UNITED STATES INSTITUTE OF PEACE
WORKING PAPER

Reinforcing Treasury's Strategic Roles in International Affairs and National Security

Addressing International Financial Crises, Combatting Illicit Finance, Strengthening Public Finance Institutions

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About This Report

This Working Paper highlights the U.S. Treasury Department's international roles with respect to non G-20 developing countries. It views Treasury's core competencies holistically in order to make recommendations as to how it might take full advantage of its considerable resources in order to: (1) more effectively perform what are currently its most prominent non G-20 international roles of addressing international financial crises and combating illicit finance by more explicitly recognizing the importance of a third role of helping countries strengthen their public finance institutions and (2) be better prepared institutionally to play the leading role in finance state-strengthening efforts in exceptional cases where a weak state poses an urgent national security threat such as Iraq or Afghanistan. In sum, the Working Paper attempts to describe how the Treasury Department might be more optimally organized to fulfill its potential to play the full strategic role in international and national security affairs that its current international activities and unique domestic role make possible.

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1. Introduction

At this time of the U.S. Treasury's Department's extraordinary prominence in domestic affairs, it is possible to overlook the critical functions that the Treasury performs in U.S. international policy. This would be a significant oversight at any time, as Treasury has long made more international contributions, of greater importance to U.S. policy, than has often been widely understood. It is even more of an oversight in the post-9/11 international environment, which has presented new challenges that have sorely tested many of the United States' more well-known foreign policy and national security institutions.

While much of the attention that is devoted to Treasury's international role understandably focuses on the financial, economic and trade linkages between the U.S. and the world's other largest economies (e.g., the G-20 of systemically significant industrialized and developing countries and the EU, which together account for almost 90 percent of the world economy), since at least the sovereign debt crisis of the 1980s Treasury has also interacted regularly with a wider group of less wealthy, and sometimes less stable, developing countries. In these countries, the United States' interest is sometimes less economic (e.g., stemming from concern about a significant ongoing economic relationship) than strategic (e.g., driven by concern that a particular economic, political or security crisis could have a broader negative impact on international stability).

This Working Paper highlights Treasury's international roles with respect to this subset of developing countries, with three objectives. First, understanding the institutional and policy logic that has given rise to Treasury's two most prominent roles in international affairs with respect to non G-20 countries – addressing international financial crises and combating illicit finance – underscores the integral importance of those functions to the mission of Treasury as a whole and to the broader American state in which Treasury plays a central role.

Second, understanding the rationale behind Treasury's non G-20 international roles highlights some limitations in the way Treasury has been organized to carry them out. The most important limitation has been an insufficient institutional recognition that effective assistance to strengthen local public finance institutions is in many cases of comparable importance to securing agreement on good financial/economic or illicit finance policies.[1] Fortunately, because this institutional shortcoming coexists with Treasury's possession of some particularly effective policy and technical assistance resources for providing such assistance, these limitations can be corrected by making a few relatively simple organizational changes acknowledging that helping strengthen foreign public finance institutions is also one of Treasury's principal international roles.

Finally, the third objective is to promote a better appreciation of the entirety of Treasury's functions and resources (domestic as well as international) suggests that Treasury may be uniquely well-suited to help fill a critical gap in U.S. international capabilities underscored by our recent experiences in Iraq and Afghanistan – providing effective state-strengthening assistance in exceptional cases where weak states pose an urgent threat to vital U.S. national security interests.

The idea here, in short, is that the U.S. Treasury, as the central financial institution of U.S. state-building and state-strengthening, is particularly well-suited to serve as the principal instrument of assistance with the critical financial dimension of strengthening other states – at least in the exceptional cases when the priority of the U.S. interest justifies diverting some of America's public finance 'A team.'

In pursuit of these three objectives, the Working Paper views Treasury's core competencies holistically in order to make recommendations as to how it might take full advantage of its considerable resources in order to: (1) more effectively perform its most important non G-20 international roles and (2) be better prepared institutionally to play the leading role in finance state-strengthening efforts in exceptional cases where a weak state poses an urgent national security threat. In sum, the Working Paper attempts to describe how the Treasury Department might be more optimally organized to fulfill its potential to play the full strategic role in international and national security affairs that its current international activities and unique domestic role make possible.

The Working Paper begins by framing what are currently Treasury's two most prominent non G-20 roles in international affairs (addressing international financial crises and combating illicit finance) in reference to the five core domestic functions that have defined Treasury's historical role as the central public finance institution of the American state-building project. It then discusses how international experience of recent years has underscored certain limits to what can be achieved in this context by relying solely on Washington-based policy approaches, and lays out the argument for explicitly recognizing Treasury's field-oriented and local institution-focused capacity to help countries strengthen their public finance institutions as a third non G-20 international role of comparable importance to the other two. The report concludes by discussing some organizational changes that might allow Treasury to exploit the full synergies of all three of these international capabilities and, under exceptional circumstances, play a leading role in national security-driven state-strengthening efforts.

2. Treasury's Core Domestic Functions and Its International Roles

In order to understand Treasury's distinctive strategic roles in international affairs it is first necessary to understand the core domestic functions performed by Treasury, as it is these that have given rise to the international functions. Both historically and to this day, five core domestic functions have defined Treasury's fundamental role in the American state: the raising of finances, largely through taxation and borrowing; allocation of financial resources through the national budget; oversight of financial markets; oversight of financial institutions; and financial crimes enforcement and intelligence.

[1] Of course, an under-appreciation for foreign institutions as an important factor separate and apart from policies negotiated (on the U.S. side) in Washington is hardly unique to Treasury; indeed, one could probably make a version of

Although over time responsibility for some of these core domestic functions has become shared with other parts of government, even where Treasury no longer has the lead responsibility for a particular function it continues to play a very influential role. A Treasury bureau, the Internal Revenue Service, is responsible for collecting taxes and a Treasury policy office plays a significant role in setting tax policy. The Treasury Bureau of Public Debt administers U.S. borrowing by issuing and servicing Treasury securities. Treasury's Economic Policy office and the Council of Economic Advisers support the White House Office of Management and Budget in preparing the budget. Alongside the Federal Reserve Board, the Securities and Exchange Commission and the Commodity Trading and Futures Commission, the Treasury Department serves as a principal of the President's Working Group on Financial Markets. Treasury's Office of Domestic Finance and Treasury bureaus such as the Office of the Comptroller of the Currency share with the Federal Reserve Board, the Federal Deposit Insurance Corporation and other agencies responsibility for overseeing U.S. financial institutions.

Finally, Treasury has long played a central role in detecting and taking enforcement actions against crimes impacting the financial system, such as counterfeiting, money laundering and other major fraud. (The Secret Service, founded as a division of Treasury in 1865, was the country's first U.S. domestic intelligence and counterintelligence agency.) While the Secret Service was transferred from Treasury to the Department of Homeland Security in 2003, Treasury's Financial Crimes Enforcement Network (FinCEN) continues to play a significant role in interagency law enforcement efforts against financial crimes.

These core domestic functions help explain what are currently Treasury's two most prominent non G-20 roles in international affairs: seeking to anticipate, forestall and, where necessary, address and resolve international financial crises, and internationally combating illicit finance (which includes financial activity proscribed by U.S. and international sanctions).

Treasury's Office of International Affairs (IA) monitors international financial and economic developments in order to anticipate and help counter developments that could

the same argument about every U.S. foreign affairs and national security agency.

have a negative impact on the U.S. financial system and Treasury's core domestic functions (e.g., Treasury's ability to raise revenue or borrow, U.S. financial markets, U.S. financial institutions). Towards that end, IA maintains a very close relationship with the International Financial Institutions (IFIs), particularly the Washington-based International Monetary Fund (IMF) and the World Bank (WB), and works hand-in-hand with them to address and resolve international financial crises when they arise. Among the most dramatic recent cases of international developments that threatened to affect the U.S. were the string of international financial crises of the mid-1990s, including Mexico in 1994-95, Thailand, Indonesia and South Korea in 1997-98 and Russia in 1998. In such cases, Treasury played a leading role in working with the IFIs and the countries experiencing difficulty to respond to the crises through a combination of emergency lending and policy reforms agreed with the objective of restoring domestic and international financial stability and sustainable economic growth.

Treasury's Office of Terrorism and Financial Intelligence (TFI) is responsible for the international dimension of the domestic enforcement and intelligence function, safeguarding both the U.S. financial system and (in coordination with other key international actors) the international financial system against illicit use by international actors. "Illicit" encompasses not only fraudulent uses such as money laundering but also activities contrary to U.S. and international sanctions. Such sanctions target both state actors engaged in malign activity (e.g., in violation of international agreements against the proliferation of weapons of mass destruction) and malign non-state actors (such as international terrorist organizations and narcotraffickers). Among the most well known offices within TFI involved in this function is the Office of Foreign Assets Control, which administers and enforces economic and trade sanctions against targeted state and non-state actors by imposing controls on transactions and freezing assets under U.S. jurisdiction.

3. Strengths and Limitations of a Primarily Washington-Based and Policy-Focused Approach to Carrying Out Treasury's International Roles

A common feature of both of Treasury's most prominent non G-20 international activities – the anticipating and addressing of international financial crises performed by the Office of International Affairs, and the combating of illicit finance carried out by the Office of Terrorism and Financial Intelligence – is that they are largely Washington-based and policy-focused. Most of IA's staff is international economists organized into offices covering the chief regional areas and functional issues (e.g., Asia, Europe and the Western Hemisphere, the Middle East and Africa; international monetary and financial policy, multilateral development institutions). While Treasury's senior leaders and (to a somewhat lesser extent) staff conduct regular international trips, almost everyone is based in Washington and indeed a significant amount of IA's regular policy engagement takes place when counterparts from other countries gather for the annual spring and fall IMF/World Bank meetings, which are held 80 percent of the time in Washington.

Similarly, the TFI staff is organized on both the policy and intelligence sides into regional and functional offices based in Washington. One of the major standing occasions for TFI policy engagement are plenary meetings of the international Financial Action Task Force (FATF) held three times a year, usually in Paris. There are also regular meetings of FATF-style regional bodies, generally held in the relevant regions.

The principal IA or TFI staff based outside of Washington, D.C. is financial attachés assigned to the U.S. embassies in a handful of countries/regions of particular interest to IA and TFI. (While attaché assignments have varied over time, in recent years postings have included Brazil, the United Arab Emirates, Iraq, Afghanistan, Singapore, Beijing and Tokyo, among other countries).[2] In addition, IA's Office of Technical Assistance (OTA) fields technical advisers with various financial specialties to about fifty countries around the world (although these individuals are Treasury contractors and generally have much more limited interaction with Treasury policy staff and officials).

This Washington-based organization makes substantial sense for policy-focused international engagements. Because the most effective policy engagements are often conducted by the most senior Treasury officials (e.g., the secretary, deputy secretary, undersecretaries and assistant secretaries), all of whom are necessarily based in

[2] Within Washington, D.C., Treasury regularly details staff to the IMF and World Bank; staff has been also occasionally detailed to regional development banks and other organizations.

Washington, it is natural for much of Treasury's internationally-oriented staff (in both IA and TFI) to be focused largely on keeping the senior officials informed about international developments that may impact the U.S. financially and helping prepare the senior Treasury officials for engagements on policy with their senior official counterparts, whether those take place in bilateral or international meetings in Washington or international meetings held elsewhere, such as those of the IMF and World Bank, the G-7/8, the G-20 or the FATF and FATF-style regional bodies. The Washington staff of IA and TFI also devotes a significant proportion of their time to interagency policy development and coordination activities.

This organization allows senior Treasury officials to conduct much of the policy-related business of IA and TFI effectively. For example, IA staff support helps both senior IA officials and the Treasury leadership engage with senior counterparts of countries experiencing financial crises as to the most appropriate policy conditions to be attached to U.S. and international emergency assistance. Similarly, TFI staff support helps both senior TFI officials and the Treasury leadership engage with senior counterparts of other countries and international organizations about supporting sanctions against malign state or non-state actors necessary to respond to threats to U.S. interests and the international financial system.

Recent experience, however, suggests that there are also limitations to primarily Washington-based and policy-focused approaches to fulfilling Treasury's non G-20 international responsibilities, limitations that affect IA and TFI in different but related ways.

During the decade since the global financial crises of the 1990s, a consensus has emerged that international donor (e.g., IMF) policy conditionality *by itself* is often unable to induce countries that have experienced a financial and/or economic crisis to sustain reforms necessary to achieve economic growth and stability.[3] To summarize greatly, while better economic and financial policies may be necessary to recover from crisis, they are not sufficient. A number of other critical factors are often of equal or greater importance if the policies are to be implemented effectively and sustained over time: (1)

[3] Stephen Coate and Stephen Morris, "Policy Conditionality," in Gustav Ranis, James Raymond Vreeland and Stephen Kosack, eds., *Globalization and the Nation State: The Impact of the IMF and the World Bank*, Routledge, 2005, p. 43.

changes in institutional capacity (e.g., better budget controls, more effective tax collection), (2) an approach to reform that takes adequate account of political economy considerations (e.g., corruption and power interests) and (3) a commitment to sustaining reform on the part of at least some influential local actors that goes beyond an instrumental motivation to comply with the terms of an IMF program.

Similarly in the area of illicit finance, in many cases, the effort to persuade other governments to adopt particular policies with respect to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) or to agree to support a particular sanctions regime is just the surface of the matter. To start, efforts to persuade a government to adopt a given policy can sometimes be advanced by technical assistance that helps countries understand what their policy and institutional weaknesses are. Once a country has agreed to a policy, a separate challenge often looms as to implementing it, which often requires strengthening institutional capacity beyond what exists. This problem is particularly acute with respect to terrorist finance and narco-trafficking, as the state and non-state actors that engage in those activities often deliberately choose to use as bases or trans-shipment points other states that are weak in terms of governmental institutions and the scope of governance.

In sum, even when policy conditionality and Treasury's international financial diplomacy are extremely effective in persuading other countries to enact good policies – whether designed to avoid or recover from a financial crisis (e.g., supporting the policy conditionality of an agreed IMF program) or aimed at safeguarding international security and the international financial system from the dangerous activities of maligned states and non-state actors – achieving what economists Stephen Coate and Stephen Morris have called "policy persistence," i.e., the sustained and effective implementation of those policies, often presents challenges of a quite different nature.

4. Strengthening Public Finance Institutions as a Critical Complement to Policy

The recognition of these limitations to a predominantly policy-focused approach to carrying out IA and TFI's distinct roles in international affairs leads to a common conclusion: the value of strengthening public finance institutions as a critical complement to the policy-focused efforts of both IA and TFI.

Therefore, in addition to IA's traditional emphasis on anticipating adverse international economic developments and spearheading U.S. and international efforts necessary to persuade foreign governments to adopt better macroeconomic policies, sustained effectiveness in many cases requires a complementary emphasis on helping to strengthen financially vulnerable countries' key finance institutional capacities, such as the ability to raise finance, formulate and execute budgets, exercise effective oversight of financial institutions and maintain well-functioning financial markets (consistent with the local authorities' political will to undertake such reforms).

Similarly, in addition to TFI's traditional emphases on championing policies to safeguard the U.S. and international financial system from illicit activities and spearheading the enforcement of sanctions designed to limit the threatening activities of malign state and non-state actors, sustained effectiveness in many cases requires a complementary emphasis on helping to strengthen key countries' financial enforcement capacities such as functioning financial intelligence units and effective regulation of formal and informal financial transactions (consistent with the local authorities' political will to undertake such reforms).

To be clear, IA and TFI leaders are well aware that the institutional dimension is an important consideration. The suggestion here, however, is that because Treasury has always devoted so much attention to advanced economies where institutional functionality could generally be assumed, Treasury's bureaucratic recognition of the implications of working with weak states has sometimes lagged. (Even here, of course, the U.S. and global financial crisis of the last two years should remind us that financial crises caused in part by imperfect public institutions and policies are hardly a distant memory even for the most elite group of the most advanced economies.) When one looks beyond the G-7 to the G-20, furthermore, the number of countries that have experienced serious financial crises in the last 15 years grows further to include Argentina, Brazil, Indonesia, Mexico, South Korea, Russia and Turkey.

Moreover, the last two decades have demonstrated that both Treasury and the U.S. government as a whole have substantial interests in other categories of countries in which the weakness of public finance institutions unquestionably remains a relevant consideration. IA was significantly interested in and involved with the public finance institution-building process of the transition economies of Eastern and Central Europe and the former Soviet states during the 1990s. Since the attacks of September 11, 2001, TFI has been centrally involved in trying to counter the institutional vulnerabilities of public and private finance systems in weak states across the globe and particularly in the Middle East that have been exploited for the financing of terrorism.

And Treasury as a whole has been called upon to contribute significantly to the U.S. government's efforts in major wars in two countries far removed from Treasury's classic concern with industrialized economies – Iraq and Afghanistan – and both IA and TFI (with OTA as a key partner) have ended up playing significant, if different, policy and operational roles in the U.S. government's efforts in both wars.[4] In sum, the traditional Treasury assumption that the countries in which it is most interested can be assumed to possess the institutional capacity to implement agreed policies – allowing Treasury to focus principally on what those policies should be – has been increasingly challenged in recent years as both the number and the range of institutional sophistication of the countries in which Treasury has interests has significantly expanded.

5. Is Treasury Best-Suited to Lead Efforts to Strengthen Public Finance Institutions?

Even if one accepts the critical importance of strengthening public finance institutions for effective U.S. international finance policy, the question may still be asked what U.S. government agency is best suited to provide it. After all, other U.S. civilian agencies, such as the U.S. Agency for International Development (USAID), are charged with providing foreign assistance generally and have established a wide range of public institution capacity building programs in countries around the world. Should Treasury's

[4] Of particular note are the TFI-sponsored Iraq Threat Finance Cell (ITFC) and Afghan Threat Finance Cell (ATFC) established in Baghdad and Kabul respectively to strengthen TFI's operational effectiveness in each country. See the March 29, 2009 testimony of former Treasury official Matthew Levitt to the House Committee on Armed Services Subcommittee on Terrorism and Unconventional Threats and Capabilities, available at www.washingtoninstitute.org/templateC07.php?CID=449. See also fn. 9 below.

international offices rely on other civilian agencies to help countries strengthen their public finance institutions where required to complement and make more effective IA or TFI policy engagements?

There are a number of factors that militate against taking such an approach. First, there is at present a broad consensus that providing near-term but sustainable institution strengthening assistance to other countries during crises (whether financial, national security or both) is a task that traditional civilian development agencies, the most important of which is USAID, have found problematic. USAID has strong capabilities for providing immediate-term humanitarian and transition assistance that largely bypasses local governments. It is also capable of formulating programs designed to help states strengthen their governmental capacity over longer terms (five to 10 years). However, providing assistance that sustainably strengthens state institutions in a time of a crisis (one to five years) has been a less well developed capability.[5] In addition, it has been widely noted that USAID has in recent years suffered from insufficient staffing, bureaucratic unwieldiness and an excessive reliance on large institutional contractors (in part because it has lacked adequate official staff) which have hindered its agility and effectiveness. These general limitations provide reason to question whether other civilian agencies can be effective strengthening public finance institutions, at least in priority and crisis situations.

Apart from the limitations of other agencies, Treasury possesses some special qualifications for this task. Because of its core domestic functions, Treasury has a unique institutional understanding of what it means to have operational responsibility for financial state functioning and state-building, having played a central part in both throughout American history. As a result, Treasury officials know how to talk to, and think like, the finance ministers and central bank governors who are central players in all of situations in which Treasury plays an international role, whether having to do with a financial crisis, illicit use of the financial system or the challenge of strengthening a weak state that is a contributing factor to a national security threat. In practice, this peer insight and credibility has often contributed substantially to both Treasury's operational

[5] While the newer Millennium Challenge Corporation has impressed many with its track record of working in partnership with countries receiving assistance to formulate and implement strong and sustainable reform programs, moving quickly in response to a crisis has not been its strong suit (and is not what it was set up to do).

effectiveness in helping strengthen other countries' public finance institutions and those countries' receptiveness to Treasury's advice and assistance.

Furthermore, one of the consequences of Treasury's natural orientation toward counterpart public finance institutions (and perhaps of its domestic public finance responsibilities as well) is that when Treasury operates overseas it is usually not as preoccupied as other U.S. agencies with receiving and spending as large a U.S. foreign assistance budget as possible. Indeed, in Iraq and Afghanistan, Treasury has been almost alone among the U.S. agencies operating in those countries to not devote the bulk of its efforts to spending large congressionally-allocated budgets. Instead, relying on relatively small staffs of policy officials and individually contracted technical assistance advisers, Treasury has focused its efforts on persuading and helping the local authorities get the most value (as measured by U.S. policy priorities) out of the local country's own financial resources and institutions.

In short, the distinctive Treasury perspective can translate into an advantage in having the right approach and expertise to help other countries strengthen their own public finance institutions in ways consistent with local capacity, ownership and sustainability. Because Treasury understands from first hand experience that state-strengthening (let alone state-building) is at bottom something that officials of the state in question must do, Treasury officials and even individual technical assistance contractors[6] may be somewhat less prone than other foreign assistance policy officials and diplomats and contractors to fall prey to the temptation to do the state-building for the foreign country, irrespective of local capacity, ownership or sustainability. While the possession or lack of such a "developmental" perspective is also a matter of individual personality and training and it is certainly the case that many others working in or for other agencies also have it, the point here is simply that there are multiple factors in favor of Treasury being well-suited to assist in the strengthening foreign public finance institutions in sustainable ways.

In addition, there are some other substantive and bureaucratic synergies between the challenge of strengthening public finance institutions and Treasury's traditional policy-

[6] Unlike other agencies that provide foreign assistance via large institutional contractors, Treasury's Office of Technical Assistance (OTA) hires each of its OTA advisers individually on personal services contracts.

focused international activities. First, the diplomatic sensitivity of Treasury's policy-focused international engagements (e.g., negotiating conditionality or accession to a sanctions regime) suggests that closely complementary activities such as assistance to strengthen public finance institutions will often be similarly sensitive, causing the senior Treasury officials leading the diplomatic engagement to naturally want visibility into the institutional aspect as well. Second, while there are some important differences in the roles, there is also substantial overlap between the expertise of Treasury economists monitoring the various macroeconomic conditions in a foreign country from Washington and the expertise of those in the field with responsibility for helping influence those conditions and strengthen that country's finance institutions. Third, Treasury already has a small but strong corps of both policy officials (financial attachés) and technical assistance providers (OTA advisers) who are based in the field and thus typically possess greater insight into both the state of local finance institutional capacity and the openings for and constraints on efforts to strengthen public finance institutions (including political economy considerations and local preferences). A new recognition that strengthening public finance institutions is a role of comparable importance to the more prominent policy-focused and Washington-based international functions of IA and TFI might also provide an apt occasion to further underscore and institutionalize the point that although attachés, OTA advisers and Washington staff all have distinct roles to play, working together they can constitute a Treasury team of formidable capabilities and effectiveness. Finally, Treasury is particularly suited to play the leading role on strengthening public finance institutions within the U.S. government by its longstanding role as the principal interface with the IMF and the World Bank, which together possess possibly the single greatest pool of comparative expertise in the world on both the policy and technical assistance dimensions of financial state-strengthening.

6. Optimizing the Treasury Organization for Institution-Strengthening and Other International Implementation

If strengthening public finance institutions is a role of comparable importance to the more prominent Treasury functions in international affairs of anticipating and addressing international financial crises and combating illicit finance, and Treasury is the U.S.

agency best situated to play the leading role in such state-strengthening efforts, what follows organizationally? There are a few principal implications.

First, the organizational stature of strengthening public finance institutions as a key international role should be elevated within Treasury as a whole. Given the policy significance of the institution strengthening mission, it is sub-optimal to delegate the responsibility for what happens after Treasury's senior officials secure a foreign government's agreement to a policy important to IA or TFI just to the explicitly technical IA deputate for Technical Assistance Policy and its OTA. The limitations of such an approach are exacerbated by the fact that even within IA, OTA has sometimes been regarded as something of a marginal entity because of its small number of regular Treasury staff, primary orientation toward activities in the field rather than the Treasury or IFI headquarters, and reliance on contractors (albeit using an effective individual contracting model) as technical advisers in the field. Furthermore, the fact that OTA is organizationally located within IA but also supports TFI policy efforts has sometimes created bureaucratic complications.

Instead, Treasury's ability meet the important challenge of strengthening public finance institutions could be substantially helped by designating a senior policy official who could speak and act with authority with respect to overseas policy issues and technical assistance matters and work closely at a senior level with both IA and TFI. Such an official could act within both Treasury and the interagency process to champion effective public finance institution strengthening efforts and ensure that the many interested U.S. and international parties work together as a help, and not a hindrance, to this critical dimension of state-strengthening.

There are multiple bureaucratic ways such a senior position responsible for overseeing both Treasury's efforts to strengthen public finance institutions, overseas policy and technical assistance resources available to that end might be established within Treasury. One approach might be to designate an assistant secretary for "International Implementation" who would report jointly to the undersecretary for IA and the undersecretary for TFI. An alternative might be to designate a counselor to the secretary for International Implementation reporting to the deputy secretary and working hand in hand with the undersecretaries and assistant secretaries for IA and TFI.

In either case, such an International Implementation official might oversee two existing categories of resources central to Treasury's efforts to strengthen public finance institutions. First, the IA deputy assistant secretary for Technical Assistance Policy and the OTA could be brought under this new position. This would simultaneously provide Treasury's technical assistance resources with a new senior champion within Treasury and underscore the International Implementation official's fundamental orientation towards Treasury institution-strengthening operations in the field. The other existing category of Treasury staff that it might make sense to make the new International Implementation official responsible for is the financial attachés. Even more so than OTA advisers with specialized areas of expertise, each attaché supports the policies of both IA and TFI while representing Treasury overseas. (In some locations with an attaché and a deputy attaché, it has become Treasury practice for IA and TFI to each staff one of the positions.) At the same time, as Treasury staff based in the field, attachés inevitably sometimes have a different interpretation of a policy or implementation matter than Treasury staff based in Washington – which is, after all, one of the principal justifications for sending attachés out in the first place. Accordingly, in order for Treasury to get the benefit of its attachés – including the opportunity to have attaché input serve as a uniquely informed supplement to and cross-check on Washington-formulated analysis – both an ongoing effort and an appropriate structure are required to make sure that both attaché and Washington staff perspectives are given appropriate due. Having attachés organizationally under a senior official with a primary orientation towards Treasury activities overseas (rather than under Washington-based regional offices/deputates) might be one way of increasing the chances that important perspectives of those in the field about what is necessary or feasible are not systematically overshadowed by other considerations that often loom larger in Washington by ensuring that they are made available as a valuable resource to inform Treasury senior leaders and help make Washington policy more realistic and effective. (Of course, none of this need interfere with the attachés' continuing to work closely with the relevant regional desks on a day-to-day basis.)

Designating a senior policy official as responsible for Treasury's policy and technical assistance overseas activities could also provide a stronger interface with IMF and World Bank personnel and activities overseas, making it easier for Treasury and the

U.S. to more effectively leverage their sophisticated expertise with respect to strengthening public finance institutions. Indeed, for the World Bank in particular overseas activities have assumed a steadily greater importance in recent years as the organization has attempted to respond to the limitations of an excessively Washington-centric model for providing policy advice and technical assistance. Having Treasury's policy-oriented attachés and technically-oriented OTA advisers report to a senior official whose primary orientation is also overseas activity would thus underscore to the IFIs that Treasury too understands the critical importance of field insight. It might also facilitate taking greater advantage of synergies between Treasury and the IFIs in overseas activities more generally.

Charging a senior official with these responsibilities could also improve Treasury's senior policy linkages between Treasury and the parts of other U.S. agencies with a primary concern for international implementation issues, particularly the Department of Defense, USAID and the State Department.[7]

Given the breadth of its international focus, such an International Implementation function could even be the home for a very small international policy planning activity (perhaps just a single individual on temporary loan from academia) of the sort that Treasury has typically lacked. Even a modest international policy planning activity could serve a few useful purposes. First, by being located underneath a senior official working closely with or for both IA and TFI, this activity would be well positioned to facilitate the integration of the international priorities and activities of IA and TFI, supporting both offices' ability to provide coordinated support of the Secretary and Deputy Secretary's international financial policy advocacy. Second, with the benefit of input from Treasury's overseas resources, such an activity could serve as one of the institutional bases within Treasury for strategic ideas that go beyond the immediate Washington crisis of the day. Third, having such a function could give Treasury an additional point of interface with key national security and foreign policy actors such as the National Security Council, the State Department and the Defense Department, each of which makes significant use of policy planning staffs for the development of significant international policies – which

[7] Needless to say, IA and TFI already have extensive linkages to these agencies in more policy-oriented areas.

Treasury has in the past sometimes missed opportunities to influence due to the lack of a clear counterpart planning function.[8]

7. Strengthening Treasury's Capacity to Play a Strategic Role in Exceptional National Security Contingencies

Finally, recognizing the mission to strengthen public finance institutions as one of Treasury's most important international roles and designating a senior official responsible for international implementation would bring together under one office authorities and resources that would significantly facilitate Treasury's ability to play a strategic role in exceptional overseas contingencies such as Iraq and Afghanistan.[9] Recent experience has shown that where state weakness is one of the contributing factors to a situation posing an urgent threat to vital U.S. national security interests, effective assistance strengthening its public finance institutions and functioning (e.g., a government's ability to distribute resources to its people by formulating and executing budgets) is one of the most important non-security contributions the U.S. and the international community can make to strengthening the state and improving stability. While it is hoped that the circumstances requiring a senior official for international implementation to play an active role in such an undertaking would be few and far between – the peacetime responsibilities of overseeing Treasury's overseas activities described above are more than enough to keep such an official fully occupied – given recent experience the value of being better prepared for such an exceptional contingency should not be dismissed.

8. Conclusion

This Working Paper began with the core domestic finance functions that have defined Treasury's role as a central institution of the American state-building project in order to

[8] The State Department's announcement in July that it is initiating "Quadrennial Diplomacy and Development Reviews" is just one recent example of the kind of initiative with relevance to Treasury's efforts to strengthen public finance institutions that a policy planning activity might link up with.
[9] For a detailed study of the role played by Treasury in Iraq that also includes a summary description of its early effort in Afghanistan, see Jeremiah S. Pam, The Treasury Approach to State-Building and Institution-Strengthening Assistance: Experience in Iraq and Broader Implications, U.S. Institute of Peace Special Report 216, October 2008, available at www.usip.org/files/resources/sr216.pdf.

highlight both the centrality of finance to state-building in general and the distinctive perspective and expertise in strengthening public finance institutions available to Treasury in fulfilling its full potential to play a strategic role in international affairs and national security. These roles include both policy and operational aspects, both Washington and field-based activities, and efforts aimed both at weakening malign actors and strengthening friendly but institutionally weak ones. It is this Working Paper's conclusion that elevating the stature of Treasury's efforts to strengthen public finance institutions (and related Treasury resources that are explicitly oriented towards policy implementation in the field, whether actually based overseas or in Washington) to become a full counterpart of the Washington-based policy work of IA and TFI would be a useful means by which Treasury could more fully integrate its distinctive strengths and contribute most effectively to the financial dimensions of international stability and security.

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This USIP Working Paper was written by Jeremiah S. Pam, a visiting research scholar with the Sustainable Economies Center of Innovation at the U.S. Institute of Peace. From May 2006 to May 2007, Pam served in the U.S. Treasury Department as the financial attaché in Baghdad, where he was the senior Treasury official in Iraq and led the U.S. Embassy's financial diplomacy and policy efforts. In March and April 2008, Pam was the Treasury member of a team organized by the U.S. Embassy in Iraq and the Multi-National Force–Iraq to conduct an assessment of Iraqi governance and U.S. governance assistance efforts throughout Iraq. From November 2008 through February 2009, he served as the Treasury codirector of a U.S. Central Command-organized interagency strategic assessment of the Middle East, and helped lead the assessment mission to Afghanistan. Previously, he was an international finance lawyer with an international firm in New York, where he advised governments on resolving sovereign debt crises.

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