 rather than the summer of 2003. What did we do for the whole year preceding it?

An August 1, 2004 article in The Washington Post offered part of the answer. Quoting from an article by Doug Struck on Iraqi security forces: “Planning has been chaotic, units have staged mutinies, and essential equipment has not been delivered. In recent months, the entire process of recruitment and training has been largely scrapped and begun again [by the] interim Iraqi government that was installed on June 28.... ‘It was worse than starting from scratch,’ complained Sabah Kadhim, a top official in the Interior Ministry, which is in charge of policy. ‘We had to weed out criminals from the policemen who the Americans put there....’ After more than a year under the occupation, Kadhim said, ‘the police lacked efficiency, lacked organization, lacked cars, lacked weapons, lacked communication....’”

According to Iraqi Defense Minister Hazim Shalan (in the same article): “The occupation authority ‘failed in how they chose people to be employed.... They depended on how a person looked. I think it was whoever the translators liked. That created many of the current problems.’” And why did such high minded and dedicated Americans make so many of these mistakes? It was not just the large number of politically connected appointment, or recruitment on the cheap from the U.S. Government bureaucracy. It was the imperialist attitudes of giving the Iraqis our way of doing things (even if best eventually), the lack of trust of the Iraqi people, and the propensity of the CPA to work out everything among themselves in the isolation of the green zone rather than in partnership with the Iraqis. Beyond that, the occupiers will always be at a disadvantage against the home team.

Unfortunately this sad story greatly underestimates the problem and the difficulties in overcoming them. For centuries the Iraqis have been a warring and troublesome people. In modern times only Saddam has succeeded in preserving order and this at the expense of an estimated 280,000 Iraqi lives at home and “at least 1 million who died in wars he started abroad.” The Sunni insurgents enjoy broad support from a Sunni community fearful for what Shiite rule will mean for them. The estimated 100,000 Iraqi who have died because of the current war were the victims of a far wider lawlessness that has developed follow the war. Iranian agents in Iraq encourage insecurity. Mafia/war lords and their private militias and wide spread corruption (including from members of

the new defunct Governing Council) raise the level of general lawlessness. Russian mafia has added to the large stocks of weapons hidden away by the Baathists. The defeat of the so called (Sunni/Baathist) insurgents would be far from sufficient to establish minimal law and order. It is not inconceivable that significant numbers of Shiite will join the many Sunnis supporting the Sunni insurgents out of the desire for security if the coalition is unable to provide it.

Reconstruction

Our successes in providing public safety and in helping to rebuild and reform the country are inter-related. In addition, the approach to reconstruction and reform taken in Iraq was very different from any other post war reconstruction projects I have worked on and has basically been a failure. History's question is why.

The CPA had spent about 8 billion of Iraqi money (oil for food) and 12-13 billion US supplemental appropriations (meaning amounts not in the original budget) with very little to show for it. During my visit in March 2005, electrical power production was no more than it was a year earlier and gasoline lines were longer. The U.S. has invested in things that the new Iraqi government can't afford to maintain (power plants, army and its maintenance, for which there is no money in their budget). Our government is no better than any other at central planning.

The staff of the CPA, of which I was a part, was every bit as dedicated and hard working as were their predecessors in Afghanistan, Bosnia and Herzegovina, Kosovo, or Serbia (countries in which I worked on the rebuilding and reform of the monetary and banking systems). However, they had no experience with the imperial rule in which they seemed engaged. Most of them had almost no experience in providing technical assistance. They were dramatically less trusting of those who could help them, and were thus less likely to seek or benefit from such help. They, especially the Department of Defense overseers, seemed more driven by the desire to control projects and policies (despite their lack of competence in the areas they wish to control), than to have them succeed. And they had far less interaction with local, Iraqi counterparts. By choice, the CPA minimized the help that would normally have been available to it from international bodies (IMF, World Bank, UN), and established aid providers (USAID, DFID), which have considerable experience with post crisis reconstruction. DOD/CPA distrust of others extended to their fellow countrymen as the unprecedented turf battles between U.S. Government agencies continued all year at counterproductive levels.

Every new post conflict reconstruction program begins with some amount of turf fighting among agencies (within the U.S. and internationally). But because most of the turf is historically well defined, these marginal skirmishes are generally resolved quickly and the reconstruction effort proceeds. In Iraq, the control of reconstruction efforts by DOD (by undermining the normal turf assignments), and inadequate White House leadership, unleashed a turf war on a scale I had never seen before.

As but one example, USAID did not issue a new Request for Proposal (RFP) to continue the financial sector reconstruction and reform work BearingPoint was doing until the last week of June, 2004. BearingPoint's contract ended July 17, a fact known to everyone from the time it was signed almost a year earlier. The delay in establishing the new contracts to continue work interrupted on going projects and guaranteed about two months of no assistance in these areas. The most likely explanation for what is either extremely incompetent or irresponsible behavior by USAID is that their antipathy toward the CPA was so large that they wanted to wait to issue the new RFP until the CPA died June 30 and could no longer mess with it. In fact, earlier more timely efforts by USAID to issue the RFP encountered long drawn out reviews and requests for revision from the CPA (while it still existed and thus controlled the process).

I was continually being told by people I worked with and respected that other people I worked with and respected were worthless and incompetent, and the compliment was made in reverse. Even nasty things were said about the British working with us and visa versa. The warning I was given by one CPA colleague, Phil Mistretta—that my worst enemies were in the Palace (and the CPA)—was right.

I asked myself over and over why we were making such a mess of things. For starters, determined “neo-conservatives” in the U.S. administration succeeded in placing post conflict reconstruction under the control of the U.S. Department of Defense (DOD), a role for which it is not qualified. The DOD was badly prepared for what it needed to do. The U.S. did not have a realistic plan for what it undertook and contradictory approaches were never clearly reconciled. Another factor was the new aggressive, unilateral attitude of the Neo-Cons and some other influential members of the Bush Administration that carried us into war with Iraq in the first place. Their “make the world democratic by ourselves and with force if we have to,” foreign policy was seriously undermining support for the US in much of the world and colored the approach taken by the CPA in administering occupied Iraq.

The continued lack of security obviously complicated post conflict reconstruction in many ways (reduced cooperation from Iraqi's, sabotage, personal risks to foreign administrators, difficult logistics). In addition, the slow and uneven pace of

reconstruction, but more importantly the imperialistic approach to economic and political reform, negatively fed back on the security situation. Iraqis did not cooperate with the “occupying forces” to the extent needed to isolate and rout out the old Baathist loyalists and the new insurgents, in part because of the negative relationship that developed between the CPA and occupying forces and Iraqi politicians and citizens. Those responsible for these serious mistakes either failed to recognize them as mistakes or didn’t have the honesty to acknowledge them.

A successful program of reconstruction and reform requires more than good policies and local buy-in (ownership), though these are essential. It requires a well structured and well managed work plan and knowledgeable experts who are able to work with and impart their knowledge to their local counterparts. Putting the right people in the right places with the right tasks and proper supervision is not easy but these skills have been developed in the private sector by a range of consulting firms. USAID has wisely tapped this expertise extensively in previous post conflict (and other technical assistance) episodes.

The CPA spent too little time with Iraqi counterparts. The security situation certainly contributed to this problem. Many times CPA advisors were not able to go to the Central Bank or to the Finance Ministry, or to Rasheed or Rafidain Bank, or to where ever their real work was because the security company would not take them. CRG seemed to cancel trips out of the Green Zone more frequently after two of their employees and two oil ministry advisors from the office just below ours were killed by a road side bomb in late May. However, the relative security of the Green Zone also seemed to encourage many CPA advisors to choose to spend more time in their Palace offices than with their Iraqi counterparts. For many it often seemed more important to meet with someone else in the CPA than with someone outside of it.

But I also think there was another aspect to this problem. I think that a kind of imperialist attitude permeated the CPA’s view of its responsibilities as occupiers and administrators. It was more important to get the agreement of peers within the CPA (or back in Washington) to this or that recommendation than to get the agreement of the relevant Iraqis. Thus the whole approach to technical assistance was very different from anything I had participated in before.

One aspect of the difference was illustrated to me by the CPA’s approach to preparing prudential regulations for banks. I knew that such regulations were being prepared, so I was very surprised and rather confused when the head of the Banking Supervision Department of the CBI told me at a meeting at the CBI on monetary policy that they had a new law on banking but desperately needed the prudential regulations that

the law authorized. It seems that the needed regulations were being drafted at the Federal Reserve Bank of New York (or was it Boston) and discussed with the banking supervisors in the CPA but not yet with those in the CBI.

This approach reflected a lack of understanding of how to effectively deliver technical assistance and/or an arrogant disregard for the rights of the governed. The regulations should have been developed (perhaps starting with an initial model or draft prepared in New York) out of extensive discussions of each point with the banking supervision staff at the CBI. Such discussions would have allowed the drafts to better reflect the traditions and situation of Iraq. But it would also ensure that the central bank staff understood and agreed with the proposed regulations. Such ownership by the Iraqis is essential if the work of the CPA advisors is to survive Iraqi sovereignty.

Many if not most Iraqi's also had very unrealistic expectations of what the United States (or any outsiders) could and should do for them. The U.S. obligations under international law to secure law and order are clear (though we have failed to do so), but what about reconstruction and beyond? Iraqis had lived for many years under a paternalistic regime that made most of the key decisions in public life. They looked to the government to solve most problems. Americans, and thus the American soldiers in Iraq, have grown up in a culture in which far more responsibility falls on each individual and their families to provide for their own needs. It is hard for the American soldiers to understand Iraqi attitudes and complaints about why the U.S. hasn't done more. From the soldier's point of view they were doing a lot, and indeed they were. It is noteworthy, that in the former East Germany, which received cart blanche the legal judicial systems and tens of billions of German marks of aid from West Germany, a large number of East Germans are unhappy 15 years after the fall of the Berlin Wall that their lives have not been made better than they have.

Conclusion

In 1991, then Secretary of Defense Dick Cheney defended the earlier Bush administration's decision not to carry the Gulf war to Baghdad by stating: "Once you've got Baghdad, it's not clear what you do with it. It's not clear what kind of government you would put in place of the one that's currently there now. Is it going to be a Shiite regime, a Sunni regime or a Kurdish regime? Or one that tilts toward the Baathists, or one that tilts toward the Islamic fundamentalists? How much credibility is that government going to have if it's set up by the United States military when it's there? How long does the United States military have to stay to protect the people that sign on for that government and what happens to it once we leave?" Twelve years later, the George W.

Bush administration still did not seem to have answers to these questions but decided to take Baghdad anyway.

I am convinced that our national interest has been damaged by our war in Iraq. It has diverted our resources and attention away from fighting terrorism and made our enemies stronger, and it is wasting the enormous good will the world felt toward us most of our history and particularly after 9/11. As a result, the badly needed worldwide cooperation in fighting terrorism has been weakened. To be fair, the fact that the U.S. stood up to Saddam and did not blink when he would not back down, carries some benefits in places as scattered as Iran Syria, Korea and Columbia by strengthening the credibility that the U.S. is prepared to take tough actions if players don't cooperate. But if we insist on policing the world alone we will end up alone. Unfortunately we cannot survive alone.

The Administration either miscalculated or misrepresented the purpose for and American cost of the war. In the important book by Halper and Clarke² the authors state that: “Our starting point is that Americans are entitled to the truth and that decisions drawing on truth-based presentations by governments—any government—are more likely to endure than those based on deception. Our view is that, on Iraq, deception had the upper hand....”

The neo-cons had wanted this war for over a decade, since the previous Gulf war left Saddam in power. Though there was absolutely no connection between Saddam's Iraq and September 11, that cataclysmic event gave them the environment and excuse they needed to convince the American public to support it.

When poor misused Tony Blair's Leader of the House of Commons, Robin Cook, resigned over Britain's support of the American war he stated (to paraphrase): “that the European Union was divided, that the U.N. Security Council was in stalemate, that the British people were not persuaded that Saddam Hussein was a clear and present danger to Britain, that they wanted inspections to be given a chance, that they suspected that they were being pushed too quickly into conflict by a U.S administration with an agenda of its own, and that they were uneasy at Britain's 'going out on a limb on a military adventure without a broader international coalition and against the hostility of many of Britain's traditional allies.’”

In a letter to his Nebraska constituents, retiring Republican U.S. Congressman

² Stefan Halper and Jonathan Clarke, ***America Alone*** *The Neo-Conservatives and the Global Order*, University of Cambridge Press, September 2005.

Doug Bereuter summed up the views of a growing number of Americans: “From the beginning of the conflict, it was doubtful that we for long would be seen as liberators, but instead increasingly as an occupying force.... Now we are immersed in a dangerous, costly mess, and there is no easy and quick way to end our responsibilities in Iraq without creating bigger future problems in the region and, in general, in the Muslim world.” As a result of the war, “our country’s reputation around the world has never been lower, and our alliances are weakened.”

In an op ed piece following President Bushes reelection, former Congressman Newt Gingrich stated: “Republicans have to be honest about performance failures, and they have to learn from their mistakes. The world is too complex and too difficult for any governing party to get every decision right. But you not only have to make the right decision: You have to have the right communications and the right implementation. Otherwise the right decision doesn't get you anywhere. Afghanistan was done brilliantly. Iraq involved some major mistakes after the military victory. If Republicans had been willing to make a midcourse adjustment in Iraq, the election would have been easier and the margin would have been bigger.”

And these are the administration’s friends.

Traditional (as opposed to “neo”) conservative thinking, from George Washington’s famous farewell address in 1796 until September 11, 2201, was that America should go to war only in self-defense and should avoid unnecessary foreign entanglements. During his first campaign for President in 2002 the same George W. Bush, who sent American troops to Iraq to force democracy on the Middle East, said, “I just don't think it's the role of the United States to walk into a country and say, we do it this way, so should you...I think the United States must be humble...in how we treat nations that are figuring out how to chart their own course.” September 11 seems to have changed everything.

Personal liberty always suffers in a state of war. That President George W. Bush has chosen to put us into a state of war in response to the terrorist attach on 9/11 must be an unexpected victory for Ben Laden. The risk of terrorist attacks will be with us the rest of our lives, and in fact has always been with us, but the individual freedom under the rule of law that has helped make us the super power that we have become will not survive under a permanent war on terrorism. Perpetual war and the powers governments assume when at war will eventually destroy us from within. The rolling yellow and orange security risk levels and terms like “homeland security” are more reminiscent of George Orwell’s classic novel of state oppression, *1984*, than of the America God blessed. Our British friends survived the many years of terrorism from the Irish Republican Army

(IRA) without declaring a war on terrorism. We should try to learn from them how to minimize the risks of terrorism without destroying our way of life.

One of America's many great strengths is its capacity to learn from its mistakes. It is too late to undue the war. Let's hope that it is not too late to leave Iraq a better place than we found it (within our life time), nor to restore a more appropriate balance in protecting our domestic security.

The Way Forward

Now we are there. We broke it and it is ours. We have an obligation to fix it. Should the U.S. end its bad experience in Iraq as quickly as possible and at the least additional cost to itself or should it maximize the prospects of turning the situation around and succeeding? How should we define success anyway? What are the most promising strategies for achieving any of these goals given today's starting place?

The United States and most of the world have a strong interest in a good outcome in Iraq, by which I mean a stable, successful, prosperous, and peaceful state, hopefully with a democratically elected government and the withdrawal of U.S. armed forces from Iraq. Chances of a good outcome not very good, but the political plans in place at the end of 2004 (for January elections, new constitution, and another election) seem as good as any at this point. In fact, it is probably the case in Iraq that only a democratically elected government has much chance of securing sufficient countrywide support and legitimacy to avoid civil war.

The chances of establishing the conditions of order, much less law and order, required for a successful outcome with existing troop and police strength is remote. Sadly we are further from that goal today (end December 2005) than we were two and a half years ago. The authorities need overwhelming force superiority to impose peace without creating more new insurgents than they eliminate. Reconstruction, in which I include the development of new liberal democratic and market institutions, will also require a much larger resource commitment than we have given it. I think that it is extremely unlikely that the U.S. will significantly increase its troops and expenditures in Iraq. If so, the first best is not obtainable.

In an interesting book titled: *What We Owe Iraq: War and the Ethics of Nation Building*, Noah Feldman argued that: "the United States now has no ethical choice but to remain [in Iraq] until an Iraqi security force, safely under the civilian control of the

government of a legitimate, democratic state, can be brought into existence.” His point is not that we don’t have the choice to cut and run, but that because we “broke it, we now own it” and have an ethical obligation to fix it. But whether we have an ethical choice or not, it is not obvious that the American people will have the patience to fix what America broke. Thus it may be that more modest objectives, which still hold out some hope of success, may be more realistic. I am also concerned that a middle course, by its nature less clearly defined, could drag on for many years without producing a clear success or failure, but incurring considerable costs of various sorts.

I am not a foreign policy expert, but it does not take an expert to know that establishing a reasonable degree of security for average Iraqi’s is a precondition for success however defined. I leave it to others to debate the appropriate mix of diplomacy and force needed to win the cooperation of the vast majority of the public and to isolate and defeat the insurgents. Such cooperation requires the belief by most Iraqis (Sunnis, Shiite, and Kurds alike) that they are better served by cooperating with the government than with the insurgents.

Public support for the government will require the presence of a credible military and police forces and the ability and willingness to use them when necessary. Non-American forces are preferable to American forces and Iraqi security forces are vastly preferable to foreign forces.

The job of establishing an effective Iraqi Army and police force, which should have been completed by now but has not been, must be given considerable priority. Success, which must include the withdrawal of American forces, is not possible without this. A substantially larger force than is now in place would allow for its more judicious use. Whether this is essential for success only history will tell, but it is unrealistic to expect it to happen over the next six months.

The establishment of a reasonable level of security is a critically necessary but not sufficient condition for success. Iraq needs to establish political attitudes and institutions that reflect its cultural, religious traditions while giving more scope for individual rights and development and democratic rule. It needs freer and more efficient economic institutions that will give greater scope for the emergence of an efficient market economy and a prosperous middle class. In short, Iraq needs all of the same things as any other country that wishes to function successfully in the modern world. Such countries tend to contribute to the world’s well being through their peaceful, commercial and cultural interactions with the rest of the world.

Iraq needs or would greatly benefit from technical assistance in a wide range of areas. I provide such assistance in the area of central banking and monetary policy. But

many experienced advisors from the IMF, World Bank, and other established assistance providers were largely shut out by U.S. control and attitudes. The expertise they can bring continues to be desperately needed. Technical assistance will be wasted unless its goals are truly desired by Iraq. Thus the case for liberal market economy democracy needs to be made intellectually and popularly in Iraq.

Now that the CPA is thankfully out of the way, Iraq, with American encouragement, should reengage with the international community and take advantage of the expertise it can offer to establish institutions more appropriate to democratic, market economies. If security can be brought under better control, the IMF, World Bank, bilateral donors and private businessmen will return with their expertise and resources.