

Fighting Terrorism in Afghanistan And Milton Friedman's Airplane

All wars are fought with money. If one wants to know who wins and who loses, simply watch the money markets: the money of the winner wins while the money of the loser loses – its that simple. Business is always with the winner, so the wisdom goes and to know this, we really do not need an economist.

But all this appears not to apply to the war against terrorism in Afghanistan. Since the bombing of al Qaida and Taleban targets started, it is the dollar that lost against a flimsy local currency, the Afghani and not vice-versa. In Afghanistan, it lost a staggering 70% to 85% of its pre-war value. Throughout most of last year for one dollar one could buy about 75,000 Afghani, whereas since November one will get only between 20,000 and 25,000 Afghani for one dollar. For a short time in December the value of the dollar even dropped to 9,000 Afghani. Probably, never in its history has the value of the dollar lost so much in such a short time.

What makes the whole affair still more difficult to grasp is the fact that the Afghani is not a proper currency. Afghanistan has no functioning Central Bank and no central government to control its supply; there is no national Afghan economy, no monetary policy and no tax system that would guarantee the stability of the Afghani. There are now between five and seven different currency notes in circulation and their respective values vary according to the denomination of the notes, their origin, their colour and even their serial numbers.

It is the money of the winner that is in a rout. And the coalition forces are winning, aren't they? The Taleban regime collapsed faster than expected, bombing raids through Ramadan created no problem and a feared Muslim unrest around the world has not happened. Could the reason be that Afghans might lack confidence in the American ability to win the war or is the opposite true and Afghans have suddenly developed an overwhelming trust in the economic future of their devastated country? Neither might be correct. The more likely explanation for the collapse of the dollar could be simple market forces of supply and demand.

And this is exactly the point that links the present war against terrorism to Milton Friedman – the economist who thought and taught about money and what happens if one has too much or too little of it. To convince students that money is just another economic commodity and that its value is determined by supply and demand, he uses the example of an airplane that disperses large quantities of currency notes over the citizens of an unspecified country. But if these citizens believe to become richer, Friedman argues, they will soon be disappointed. As everybody is competing for the same products in the market, prices will go up and the newly found money will quickly lose value.

Could it be that Afghanistan is such a Milton Friedman country and that a plane has dropped dollar notes over the Hindu Kush? One could imagine the following scenario:

While the Americans are claiming to win the war, it is definitely the Afghan who does the fighting. To get them fighting, Afghan commanders and the rank and file mujahedeen fighter have to be lured away from jobs with the Taleban, their farms or from refugee

camps. They must be motivated to risk their lives liberating their country on behalf of foreign powers and be kept on the job until the last Al Qaida suspect is arrested and flown to Cuba. All this costs money and this money has most likely the form of green dollar notes.

However, bread can only be bought with Afghanis. On payday, the Afghan fighter will therefore run to the local money market and exchange his hard fought for dollars into something more useable to cover the needs of his family. But the supply of Afghani is controlled by Russia where the currency is printed. This had left the Taleban with no access to fresh Afghani notes and new notes were only printed for the Northern Alliance that controlled less than 10% of the country. Could it therefore be that the recent supply of dollar notes has outstripped the supply of Afghani notes? If this is so, then the local money markets would be a reflection of the amounts in cash dollars that must have been pumped into engaging Afghans to fight international terrorists.

While much is destroyed and not working in Afghanistan, bazaars always function – especially the money bazaar. Foreigners visiting the Kabul bazaar will find a very busy money market between freshly cut sheep meat and imported lady's stockings. There, among an agitatedly negotiating dense crowd and stacks of Afghani, he will soon discover that he can exchange almost any currency and transfer it to and from almost anywhere in the world with an efficiency that would make the Italian banking system blush.

As so often, there might be an extra twist to this story. Should there still be a remnant of a terrorist organization inside Afghanistan in need of hard currency, the easiest way to finance themselves would be the Afghan currency markets. The dollar has never been so cheap and one could pick up millions of dollars by paying with something that is everywhere else completely worthless, the Afghani. This would have the additional advantage of being cash dollars that escapes the watchful eyes of international banking. Maybe the CIA will find out one day that they have not only financed Afghan anti-terrorist fighters but also indirectly international terrorists? This would not be the first time that this organization has shot itself in the foot. But again all this remains in the realm of pure speculation.

MvdS, 30 January 2002