

America's Financial Crisis: Lessons from Reconstructing Iraq

Timothy Hsia

News coverage of the 700 billion dollar bailout of Wall Street by the government have briefly mentioned that the government's bill for rebuilding Wall Street will turn out to be monetarily equivalent to the costs associated with the Iraq War. To alleviate credit concerns, the Treasury Department has established a troubled asset relief program (TARP). Ideally, TARP and the financial bailout will prevent a broadening of the credit crisis from imperiling America's long term growth while also fueling the global economy. Henry M. Paulson Jr., the Treasury Secretary, will be hard pressed to find any historical financial incident of today's magnitude when examining our nation's history which can serve as a historical waypoint. Nonetheless, he should perhaps reflect upon the immediate past as America's endeavors to reconstruct Iraq proffer vital lessons which can greatly assist today's financial mandarins as they seek to unwind the country's financial Gordian knot. The lessons learned from the government's ongoing reconstruction of Iraq apply in many cases to the current credit restoration, and it would be foolhardy for government officials to ignore these parallels.

The lack of regulation and oversight during the U.S. government's reconstruction efforts in Iraq have been a constant eyesore for concerned taxpayers as many projects have played out as public spectacles of fraud, waste, and abuse. For example, a 75 million dollar contract to construct the Baghdad Police College was built so poorly that feces and urine dripped down the ceiling of the barracks. Parsons Corporation, the defense contractor responsible for the contract, has been consistently criticized for its shoddy work but yet continues today to be awarded contracts. In fact, Parsons and its spin off sister company have received more than a billion in government contracts. Lesson number 1: If a TARP management company fails once, it is once too many. Do not appoint financial companies to manage TARP funds that cannot deliver long term profits, and whom are focused exclusively on quarterly earnings at the expense of the taxpayer.

Because of repeated reports of government waste, a Special Inspector General for Iraqi Reconstruction (SIGIR) was created in order to provide additional oversight. The SIGIR despite its ominous name is a toothless organization which Parsons Corporation's continued work in Iraq has so deftly exemplified. Worse yet, the office has been hampered by internal division as former and current employees have accused the department head, Stuart Bowen Jr., of violating federal law by spying on worker's emails as a means to gauge staff loyalty. Iraqi reconstruction contracts are so poorly managed, that Bowen has estimated that up to 20 percent of funds set aside for Iraqi reconstruction could be considered waste. SIGIR despite its faults provides the only means by which the government can scrutinize Iraqi reconstruction contracts across all agencies, United States Agency for International Development (USAID), State Department, the Armed Services, and specifically the Corps of Engineers. Without SIGIR, taxpayers would have

little to no means to audit the billions of dollars being spent in Iraq. Lesson number 2: Empower an oversight office that can rigorously enforce and punish offenders. The government must establish an oversight office to ensure that financial companies do not charge taxpayers waste, or in financial jargon, “management fees” on government funds used to bailout companies.

Initial Iraqi Reconstruction efforts were greatly hampered as a result of poor interagency coordination within the U.S. government. The National Security Council, the State Department, and the Secretary of Defense were operating in a vacuum with little strategic guidance. Precious time and energy was wasted as tactical initiatives were not weaved into an overarching strategic framework. As a result, Iraq’s security situation worsened as these agencies blindly set forth policies independent of another. In stark contrast, the past two years have seen a sudden reversal of this initial bureaucratic infighting as General David Petraeus and Ambassador Ryan Crocker have synchronized U.S. agencies in a coordinated effort. Lesson number 3: The financial crisis is an international problem that requires a coordinated response by the Treasury Department, Federal Reserve, Security Exchange Commission, and the entire nation’s financial agencies. Thankfully, Paulson and Ben Bernanke, the Federal Reserve chairman, have thus far planned and executed in a concerted effort rather than independent of one another. Government problems of this magnitude should not be hindered by personalities or bureaucratic infighting.

Defense sector companies have lobbied heavily in Washington as a means to steer government contracts associated with Iraqi reconstruction. These companies have overstated their abilities and also aggressively lobbied Congressmen to lend support for their services. A recent Seattle Times report indicated that defense companies receiving earmarks in this year’s budget spent \$141 million in their Congressional lobbying efforts. Lesson number 4: Financial companies will compete aggressively for management of the 700 billion dollar bail out of mortgage securities. Congress and the Treasury Department should ensure that financial management companies are selected on the merits of their work, and not only on their ability to lobby successfully.

The Iraqi government currently possesses around \$79 billion in capital which they have accrued since the invasion. The government although flushed with cash has held back on using its own funds to generate improvements in essential services. Even security forces such as the Sons of Iraq have thus far been paid by the U.S. government. With an abundance of cash the Iraqi government should seek to expand its economy in order to avoid becoming another petro-state dependent solely on the price of a barrel of oil. Government spending could also possibly decrease the need for funds from the American government and hence also alleviate the burden of American taxpayers. Lesson number 5: Banks and insurance companies which are salvaged by the financial bailout should not be allowed to build excess capital while billions of government dollars are flushed into their coffers. Government funds should cease once these lending companies are able to stand on their own. The market bailout is designed only to help loosen the restrictions on credit and prevent banks from becoming insolvent. The government should avoid allowing companies flush with capital to take government loans at low interest rates.

The two major crises of the past five years, the Iraq war and its reconstruction and the market crisis with its associated restoration of credit, share a similar outline despite their great differences. Nobel Prize laureate, Joseph Stiglitz, wrote last year that the Iraq war would most likely cost the country one trillion dollars. The number one trillion was so unfathomable at the

time that Stiglitz's analysis was quickly forgotten and unappreciated. Today, there is a far greater appreciation for large numbers such as 700 billion due to the full blown Wall Street credit crisis that has percolated down to Main Street. If the government's market mavens do not correctly appraise and address the financial issues then the government's bailout of mortgage companies, banks, and insurance companies could easily surpass a trillion dollars. After major military operations, units routinely conduct after action reviews in order to learn from their past mistakes and prepare for the next mission. Perhaps the U.S. government should follow this model of self critique. For they would see that the history of the Iraq war and the U.S. government's reconstruction efforts offer legitimate lessons which policymakers should consider as they proceed forward in addressing ailments within the current economy.

U.S. Army Captain Tim Hsia, who recently returned from Iraq, is currently with the 2nd Stryker Cavalry Regiment.

[SWJ Magazine](#) and [Small Wars Journal](#) are published by Small Wars Journal LLC.

COPYRIGHT © 2008 by Small Wars Journal LLC.

Permission is granted to print single copies for personal, non-commercial use. This work is licensed under a Creative Commons Attribution – Non-Commercial – Share Alike 3.0 [License](#) per our [Terms of Use](#). We are in this together.

No FACTUAL STATEMENT should be relied upon without further investigation on your part sufficient to satisfy you in your independent judgment that it is true.

Contact: comment@smallwarsjournal.com

Visit www.smallwarsjournal.com

Cover Price: Your call. [Support SWJ here.](#)