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## **The Economics of Nation Building: Thinking Through The Complexity Of The Problem**

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Carl Von Clausewitz developed the primary trinity of war to explain both the complexity of war and the way that complexity interacts with itself. The three elements of the trinity (blind natural force, play of chance and probability, and subordination as an instrument of policy) are not independent characteristics of war, but play out as a gestalt with the sum of the parts being greater than the whole. Clausewitz states that they can be "variable in their relationship to one another"<sup>1</sup> but war as a system must comprise all three. Clausewitz makes a striking comparison during his analysis of war in which he states that war does not belong to the arts or sciences but rather is a part of "man's social existence."<sup>2</sup> His conclusion is that war more closely resembles the study of commerce, "which is also a conflict of human interests and activities."<sup>3</sup>

Our military has done a great job through doctrine and professional military training in capturing the essence of Clausewitz's trinity and the subsequent fog and friction of war. We understand the reality that military adversaries are a thinking enemy and have a say in how an operation will unfold. Clausewitz recognized the nature of economics and tried to use it as an analogy to help describe the complexity of war. It would seem today we recognize the complexity of war, but have forgotten the complexity of economics. We are treating economics less and less as a part of man's social existence and more and more like the arts and sciences. In our long war in Afghanistan, economic development has become a central line of effort in our definition of success. America perceives economic development as central to winning hearts and minds, which is a core part of our Counterinsurgency (COIN) strategy.<sup>4</sup> We also see economic development as an endstate that can help Afghanistan participate peacefully in the global order and bring about stability in the region.<sup>5</sup> Stability economics must understand the system in which economic development is taking place, the incentives created and destroyed in the process, and the second and third order effects of our economic policy choices. We should be less focused on the immediate mathematical outcomes of our economic strategy and more concerned with the social context of economics and the impact it has on behavior, incentives, and beliefs.

Through fiscal year 2013, the United States has contributed a total of \$96.57 billion in aid to Afghanistan.<sup>6</sup> The U.S. spread the aid money over five categories: security, governance/development, counter-narcotics, humanitarian relief, and oversight and operations. The \$96 billion includes \$16.65 billion appropriated to the Commander's Emergency Response Program (CERP).<sup>7</sup> The obvious question that every taxpayer is asking is, "are we getting a return on this investment?" A subset of this question is, "are our economic policies and spending choices in Afghanistan leading to our desired outcomes?" This paper will attempt to define our desired outcomes and work through the available data and studies to see where we stand in relations to these outcomes. To understand the problem and potential solutions to our economic line of effort it is also necessary to explore both economic theory and systems theory. This examination will conclude with some recommendations about applying economic theory to practice.

The Congressional Research Service published a study on U.S. Foreign Assistance in Afghanistan, which states that U.S. assistance programs are “intended to stabilize and strengthen the Afghan economic, social, political, and security environment so as to blunt popular support for extremist forces in the region.”<sup>8</sup> Fundamentally, we can argue that the United States aims every cent of aid money spent in Afghanistan toward the goal of stability along economic, social, political, and security lines. There is tremendous complexity in accurately defining stability and a great deal more complexity when we attempt to assess the contributions of our policies toward these outcomes. Economic, social, and political systems are “interconnected networks of systems, such that outputs from one become inputs to others.”<sup>9</sup> System analysts have been discussing open systems for decades, and have attempted to implement procedures and designs aimed at understanding how energy put into a system will behave. Part of this effort manifested itself in root cause analysis.

An example of root cause analysis is the Tactical Conflict Assessment Planning Framework (TCAPF).<sup>10</sup> (See Figure 1) The TCAPF is a State Department assessment framework intended to identify the root causes of discontent, or core grievances, in an area. The State Department uses these assessments to enable CERP, or other developmental aid programs, to target or address those core grievances. Another example is the recently published “Guiding Principles for Stability and Reconstruction.”<sup>11</sup> (See Figure 2) This pamphlet offers a framework for understanding the complexity of the system of systems and attempts to define and account for crosscutting issues. The essential challenge to these frameworks is getting the root cause right. If we fail to understand the causes of instability, no amount of money will get us to our endstate. The second challenge is to define a solution that will actually address the root problem without unintended consequences felt elsewhere in the system. Sometimes the unintended consequences can pose a larger problem than the root problem we initially intended to solve.

Is it even possible to get the root cause analysis right? Most scholars start from the assumption that a root cause exists and that finding it is a matter of process. If we examine this assumption, we can answer important questions and form a more educated stepping off point for further analysis. The complexity of the situation rises to the level of a “wicked problem,” as described by Rittel and Webber.<sup>12</sup> They use the term wicked to mean “malignant (in contrast to benign) or vicious (like a circle) or tricky (like a leprechaun).”<sup>13</sup> They argue that science was developed to solve tame problems but policy problems suffer from an inability to “definitively describe” them.<sup>14</sup> Social concerns defy objective definition and therefore policies “cannot be meaningfully correct or false.”<sup>15</sup> Is it even possible to accurately define the problem? Can a root cause analysis correctly find the central issues of importance in a complex causal network? Ritter and Webber discuss 10 pillars of wicked problems. Four of these pillars get to the heart of the root cause discoverability assumption above: 1. There is no definitive formulation of a wicked problem. 2. Every solution to a wicked problem is a one-shot operation; because there is no opportunity to learn by trial-and-error, every attempt counts significantly. 3. Every wicked problem is essentially unique. 4. Every wicked problem can be considered a symptom of another problem.<sup>16</sup> (See Figure 3) The last pillar is especially insightful. How can a root cause truly be “root” if it is also a symptom of another problem? This is the challenge we face in trying to solve “wicked problems.”

Ritter and Webber capture the Clausewitzian complexity of stability operations. Clausewitz understood the importance of accounting for a thinking enemy. In stability operations, we also have to contend with a “thinking” objective. If the objective is a stable economic, social, and political environment then people are at the core of the objective and all the complexity of Clausewitz applies. MSTP Pamphlet 6-9, *Assessments*, takes the idea of “wicked problems” and articulates it into Marine Corps doctrine:

Socially complex entities such as an enemy unit or the residents of a village are inherently unpredictable. There may be physical limits to what they can do, but within those limits, anything is possible. For socially complex systems, cause and effect are nonlinear - indefinable by mathematical equations. Short of complete destruction, socially complex systems never reach an endstate; they evolve. Consequently, every military concept of operations seeks to inject energy in the form of friendly capabilities into a

socially complex system to influence how that system evolves. Each causal analysis and attendant solution will have unintended consequences.<sup>17</sup>

**Figure 1: Tactical Conflict Assessment Planning Framework**

TCAPF QUESTIONNAIRE: '4 QUESTIONS'

<i>Critical Information</i> - Complete ALL Parts			
Date		Interviewer/Unit	
Subject Name/Gender		District	
Occupation		Village	
Tribe		Location (Grid)	
Age (Check 1)	<input type="checkbox"/> "Fighting age"	Population	
	<input type="checkbox"/> Old (gray hair)		

<b>Question 1: Has the number of people in the village changed in the last year? (Check 1)</b>							
Increased	<input type="checkbox"/>	Decreased	<input type="checkbox"/>	No Change	<input type="checkbox"/>	Don't Know	<input type="checkbox"/>
	(Go to 1a)		(Go to 1a)				No Comment
Question 1a: Reason for change in population?							

Question 2: What is the most important problem facing the village?

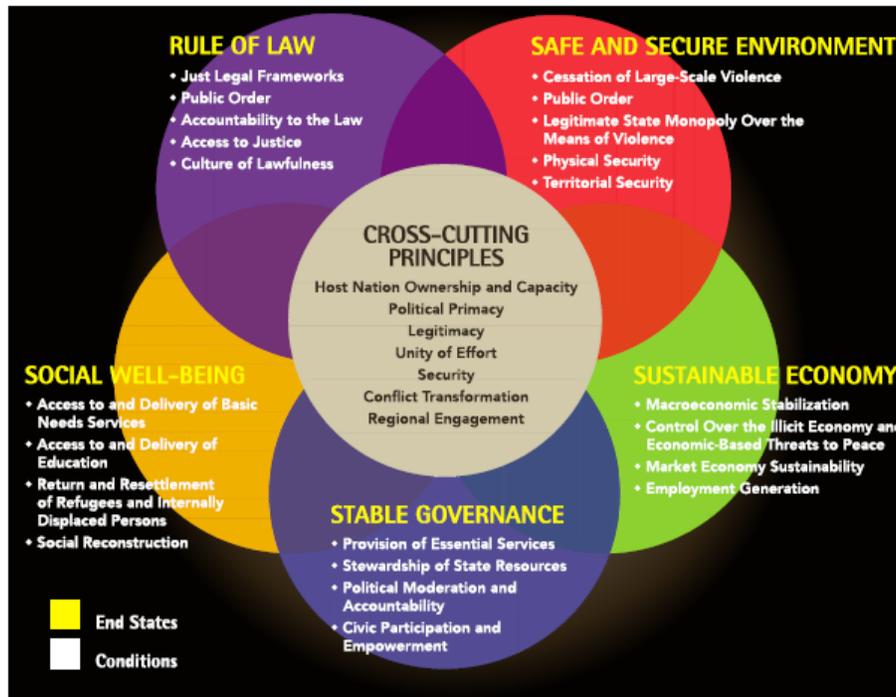
  

Question 3: Who do you believe can solve your problems?

Question 4: What should be done first to help the village? (1 Answer Only)

**Figure 2: Stabilization and Reconstruction Framework**



We have to be aware of this fact and perceptive enough in our assessments and system understanding to account for the unintended consequences of our actions. Socially complex problems challenge the core of root cause analysis because all problems are symptoms of other problems, all problems are unique, no problem has a defined endstate, and we cannot practice trial and error as each applied solution changes the system and the nature of the problem. Once we put energy into a system, the genie is out of the bottle.

Even if root cause analysis is problematic, it is a starting point and most would agree that it is useful. The reality for practitioners is that our government directs us to conduct stability type operations so arguments against the viability of these operations are mostly interesting but not very useful. It is worth understanding that models and frameworks are an approximation of reality and that reality is almost always messier than our models. Root cause analysis falls into this category and has its limitations, which should lead astute commanders to consider root cause analysis with a skeptical eye. If we accept the shortcomings of root cause analysis and create policy choices targeted to these core grievances then we enter into a second issue practitioners grapple with. The doctrine, framework, and models available to us in stability operations are generally short of specific policy recommendations. There are no solutions that are universal and empirically tested. At first, this may appear to be a fatal flaw, but in reality, practitioners are in general agreement that Ritter and Webber’s second pillar above is true. Wicked problems are all essentially unique and policy choices in one area may not achieve similar outcomes in other areas. Even with this accepted reality, we still face the problem of designing relevant and sufficient solutions to fix root cause problems or core grievances. It is worth our time to see what we

have already done along these lines within our economic line of effort and provide some analysis of the good, bad, intended and unintended consequences.

In January 2011, the Special Inspector General to Afghanistan Reconstruction (SIGAR) conducted an audit of CERP expenditures in Laghman Province. SIGAR looked at 69 projects costing \$53.3 million. The findings concluded that 92 percent of the money spent was at risk for questionable outcomes. The U.S. used the bulk of these funds to build asphalt roads that were at risk due to sustainment capacity concerns.<sup>18</sup> These types of audits question the root of our Afghan reconstruction strategy. The Laghman Province audit assessed the road projects as at risk of failure due to a lack of a long-term sustainment plan or sustainment capacity. The implication is that American taxpayers may have been better off if we did not build the roads. SIGAR intended for the audit to assess “whether the projects were meeting intended outcomes.”<sup>19</sup> What is striking from the audit is that SIGAR included a footnote explaining that, “CERP standard operating procedures do not define a successful project outcome.” SIGAR pointed out that we are attempting to solve a wicked problem without even an effort at defining success.

### Figure 3: 10 Characteristics of “Wicked Problems.”

Rittel and Webber's 1973 “Dilemmas in a General Theory of Planning” formulation of wicked problems in social policy planning specified ten characteristics:

1. There is **no definitive formulation** of a wicked problem.
2. Wicked problems have **no stopping rule**.
3. Solutions to wicked problems are **not true-or-false, but good or bad**.
4. There is no immediate and **no ultimate test of a solution** to a wicked problem.
5. Every solution to a wicked problem is a “one-shot operation”; because there is **no opportunity to learn by trial and error**, every attempt counts significantly.
6. Wicked problems do not have an enumerable (or an exhaustively describable) set of potential solutions, nor is there a well-described set of permissible operations that may be incorporated into the plan.
7. Every wicked problem is essentially **unique**.
8. Every wicked problem can be considered to be **a symptom of another problem**.
9. The existence of a discrepancy representing a wicked problem can be explained in numerous ways. The choice of explanation determines the nature of the problem's resolution.
10. The social planner has **no right to be wrong** (i.e., planners are liable for the consequences of the actions they generate).

The Laghman Province audit is an example of assessing the measures of performance (MOP) for CERP. It is a look at our project selection and implementation processes but gives no account of our effectiveness in achieving our endstate of stability. A study conducted by Tufts University tackled this issue head on with an analysis of aid and reconstruction spending in five provinces across Afghanistan (Balkh, Faryab, Helmond, Paktia, and Uruzgan).<sup>20</sup> These studies focused less on our ability to implement projects and more on the effectiveness of our projects in achieving the desired endstate. The framework for the Tufts study was similar to the TCAPF framework in that it was based on interviews and perceptions by the local population. They used interviews and focus groups in the five provinces to discover the drivers of instability and effects of aid projects on stability and popularity of aid actors.<sup>21</sup>

Drivers of instability, according to the study, ranged from “poor governance, corruption, and predatory officials; ethnic, tribal, or fractional conflict; poverty and unemployment; behavior of foreign forces; competition for scarce resources; criminality and narcotics; ideology; and geopolitical policies of Pakistan and other regional neighbors.”<sup>22</sup> Paul Fishstein, who led the Tufts University Study, is pretty much describing a “wicked problem.” There are a number of contributing factors and nodes that are

driving instability and a complex solution that attempts to address them all would necessarily cause second and third order effects. As an example, the Congressional Research Service Report states that the aid “strategy sought to have most funds provided through the central government in order to strengthen its legitimacy in the eyes of its citizens.”<sup>23</sup> With the top down aid approach, the U.S. is empowering the central government of Afghanistan and the political class to make decisions regarding allocation and distribution of the funds. This in turn has tested the effectiveness of aid funneled through a corrupt governing body that seems to operate based on relationships and preferential treatment rather than fairness and equal access. Fishstein captured the essence of how corruption can actually increase instability and the link between more aid money and greater perceptions of corruption. Interviewees consistently believed that the Afghan government doled out contracts by favoritism, nepotism, and bribery rather than merit. A UN official in Uruzgan Province described it as “a business not a government.”<sup>24</sup>

The intended result of funneling money through the central government to increase the central government’s role and legitimacy led to the unintended result of a corrupt government decreasing its own legitimacy in the eyes of its citizens and further driving instability. Practitioners may be tempted to simply add transparency into the system and develop a more effective information operation aimed at highlighting the good that aid projects have done in Afghanistan. Before we can assess ideas like this as the answer to our unintended consequences, we must examine the impact of aid on an economic system like Afghanistan.

Henry Hazlitt published *Economics in One Lesson* in 1979. His thesis was that “the art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.”<sup>25</sup> The complexity of economic systems makes this task difficult. In Afghanistan, we are tempted to view aid projects through the positive lens of good consequences while we ignore or discount negative consequences. A report produced by the Wilton Park Conference in 2010 produced a list of unintended outcomes caused by rapid aid spending.

Too much aid money spent quickly with little oversight can be delegitimizing and destabilizing in many ways, including by: fuelling corruption; creating destabilizing winner-loser dynamics in ethnically and tribally divided societies; supporting a lucrative war/aid economy that benefits insurgents, corrupt government officials and other malign actors; and creating perverse incentives among key actors to maintain the status quo of insecurity and bad governance.<sup>26</sup>

Aid practitioners often view aid projects as inherently helpful since before the project a product or service did not exist and after a project, the people have the product or service. Aid money built roads, schools, and hospitals. How can aid money on balance be bad? Who is hurt in these transactions? It is clear that the favored contractor benefits from the aid money. However, we can be tempted to write off the disgruntled as simply complaining because they are not getting their fair share, but no one is actually being harmed.

Henry Hazlitt identified another negative effect of aid when he demonstrated that money is not neutral in an economy. Those individuals who receive new money first can spend that new money into the economy at today’s prices. The makers of the services or products that they buy will benefit next and so on down the line. New money (aid money) introduced into an economy will trickle through the economy benefiting each person greatest who has earliest access to the new money at the expense of those with later access or none at all due to inflation.<sup>27</sup> According to the World Bank, Afghanistan’s GDP in 2012 was \$20.5 billion.<sup>28</sup> With the United States spending over \$96 billion and tens of billions more from other countries over the last 12 years, we have been asking the Afghan economy to absorb nearly half of its GDP in aid and developmental money each year. This kind of rapid aid has led to significant increases in inflation. Afghanistan has averaged about an 8.43 percent inflation rate from 2005-2012.<sup>29</sup> At 8.43 percent, it would take just over 8 years for inflation to cause the doubling of prices within an economy.

Hazlitt’s explanation of non-neutral money means that Afghans who do not have connections or who are not favored by their government and not receiving jobs or contracts are actually worse off today

than they were in 2002. Public projects do benefit everyone to include roads, schools, hospitals and the like but commodities and services may be costing the vast majority of Afghans over twice as much today than what they cost 12 years ago. Data that differentiates inflation by commodity and service is simply not available for Afghanistan so inflation analysis remains sketchy. The effect is still very real and central to understanding how aid spending can actually harm Afghans. It also helps us reconcile Afghan perceptions of harm that may not fit with our traditional understanding of aid spending.

Based on Hazlitt's analysis that inflation is not neutral, and does not flow through an economy equally, we can conclude that aid money can in fact be zero sum. This goes a long way in helping us understand the impact we are having long-term and on everyone, not just short-term and on the groups we intend to effect. Ludwig Von Mises makes arguments similar to Hazlitt but also points out that there is no way to foresee the effects of inflationary policies.<sup>30</sup> This last point emphasizes the nature of stability economics as a "wicked problem." Implementing policies to mitigate the effects of inflation are nearly impossible due to the complexity of economic systems and the unpredictability of how new money would flow through an economy. The other outcome of this economic reality is that there is a growing gap between the rich and poor in Afghanistan. "Elite capture" of aid funds resulting from the zero-sum nature of this money has left those without access to aid projects and resources worse off than those with access and perhaps even worse off than before aid was given. Aid money has also fueled a sense of injustice that is laying the seeds for discontent and instability.<sup>31</sup>

When we dig into the labor, employment, and sector data for the Afghan economy, the economic harm caused by massive aid begins to take shape. Agriculture is the largest sector of the Afghan economy, comprising 33 percent of GDP and involving 70-80 percent of the workforce. Between 2005 and 2009 CERP expenditures on agriculture comprised only 5 percent of the total spent.<sup>32</sup> It is difficult to find numbers for all aid spending but this data point about agriculture is telling. This means that 70-80 percent of the work force is not benefiting directly from 95 percent of the CERP spending. This helps us understand why so many Afghans are dissatisfied with aid spending. Although tribal tensions, religious extremism, poverty and unemployment, and aggressive international military forces are all cited as contributing factors to instability,<sup>33</sup> it is clear that aid spending can create conditions for instability as well.

The data available are very pessimistic about our ability to achieve desired outcomes through aid spending along our economic line of effort. We perpetuate our belief that aid is doing good by pointing to infrastructure, job programs, or other public services that we have been able to fund and build. These are all tangible results that we can measure and see. Henry Hazlitt is famous for saying that the bad economist sees only the direct consequences of a proposed course; the good economist looks also at the longer and indirect consequences.<sup>34</sup> It is nearly impossible to measure the effects of aid money on the crowding out of other economic endeavors but it is not hard to recognize that effect and extrapolate some challenges. Johnson argues in his PRISM article, "over time, the provision of free, donated food undermines incentives to increase agricultural production and might even destroy nascent local industries."<sup>35</sup> The challenge for students of economics and aid is our inability to measure things that did not happen. If aid crowds out legitimate businesses or decreases output of existing industry we have no way of knowing or measuring that effect. This does not reduce the importance of the effect or the negative long-term implications.

Frederick Bastiat created "the broken window fallacy" to describe this unseen economic phenomenon. Bastiat tells the story of a hoodlum who breaks a window in a bakery. The baker is forced to buy a new window, which produces work for the glacier. The money spent on the new window can now be spent by the glacier on things he needs, and so on as that money trickles through the economy. Bad economists argue that the hoodlum benefited the economy by stimulating a series of transactions. Although bad economists are right in the first instance, that the glacier is the benefactor of the crime, what is not addressed is the economic activity that never took place because of the crime. The baker may have been saving to buy a new suit and that money could have been spent at the tailor. Because of the hoodlum, the tailor never made that suit and now the baker, instead of having a window and a suit, only has a window. The community is therefore poorer by exactly one suit due to the hoodlum's actions.<sup>36</sup>

The challenge is accounting for all the suits crowded out by aid projects. This is clearly an impossible task but the effect exists none-the-less. A focus on incentives is the easiest way to attempt an analysis of this kind. We cannot describe work not performed nor economic activity never completed but we can assess incentives in the system and infer how people may behave within that system.

Entrepreneurship in development is an important aspect of sustainable economic improvement. One of the challenges to entrepreneurship in Afghanistan is the crowding out effect of aid projects and the war economy. There are no incentives for entrepreneurs to take risks in an economy when they can secure government contracts that pay out large sums, with almost no risk of loss. Wim Naude articulated this phenomenon well when he argued “an insufficient supply of entrepreneurs [is] due to institutional weakness that result in a lack of profit opportunities tied to activities that yield economic growth.”<sup>37</sup> Naude further points out that entrepreneurship and institutions (the rules of the game) are the main determinant of development. He states that institutions will determine the allocation and supply of entrepreneurs and those entrepreneurs can conduct “productive, unproductive, and even destructive activities” depending on these rules.<sup>38</sup> The implication of Naude’s analysis is that current aid spending in Afghanistan has largely incentivized entrepreneurs to spend their energy and effort on securing aid contracts. We do not know if in the absence of aid that these entrepreneurs would find other endeavors but we do know that to the extent that aid efforts are not aligned with sustainable economic growth these same entrepreneurs are also not contributing to a sustainable economy.

Another incentive in the current system is the strengthening of tribal ties and inter-tribal rivalries. Those tribes in power have largely consolidated their hold on power through a quasi-monopoly on aid money, patronage, favoritism, and bribery.<sup>39</sup> This reality has escalated conflicts over scarce resources and mostly along tribal and ethnic lines. Tribes with power marginalize tribes without power, which is having a destabilizing effect.<sup>40</sup> These outcomes are largely due to corruption within the Afghan political system. The U.S. ends up trying to balance supporting the Karzai regime through aid spending without explicitly condoning the corrupt system that empowers some at the expense of others and has come to symbolize the zero-sum nature of the current rules of the game.

Part of the challenge is that sequential solutions are not optimal in an open, adaptive system. We cannot simply conduct a security line of effort, then a government line of effort, followed by an economic line of effort. The three lines of effort are addressing a system of systems that are interconnected with multiple causal nodes and feedback loops. We are using aid to help legitimize the government, which simultaneously is likely enabling the government to use aid as a means to empower some and marginalize others. Is it possible to weigh the costs and benefits of these two lines of effort? When we build a road and develop police checkpoints to support our security line of effort how do we mitigate the risk that the police will extort money from vehicles that pass through?<sup>41</sup> The road opened up commerce and transportation but also strengthened the central government’s ability to abuse power.

The economic line of effort cannot succeed alone and cannot succeed in a vacuum. Practitioners of aid are accountable for the outcomes of aid funds. The takeaway from incentive analysis is that economic energy results in two outputs that we have to reconcile. One is the actual economic good or service funded; which projects we choose to fund, where we fund them, and when? The second is the process of implementing these projects; how much are we paying, whom are we paying/empowering, and whom are we marginalizing? Picking the right projects is only part of the problem. Picking the right method to complete the projects matters as much, if not more.

When it comes to picking the right projects, we must recognize that zero-sum economic policies/projects are inherently destabilizing. They pick winners and losers. Every infrastructure project we have undertaken falls into this category. If we build a hospital somewhere, that means we did not build it somewhere else. The benefit to one group is easy to recognize but the damage to other groups, though less obvious, is real. The analysis provided earlier about the effects of inflation and the wealth transfer that is occurring between those who benefit from aid directly and those who do not receive the benefits is a critical connection to how we can visualize this zero sum-reality.

When it comes to picking the right method for implementation we have to get this at least mostly right. Our CERP SOP provides good guidelines for helping commanders implement projects that can

mitigate the harm caused by the zero-sum nature of the project. The USAFOR-A Money as a Weapon System SOP for using CERP gives two broad categories for CERP expenditure. The first is use of CERP for COIN effect. The second is use of CERP for economic effect.<sup>42</sup> These two categories are not directly in conflict but deal in two different time horizons. COIN effect is about winning hearts and minds, humanitarian relief, and is generally a short-term economic goal. Economic effect is about sustainability and long-term economic growth. Chapter 6, which outlines CERP use for COIN effect, describes four categories of CERP use: Developmental, Humanitarian, Force protection (hearts and minds), and counterinsurgency. The CERP SOP states that counterinsurgency is the primary effect that each project must address, which the SOP defines as projects that target root causes of insecurity.<sup>43</sup> The guidelines for project selection include root cause analysis, community involvement, host government value added, and likelihood for success.<sup>44</sup> The CERP SOP includes using concepts like “Ashar,” which means community labor organized without compensation, to help determine the true value of a project’s worth to a particular community. The CERP SOP also recommends commanders choose small projects as they provide less oversight and leave less room for corruption.<sup>45</sup>

In looking at the SIGAR audit and studies like that from Tufts University it is striking that large, complex projects are almost always the ones at risk of failure or causing the greatest harm in terms of second and third order effects. Small projects, closely aligned with community effort, are generally the more successful projects. As an example, the National Solidarity Program (NSP) received high marks consistently across the five provinces studied by Tuft. Although the NSP only averaged \$27,000 worth of projects per community, Afghans believed the NSP was transparent and responsive to the community. The NSP used a standard and publicly understood formula for allocating money, which helped to bolster a sense of fairness.<sup>46</sup>

We cannot study CERP without acknowledging successful outcomes that the U.S. has achieved with specific projects. A study conducted by Dr. Michael Fischerkeller and published in PRISM found that CERP spent on securing culverts along HWY 1 in Afghanistan to prevent insurgents from emplacing deep buried IEDs was largely successful. The study did a great job linking the desired effect (fewer IEDs) with the actual project (culvert denial systems).<sup>47</sup> This is an example of a small-scale project tied directly to a security outcome. What we are unable to assess is if the culvert denial program prevented these IED attacks altogether or simply displaced them to other areas where culverts were not hardened. We also do not know if future rates of IED emplacement will increase as insurgents adjust to this new tactic, if our outcome is a permanent decrease in attacks or a temporary decrease. Dr. Fischerkeller also argued that CERP data are currently inadequate for drawing conclusions about their effectiveness. This last point is especially troubling. We have spent tens of billions on a range of projects but have not been able to collect data sufficient to assess our effectiveness in the use of money as a weapon system.

Chapter 7 of the CERP SOP discusses uses of CERP for economic effect. The SOP urges the use of CERP to help counter the decrease in U.S. operational spending as U.S. forces draw down in Afghanistan.<sup>48</sup> Contrary to chapter 6, the SOP claims that infrastructure and capacity type projects are key to sustainable economic growth and asks commanders to focus on agriculture, transportation, and construction sectors to mitigate an economic downturn related to the drawdown.<sup>49</sup> Using CERP for economic effect is almost diametrically opposed to using CERP for COIN effect within this context. COIN effect is about small projects with community involvement. Economic effect is about larger projects aimed to replace the spending of departed U.S. forces. Commanders can interpret the CERP SOP to justify nearly any project not expressly forbidden within the SOP. International Security Assistance Forces (ISAF) Afghanistan gives broad discretion consistent with the belief that each community is unique and commanders must locally tailor each use of CERP. The problem is that the vast majority of CERP spending has been on large-scale projects, which have proven to be zero-sum in nature. The long-term second and third order effects of a decade of CERP spending have largely been destabilizing.

Fair access and objective standards for implementing aid are clear paths to mitigating the harmful effects inherent in a zero-sum political environment. CERP projects that are positive-sum are also a great alternative. The U.S. Department of Agriculture and a group of U.S. universities have developed an agricultural training program.<sup>50</sup> These types of programs focus on creating better farmers by teaching

improved irrigation methods, crop rotation theory, and an understanding of local climate and soil conditions.<sup>51</sup> These types of projects are positive-sum, since making better farmers out of Afghans promotes economic growth without harming other Afghans. Positive-sum projects also include Micro-grant and Micro-loan programs that help finance entrepreneurs. These programs, when fairly administered with equal access to all Afghans, can provide a market solution to satisfying local needs. These programs also put the solution to problems in the hands of Afghan entrepreneurs, decreasing the role and influence of a corrupt government.<sup>52</sup>

Over a decade of spending is starting to reveal some even longer-term concerns and unintended consequences. Concerns are surfacing about Afghanistan's ability to absorb current aid funding, as well as in their ability to sustain the products of that aid. Afghanistan's current public liabilities include almost \$17.5 billion in 2011 with nearly 90 percent of that coming from donor funds. Afghanistan's current tax base accounts for only about \$2 billion annually (number for 2011.)<sup>53</sup> Aid funds have created roads, agriculture, water, electricity and other development projects that require a much larger Afghan sustainment budget than the Afghans currently can generate within Afghanistan. If donor money dries up or fails to fund the difference between Afghan funds and expenditure needs, then we may be setting Afghanistan up for future failure as these infrastructure improvements degrade over time.

When we go beyond CERP for COIN effect and analyze CERP for economic effect, we have to deal with the preference revelation problem inherent in an aid economy. Practitioners employing aid funds can choose between an infinite number of possible projects, locations, timings, and methods for employment of donor funds. Aid funds are a scarce resource, and feedback in the system to confirm the priority and allocation of projects is central to getting this right. In a market economy, resources are allocated according to the profit motive. Astute entrepreneurs, who are able to read signals in the market, profit by bringing desired goods and services to consumers for a profit. Entrepreneurs who get it wrong fail to turn a profit and either recalibrate their operations or go out of business. In an aid economy, this is not the case. Communities may hide their true preferences to get larger projects completed or maximize their aid allotment. Because they are not spending their own money, it is also more difficult to discover the true economic wants of the community, as a free school sounds great even if what they need is a functioning sewer system. The CERP SOP tackles this problem by asking commanders to seek community involvement in project selection.<sup>54</sup> TCAPF and other assessment frameworks are also trying to reveal true preferences by digging into local perceptions about drivers of instability and economic needs. The reality is that local preferences can vary widely and those in local power may favor large projects that they can exploit or abuse for personal gain at the expense of needed smaller projects. We simply have no foolproof way of ferreting out these realities within the CERP Framework. Asking local communities to provide free labor seems to be one of the only viable methods to overcome the preference revelation problem but also probably limits project selection to low skilled endeavors.

Ludwig Von Mises, in his book, *Human Action*, argues that economic calculation, profit and loss, are central to society's ability to allocate scarce resources. "Eliminate economic calculation and you have no means of making a rational choice between the various alternatives."<sup>55</sup> There are challenges to CERP cash-for-work programs designed to increase employment. One problem is the ability to find market prices and market wages in an aid economy. In Dari the word *komak* is used to describe both aid (development assistance) and charity. This has blurred the lines between development and charity. A cash for work program in Balkh paid \$4 per day and locals cited this as unfair and too low even though the market wage rate was only \$2 per day.<sup>56</sup> Locals viewed aid money as "free money," and they were entitled to a certain share. How do we align aid wages with market wages? When we fail to align these wages, are we inadvertently empowering and enriching those who receive aid at the expense of those who do not? Although unemployment is a large-scale problem, we have to be concerned about dislocating and crowding out valuable jobs by offering less valuable work for larger wages. These are unintended consequences of job programs not tied to valuable economic output. In this case, we compound the problem by our inability to effectively evaluate what is actually a valuable economic activity due to the preference revelation problem. Developing a sustainable market economy is exponentially more difficult

the larger the aid economy, because the market economy and the aid economy are competing for the same labor and resources.

As an economy becomes distorted due to competing wage rates, with infrastructure development tied to stability aims versus economic aims, and a host of other economic incentives and disincentives caused by aid spending, countries like Afghanistan are faced with the “Paradox of Planning.”<sup>57</sup> Central planners, mainly the Afghan Government or Coalition Governments, who are implementing aid funding, simply cannot effectively plan because of the absence of economic calculation. Project prices are in accordance with prevailing aid wages and material costs instead of prevailing market wages and material costs. The aid economy distorts the price function preventing entrepreneurs from discovering actual community needs.

Ludwig Von Mises makes it clear that private control over the means of production remain the surest way to maximize the management and allocation of scarce resources.<sup>58</sup> The aid economy in Afghanistan challenges our ability to free the markets. The Afghan government is the default owner of roads, power plants, canning factories, community wells, hospitals, and all other forms of infrastructure development taken on by aid funding. In some cases, there is local ownership by the community but ultimately the result remains the same. The aid economy marginalizes private ownership. This gets at the heart of the sustainability issue. Since the government of Afghanistan is on the hook for all these projects that they may or may not have wanted or asked for, they are facing massive budget shortfalls related to sustainment requirements. This is a reality of building a school or a hospital even if the intent is simply to educate the youth and care for the sick. Resources that Afghanistan could apply to more urgent requirements or needs the Afghan government will likely divert to sustaining infrastructure that was deemed important by a commander at some point in time but may not align with actual values and preferences within the population.

This story is nothing new. “Extreme Makeover: Home Edition,” a popular TV show in the United States, has been upsizing homes for needy families for several years. The increased costs for maintenance, insurance, property taxes and other costs of ownership have forced some of the families to sell or raise funds in order to afford these additional costs.<sup>59</sup> Extreme Makeover builds these massive homes with donated labor and materials, but nothing in this world is free, and our own experiences here at home are powerful reminders of this economic reality.

The “wicked problem” is on full display as aid practitioners attempt to balance central planning to avoid maintenance and upkeep cost overruns with local applications of CERP that attempt to diagnose and treat local problems. In addition to the local versus central planning paradox aid spending faces a COIN vs economic effect paradox. When practitioners read the CERP SOP with a critical eye, it is clear that an underlying assumption exists that it is possible for a commander to spend money to achieve either a COIN effect or an economic effect. The reality is that all money spent has both a COIN and economic effect. The two effects are inseparable and focusing on one and not the other is inviting unintended consequences into the system. Commanders should recognize this reality when dealing with CERP.

Beyond the direct and indirect effects of aid, Fishstein points out that there is a “primacy of political over economic drivers of conflict.”<sup>60</sup> A foundation of Islam and National Identity underlie legitimacy in Afghanistan. Looked at through this cultural lens it is possible that development activity as a basis for the GIROA’s legitimacy is both foreign and problematic.<sup>61</sup> If ideation is the root of legitimacy, then the use of money as a weapon system may truly be limited to effects like force protection and intelligence gathering. If we are going to have an economic line of effort tied to stability and security then we have to take a hard look at the system we are pouring money into and the effects these funds are having. To this point, it is now clear that aid, infrastructure, and work projects are not in and of themselves sustainable or stabilizing. Our own CERP SOP fails to provide a holistic picture outlining possible consequences of spending aid money. Commanders are at a disadvantage trying to weigh short-term and long-term risks to their spending decisions since military professionals have done little within the institution to reconcile CERP for COIN and CERP for economic effect.

There is no way to go back in time and undo more than a decade of spending choices by our military and civilian led departments. The tens of billions that the U.S. and other donor nations have

appropriated and spent are now a part of the landscape in Afghanistan. Because this is a “wicked problem,” each solution we implement “counts significantly.”<sup>62</sup> We have injected energy into the system and now are reaping the outcomes that we have sewn. The insights gained from our experiences can perhaps give us some ideas going forward with our limited time left in Afghanistan. However, the vast majority of this analysis may be more useful in our planning for future conflicts. Not all mistakes are reversible when dealing with “wicked problems.” Afghans may never accept the government of Afghanistan as a legitimate governing body after ten years of abuse, elite capture of aid resources, nepotism, bribery, and power politics without fundamental changes to the rule of law, fairness, and equal access/opportunity.

Another shortfall in current doctrine, theory, and frameworks for economic development is rooted in assumptions about people. Thomas Sowell in his book, *A Conflict of Visions*, provides two competing frameworks for viewing these issues. He depicts an “unconstrained view of man,” and a “constrained view of man.”<sup>63</sup> The unconstrained view seeks to explain causes of war, poverty, and crime. This is the view that most military COIN and Stability doctrines hold. It is the basis for our root cause analysis approach in Afghanistan that seeks to find causes of instability and then design solutions to fix them. The “constrained view of man” sees war, poverty, and crime as having been the norm throughout history and instead seeks to explain the causes of peace, wealth, love, order, and morality. If we were to change the framework for how we think about the causes of poverty and war to the causes of wealth and peace, we might consider changing our approach to stability operations. The realization that Afghanistan was poor before we showed up, had ethnic and tribal tensions before we showed up, and had a political system and legal system that enriched those with power and marginalized other groups before we showed up goes a long way in helping to understand the fabric of this complex problem. Achieving western ideals in terms of development may not buy us very much security and legitimacy.

The U.S. has done a lot of damage to Afghanistan. Our ability to leave Afghanistan cleanly without ongoing donor requirements to help maintain the aid projects we helped implement is a problem. We cannot undo this damage but should spend the remainder of our time in Afghanistan avoiding additional harm or compounding the problem further.

One idea suggested by the Tuft University study is to delink aid and development from security and stability objectives. According to Fishstein, some “humanitarian and development actors criticize both stabilization and counterinsurgency doctrines for leaving little room for the fundamental humanitarian principles of independence, impartiality, and neutrality.”<sup>64</sup> David Kilcullen encapsulates this challenge with the term, “opposed development,” where the party carrying out development is the same party that is engaged in conflict.<sup>65</sup> There are already a number of countries, including Norway and Switzerland, who do not link aid money to stability and security requirements. The military would not be able to use aid promises to buy intelligence, but this could also help alleviate some of the unintended consequences currently associated with aid. Delinking aid and development from security and stability could also bring our CERP guidelines into alignment by forcing commanders to consider economic outcomes for every expenditure and not just security and stability aims. This seems reasonable but we have to approach these types of recommendations with caution. CERP for COIN effect is a tool and the military should not arbitrarily abandon these uses of CERP, as “wicked problems” require many different tools.

What is necessary is a better understanding of how to evaluate our use of CERP with an eye on what we already know about economics and human nature. What we can take away:

(1) Given the corruption inherent in the Afghan government and private sector, it is critical that CERP projects are undertaken with broad community support, are short-term, labor intensive, with minimal scope and scale. These project characteristics are best able to prevent wealth concentration, fraud, abuse, and wealth transfers caused by the non-neutral impacts of inflation.

(2) Positive-sum projects are inherently better than zero-sum projects and whenever possible we should consider methods of bringing in entrepreneurs and outside capital to address economic issues. Positive-

sum projects have the added benefit of receiving real time market signals to guide in their implementation and to help put them on a sustainable path.

(3) We need to consider discarding the phrase, “money as a weapon system.” Commanders inherently see money as a way to achieve a desired security endstate and often disregard the economic impact of their spending decisions. The phrase contributes to the illusion of a COIN versus an economic effect, when in reality the relationship is not mutually exclusive.

(4) CERP data are limited and plagued with inconsistencies and incompleteness. Drawing conclusions about what works and what does not work can be daunting. Without studies available to back up different uses of CERP we are better off doing our best to minimize the 2<sup>nd</sup> and 3<sup>rd</sup> order effects of our economic interventions. We can cause a lot of harm by using CERP irresponsibly and in many cases may be better off doing nothing, abiding by the maxim used by doctors, “first, do no harm.”

(5) Finally, we have to be aware of a larger implication that a false economy constructed with aid money can have on the long-term strategic endstate. If we want Afghanistan to embrace capitalism and free trade then we have to stop promoting a poor copy of capitalism that is fueled by corruption and power instead of utility and merit. Afghans may be convinced that capitalism is fundamentally bad as elites become wealthy from the distribution of zero-sum aid spending. Reconciling the implementation of capitalism and free markets with aid spending is at least as important as short-term stability goals if we ever want to achieve our strategic endstate. We would be short sighted if we sacrificed the strategic endstate for temporary security gains.

No study can claim to have all the answers to a “wicked problem,” when in reality there are no clear answers. The most helpful tactic to these problems is to develop a holistic approach to understanding the system of systems, how energy released into the system will behave, and accounting for second and third order effects, intended and unintended consequences, and remaining people centric in our analysis. We cannot judge our solutions as merely right or wrong, but rather as better or worse. Do we sacrifice long-term sustainability and ask the global community to remain donors to Afghanistan to meet these sustainment capacity shortfalls? Do we sacrifice large-scale projects and infrastructure improvements to ensure we minimize corruption? Do we focus on education at the expense of jobs, or equal rights at the expense of cultural sensitivity? The tradeoffs are innumerable and the outcomes incalculable to the degree of certainty desired for detailed planning. Given these limitations, U.S. policy in nation building endeavors should remain conservative. When we do enter into these endeavors, like in Afghanistan, we must account for our actions locally and in the short-term as well as more broadly and in the long-term. We must remember that the bad economist focuses on what can be seen, while the good economist accounts for both the seen and unseen.

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## Notes

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- <sup>1</sup> Clausewitz, Carl von, *On War*, ed. Michael Howard and Peter Paret, Trans. Michael Howard and Peter Paret (Princeton, NJ: Princeton University Press, 1984), 89
- <sup>2</sup> Clausewitz, *On War*, 149.
- <sup>3</sup> Clausewitz, *On War*, 149.
- <sup>4</sup> United States Forces Afghanistan, *Money as a Weapon System Afghanistan (MAAWS-A)*, USFOR-A Pub 1-06, Kabul, Afghanistan: Headquarters USFOR-A, March, 2012, 5.
- <sup>5</sup> United States Forces Afghanistan, *Money as a Weapon System*, 132-133.
- <sup>6</sup> Anthony H. Cordesman, "Failing Transition: The New 1230 Report on Progress toward Security and Stability in Afghanistan," Center for Strategic and International Studies, August 2013, 48.
- <sup>7</sup> Cordesman, 49.
- <sup>8</sup> Curt Tarnoff, "Afghanistan: U.S. Foreign Assistance," CRS Report for Congress R40699 (Washington, DC: Congressional Research Service, June 25, 2010), 2, <http://www.crs.gov>
- <sup>9</sup> Horst W. J. Rittel and Melvin M. Webber, "Dilemmas in a General Theory of Planning," *Policy Sciences* 4, (1973): 159.
- <sup>10</sup> Center for Army Lessons Learned Handbook 10-41, "Assessments and Measures of Effectiveness in Stability Operations Handbook," May 2010, Appendix A.
- <sup>11</sup> Beth Cole, "Guiding Principles for Stabilization and Reconstruction," United States Institute of Peace, 2009, 17. <http://www.usip.org/publications/guiding-principles-stabilization-and-reconstruction>
- <sup>12</sup> Rittel, "Dilemmas in a General Theory of Planning," 155.
- <sup>13</sup> Rittel, "Dilemmas in a General Theory of Planning," 160.
- <sup>14</sup> Rittel, "Dilemmas in a General Theory of Planning," 155.
- <sup>15</sup> Rittel, "Dilemmas in a General Theory of Planning," 155.
- <sup>16</sup> Rittel, "Dilemmas in a General Theory of Planning," 161-166.
- <sup>17</sup> Headquarters U.S. Marine Corps, *Assessing*, MSTP 6-9 (Washington, DC: U.S. Marine Corps, October 2007), 7.
- <sup>18</sup> Kathryn H. Burnet, "Commander's Emergency Response Program in Laghman Province Provided some Benefits, but Oversight Weakness and Sustainment Concerns led to Questionable outcomes and Potential Waste," SIGAR Audit 11-7, January 2001, 5.
- <sup>19</sup> Burnet, 1.
- <sup>20</sup> Paul Fishstein and Andrew Wilder, "Winning Hearts and Minds? Examining the Relationship between Aid and Security in Afghanistan," (Tufts University: Feinstein International Center, January 2012), 2.
- <sup>21</sup> Fishstein, 2.
- <sup>22</sup> Fishstein, 29.
- <sup>23</sup> Tarnoff, 2.
- <sup>24</sup> Fishstein, 30.
- <sup>25</sup> Henry Hazlitt, *Economics in One Lesson*. (New York: Three Rivers Press, 1979), 17.
- <sup>26</sup> Wilton Park Conference, "Winning Hearts and Minds in Afghanistan: Assessing the Effectiveness of Development Aid in COIN Operations," WP 1022, March 2010, 2-3. <http://www.eisf.eu/resources/library/1004WPCReport.pdf>
- <sup>27</sup> Hazlitt, 167-168.
- <sup>28</sup> "Afghanistan," The World Bank, last modified January 2014, <http://www.worldbank.org/en/country/afghanistan>
- <sup>29</sup> "Afghanistan," The World Bank, last modified January 2014, <http://www.worldbank.org/en/country/afghanistan>
- <sup>30</sup> Ludwig Von Mises, *The Theory of Money and Credit*, (Indianapolis: Libertyclassics, 1980), 262.
- <sup>31</sup> Fishstein, 58.
- <sup>32</sup> Gregory Johnson, Vijaya Ramachandran, and Julie Walz, "CERP in Afghanistan: Refining Military Capability in Development Activities," *Prism* 3, no. 2 (2012): 87-93.
- <sup>33</sup> Fishstein, 31-37.
- <sup>34</sup> Hazlitt, 16.
- <sup>35</sup> Johnson, Ramachandran, and Walz, 86.
- <sup>36</sup> Hazlitt, 23-24.
- <sup>37</sup> Wim Naude, "Entrepreneurship and Economic Development: Theory, Evidence and Policy," IZA Discussion Paper No. 7507, (July 2013), 3.
- <sup>38</sup> Naude, 3.
- <sup>39</sup> Fishstein, 29-30.

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- <sup>40</sup> Fishstein, 33.
- <sup>41</sup> In 2010 a police checkpoint in Shajoy District, Zabul Province was observed on a RAID camera from FOB Bullard accepting bribes from trucks and buses passing through. These vehicles avoided police searches while the local police pocketed the money.
- <sup>42</sup> United States Forces Afghanistan, *Money as a Weapon System*, 5-7.
- <sup>43</sup> United States Forces Afghanistan, *Money as a Weapon System*, 113-114.
- <sup>44</sup> United States Forces Afghanistan, *Money as a Weapon System*, 116-118.
- <sup>45</sup> United States Forces Afghanistan, *Money as a Weapon System*, 117.
- <sup>46</sup> Fishstein, 52.
- <sup>47</sup> Michael Fischerkeller, "The Premature Debate on CERP Effectiveness," *Prism 2*, no. 4 (September, 2011): 145, <http://www.ndu.edu/press/lib/images/prism2-4/prism2-4.pdf>
- <sup>48</sup> United States Forces Afghanistan, *Money as a Weapon System*, 128.
- <sup>49</sup> United States Forces Afghanistan, *Money as a Weapon System*, 129.
- <sup>50</sup> Johnson, Ramachandran, and Walz, 94.
- <sup>51</sup> Tarnoff, 6.
- <sup>52</sup> Johnson, Ramachandran, and Walz, 92.
- <sup>53</sup> Cordesman, 50.
- <sup>54</sup> United States Forces Afghanistan, *Money as a Weapon System*, 116-117.
- <sup>55</sup> Ludwig Von Mises, *Human Action*, (New Haven: Yale University Press, 1949): 695.
- <sup>56</sup> Fishstein, 50.
- <sup>57</sup> Mises, *Human Action*, 696.
- <sup>58</sup> Mises, *Human Action*, 698.
- <sup>59</sup> Jan Biles, "Extreme Makeover: Home at a price," CJonline.com, November 18, 2008, [http://cjonline.com/stories/111808/kan\\_357239109.shtml](http://cjonline.com/stories/111808/kan_357239109.shtml)
- <sup>60</sup> Fishstein, 67.
- <sup>61</sup> Fishstein, 59.
- <sup>62</sup> Rittel, "Dilemmas in a General Theory of Planning," 163.
- <sup>63</sup> Emile Phaneuf, "Sowell's Visions: Two Conflicting ideas about man underlie our beliefs about economics and politics," *FEE.org*, December 5, 2013, [http://www.fee.org/the\\_freeman/detail/sowells-visions#axzz2qr2iZJyi](http://www.fee.org/the_freeman/detail/sowells-visions#axzz2qr2iZJyi)
- <sup>64</sup> Fishstein, 18.
- <sup>65</sup> Johnson, Ramachandran, and Walz, 84-85.

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