



GLOBAL FINANCIAL WARRIORS
PRESENTED BY DR. JOHN TAYLOR, SENIOR FELLOW, HOOVER INSTITUTION,
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Second Annual Jerome A. Chazen Lecture
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On September 18, Dr. John Taylor, former under secretary of the treasury for international affairs from 2001 to 2005 and economic adviser to three presidents and two California governors, delivered the second annual Jerome A. Chazen Lecture, focusing on a behind-the-scenes aspect of the war on terror: the financial war on terror. Talking about what he terms “global financial warriors,” Dr. Taylor, currently a senior fellow at the Hoover Institution and a professor of economics at Stanford, recounted stories of pressing Afghan warlords to pay taxes; the logistical challenges of replacing the Iraqi currency (including printing and delivering 27 Boeing 747s full of bills); and developing the controversial system to monitor SWIFT transactions for terrorist activity. Dr. Taylor’s forthcoming book, Global Financial Warriors, will be published by W. W. Norton. Charles Calomiris, the Henry Kaufman Professor of Financial Institutions and Chazen Institute academic director, gave the introduction.

Early in his talk Dr. John Taylor recounted his “watershed experience” of rushing back from Tokyo—on a military transport jet, following the attacks of 9/11—just a few months after his appointment by President Bush. Dr. Taylor used the anecdote to illustrate how 9/11 and the ensuing war on terror would draw the U.S. and other Treasuries into the fight. Dr. Taylor used his talk to highlight this important component of the war on terror and those “global financial warriors” who have been involved in the effort.

The “first shot” of the financial war on terror was the freezing of terrorist assets on September 23, 2001. This had been preceded by intense negotiations by Dr. Taylor with his G-7 counterparts. The goal of those negotiations was to secure broad and coordinated

international cooperation to ensure that a U.S. effort could not be skirted simply by transferring funds to another country. Dr. Taylor's efforts resulted in the cooperation of 170 countries, and the freezing of 14,000 accounts totaling \$137 million. Critical to the initiative—and what Dr. Taylor described as “one of the biggest lessons that [he] learned”—was accountability, making it essential not only to negotiate participation but to monitor that cooperation. To do so, Dr. Taylor established a war room at the Treasury, in which analysts would scrutinize the efforts of other countries.

Dr. Taylor discussed the development of a program to use SWIFT (Society of Worldwide Interbank Financial Transfers, a system that records intercountry bank transfers) records, calling it one of the “really amazing” ways to assist in the tracking and tracing of terrorist assets. Dr. Taylor then described the international negotiations required to establish the system and the frustration he felt when the classified system was exposed this summer in the *New York Times*.

Dr. Taylor went on to discuss the development of a plan for the financial reconstruction of Afghanistan, including raising \$5 billion in funds and monitoring its disbursement and efficient use. Complicating the disbursement of those funds was the control that Afghan warlords had over the borders. As a result, Dr. Taylor set out for Afghanistan to convince these warlords to cooperate. He illustrated this effort with a photo of an SUV-based negotiating session (which drew laughs from the audience when he contrasted the scene with the negotiating table in his staid Treasury office) with one of Afghanistan's most powerful warlords, Ismail Khan.

Dr. Taylor then reminded the audience that all of this activity was not the only business at hand and that he still had to tend to the “regular parts” of international finance. In this case, one of the most critical non-terror-related issues was the crisis in emerging markets, in particular, in Argentina. There were concerns that the Argentine crisis would have a contagious impact like that of the Russian crisis years several years earlier. In his introduction of Dr. Taylor, Professor Charles Calomiris had credited him with spearheading fundamental reforms at the IMF, and Dr. Taylor discussed working with both the IMF and the World Bank to avert contagion as a result of the Argentine crisis. Dr. Taylor again stressed the importance of accountability and monitoring with respect to the World Bank and IMF, showing pictures of a trip to Nairobi for on-the-ground observation of World Bank efforts.

A picture of the looted Iraqi central bank opened the last portion of the lecture. The Treasury began planning the financial reconstruction of Iraq long before the invasion, with

two specific goals of preventing financial collapse and hyperinflation. The Treasury was particularly concerned with the operations of the currency markets.

In part because it was so difficult to gain intelligence on the Iraqi financial system, the first plan was to use U.S. dollars to pay Iraqi civil servants. To fund this effort, a plan was enacted to use \$1.7 billion in funds seized from Saddam Hussein during the first Gulf War. Talking about the logistical challenges of moving \$1.7 billion in currency into Iraq, Dr. Taylor traced the movement of those funds: they were shipped from a New York Fed warehouse, taken by truck down the New Jersey Turnpike to Andrews Air Force Base and from there by jet to Kuwait.

After the Iraqi economy had begun to stabilize, Dr. Taylor pushed for the issuance of a new Iraqi currency to avoid permanent dollarization of the economy. Previously, in his work as an economist, he developed the Taylor rule, a formula for interest rate changes based on movements in GDP and inflation. Dr. Taylor described both the challenge of estimating the amount of currency that would be needed—ultimately Boeing 747 planeloads—and then the logistics of getting that currency into Iraq (one of the 747s delivering the currency was shot at and sustained minor damage). Then Dr. Taylor oversaw distribution and, finally the establishment of a system to control monetary policy.

Dr. Taylor closed his lecture with what he called his “management lessons learned,” which he pointed out were equally important to public- and private-sector managers. The first, he said, was making sure that the “mission is very clear and unequivocal” and that one remains focused among the distractions in the fishbowl of modern political life. The second lesson was with respect to developing dedicated teams with four critical features: skills and commitment; accountability; autonomy to do the job; and a sense of purpose.

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