

INTERVIEW: DR. SHAH MEHRABI

U.S. Policy Is ‘Suffocating the Afghan People’

The following is an edited transcription of an interview with Dr. Shah Mohammad Mehrabi conducted December 15, 2021 by EIR’s Gerald Belsky and Michael Billington. Since 2002, Dr. Mehrabi has been a member of the Board of Governors of the Da Afghanistan Bank, the Afghan central bank. Since 1992 he has been a professor in the Business and Economics Department at Montgomery College in Maryland and chairman of the department since 2003. A video of the interview is available [here](#).

[UPDATE, 12/22/2021 — The Letter to President Biden referenced by Dr. Mehrabi below, calling for the release of the Afghanistan funds being held by the Federal Reserve, has subsequently been released with the signatures of 46 members of the House of Representatives. It can be [read here](#).]

Gerald Belsky: Dr. Mehrabi, could you tell us something about your background and your relationship to the current Taliban government?

Dr. Mehrabi: Thank you, Gerry, and I want to thank also the Schiller Institute for all their efforts to be able to make a difference in releasing the Afghan reserves, and to be able to get a positive result in eradicating the poverty that has ensued and will continue unless concrete measures are taken by the United States and European countries who at this stage, hold the Afghanistan Foreign Reserves overall.

Now, I’m an economist, and as an economist I have spent close to 20 years on what is called the Supreme Council, the governing board of the Central Bank of Afghanistan. I also served on the fiscal side as a senior economic advisor for two Ministers of Finance, and



Da Afghanistan Bank

Dr. Shah Mohammad Mehrabi

worked on generating revenue, and also dealt with government spending when I was at the Ministry of Finance. While in the Ministry of Finance, I continued my role as a member of the Supreme Council of the Central Bank, which is again a board very similar to that of the Board of Governors of the Federal Reserve Bank of the United States. It consists of seven board members, and I am also chairman of the Audit Committee of the Central Bank of Afghanistan.

I have been extremely active in trying to bring reform, as we did when I went back, when I was first invited to Afghanistan, and tried to reform the financial institution, and more specifically, to at least make certain that we have a functioning and effective Central Bank. Prior to 2003 and 2004, the Central Bank had a dual function. It was both a commercial bank and also a government bank. The commercial bank function was given to the newly created commercial banks, and the Central Bank of Afghanistan, as an independent entity, was re-structured and started its function in early 2000, 2003, 2004 and 2005.

Effects of Freezing Foreign Exchange Reserves

Billington: The main subject that you have been dealing with, as have we, is that the U.S. Federal Reserve and several European banks have \$9.5 billion in reserves which belong to the Afghan Central Bank. This money does not belong to the banks that are holding it, but it’s being frozen for political reasons and disagreements with the new government in Kabul, which makes it essentially a form of illegal economic warfare. Could you describe the impact of this on the people of Afghanistan and what actions you have taken to attempt to free these funds?

Dr. Mehrabi: Here is an important point about freezing Afghan foreign exchange reserves. It has contributed to economic instability which I predicted back in September. I predicted a number of things would occur, and they have all come into being, because now there is data to substantiate what I had already predicted in September. At that time, I predicted the currency would depreciate—it has depreciated by more than 14% since August. I also predicted that food prices would increase to double digits—and double digit has occurred. The price of wheat has gone up by more than 20%, flour has gone up by over 30%, cooking oil has gone up by 60%, and gasoline has gone up by 74%.

In the banking sector, I also said at that time that it needs liquidity, and to bring liquidity, it is very important that the reserves must be released, I said, to stabilize prices and to prevent a further collapse of the afghani, which is the national currency.

The 14% currency depreciation hits mostly consumer purchasing power. It puts people in a position where they cannot buy the basic necessities of life. Also, the asset prices of all these goods have gone up.

Also, I said that imports would decline, and that has occurred. There was a reduction in demand for these imported goods, and consumption has declined significantly because people have no access to their own money in the bank. On the top of that, they don't have jobs. Many lost their jobs; they did not earn any income and then higher prices further suppressed the demand for buying goods and services.

So that's what you see: hunger and starvation has come into being.

I also said that trade clearly is not taking place. As a matter of fact, imports from Pakistan were 46% lower than during the same period last year. Exports are very meager—dried fruit, carpets, and so on. That has remained somewhat stable but has not been generating adequate foreign exchange reserves. Wages have declined.

Getting back to the impact of this freezing of

Afghanistan's reserves, we already see that has created immense poverty.

What I propose is that we should allow the Central Bank of Afghanistan a limited, monitored, and conditional access to their own reserve. This is Afghanistan's reserve, it does not belong to anybody else, but to Afghan people. They should be allowed to have access to their reserve, and this foreign exchange reserve should be used for the purpose of auctioning. Why? Because auctioning is designed to prevent the depreciation of the afghani against the dollar and other foreign currencies, and also to increase the purchasing power of afghanis and prevent it further from declining day in and day out. The Central Bank of Afghanistan will not be able to maintain domestic price stability without auctioning.



WFP

The disintegrating Afghan economy is making it increasingly difficult for people to eat. Here, food is distributed by the UN's World Food Program in Herat, western Afghanistan, August 2021.

Price stability will not come into being unless these reserves are released. One of the main functions of the Central Bank of Afghanistan is to maintain price stability, and that they cannot do. What I suggested at that time and still suggest, is that access [be given] to \$150 million—now I'm saying \$200 million, because Afghanistan's reserves have dwindled significantly—per month out of the \$7.1 billion [held in the U.S. Federal Reserve], which is roughly half of the reserve that is required monthly to stabilize the economy. I also said that the United States will be able to verify that these funds are used exclusively for the purpose of stabilizing the currency.

The auctions are conducted electronically and the

transactions between the Central Bank and commercial banks are automatically recorded. But in addition to this, I suggested that the use of funds could be audited by an international auditing firm that is currently operating in Afghanistan. If there's any misappropriation, then they could cut off the funds.

An important point here is that we want to be able to try to use the funds to prop up the value of the afghani, to allow people to buy essential goods and services. People are calling me constantly who say they cannot afford to buy bread, which is the main staple for everyone. My own brother is dean at the university. He's being paid, but even he cannot afford to function without our help through remittances—he is not able to purchase the basic necessities. There are many other Afghans who are constantly talking about the fact that they cannot buy ordinary goods. So, we need to be able to help meet the needs of ordinary Afghans, because, again, higher prices of food. And that can be handled without any difficulty by allowing this reserve to be released. The important point is that we know, based on empirical evidence, what we have done in the past with regard to the release of the funds.

Every time that we wanted to engage in an auction, we were able to stabilize the currency and move to price stability. As a matter of fact, the record of the Central Bank is very clear. The Central Bank was able to maintain a single-digit increase in prices for most of the two [past] decades. Further, look at empirical evidence: the Taliban just about three weeks ago auctioned off \$2.5 million out of the \$10 million they had proposed to auction, and that auctioning off during the same day resulted in the appreciation of the currency. The value of the afghani went up and then it stayed there for two days. But \$2.5 million is not adequate.

The Central Bank has to intervene continuously to be able to maintain this price stability. If they don't do

it, you've got the crisis that you see right now. Higher prices, people are going to be starved to death, and then, famine is going to come as a result of drought as well. People are going to move out of Afghanistan, and there will be banging on the European doors trying to be admitted.

Proposed Modification of the Sanctions Policy

Belsky: You have called for the release of \$150 million a month from the frozen reserves, to engage in dollar auctions to stabilize the value of the currency. We think that would allow these western countries to justify their continued holding of Afghan funds, which they have no legal nor moral right to do. Wouldn't you agree that they must release all the funds as a matter of principle and moral obligation?



WFP/Marco Di Lauro

Providing humanitarian aid while choking off the economy doesn't make sense. Unable to buy food and necessities, women and children are the most vulnerable and suffer the most. Here, a woman receives food rations at the World Food Program distribution site in Herat.

Dr. Mehrabi: I have said that the United States Treasury needs to clarify and modify their sanctions law. Whether the U.S. Treasury can legally withhold another country's reserve is not clear in my mind. So that needs to be clarified. They have shown some degree of flexibility in the area of humanitarian aid, but it has to be broader than humanitarian exemptions.

There are concerns from the Treasury Department about terrorism financing, and others have raised the issue regarding the competency of government and its leaders. I think all of those issues can be discussed.

We have a lot of models that the United States has used in the past. Iran was allowed a release of funds to be used for the purpose of trade. The U.S. Office of Foreign Asset Control will have to allow some degree of flexibility, to be able to make certain that exceptions are made, not only for humanitarian related issues, but also for allowing the Central Bank to get access to their reserves. I think you cannot punish Afghans.

We talk about the issue of women and so on—women and children are the first people suffering from

this. They are not able to buy goods and services. On the one hand, if we argue, that we want to provide humanitarian aid, but we are going to choke off the economy as well—those are two opposite arguments. The arguments do not really make sense. On the one hand, you say, I want to help with humanitarian aid, but I'm going to choke off the economy so that the ordinary Afghans will not be able to have access to food and basic necessities.

Humanitarian Aid Is Good, but Not a Solution

Belsky: You've answered my next question implicitly, but I'm going to ask it anyway. The World Bank, as you know, is now planning to restore about \$230 million in aid. But even this small amount, they're saying, has to go through UNICEF and the World Health Organization instead of going through the Afghan banking system. What is your view of this?

Dr. Mehrabi: I don't know where UNICEF is going to use it, for what purposes. I said that before. Or WHO, and even the World Food Program. If they are for the purpose of purchasing grains and other basic necessities, that is good. But humanitarian aid is not a solution to rekindling the activities of the economy. Humanitarian aid, as I have said all along, while it is necessary, it's a stop gap measure, it's not a complete measure to get the economy overall to move to a point where they could get an increase in aggregate demand, which is very essential if the economy is going to function and generate enough revenue for daily economic activity.

Billington: One of the sanctions, or some of the sanctions, have, as I understand it, denied Afghanistan access to the SWIFT money transaction system. What is the impact of this on the country?

Dr. Mehrabi: This is what commercial banks have been complaining about. The commercial banks had a window where they could engage with corresponding banks. And that has been stopped. That has been blocked by Treasury. The Treasury Department would not allow it. And the correspondent banks are hesitant and reluctant to engage in any activity, unless they get a clearance from Treasury.

Unless the Treasury relaxes, to ensure some degree of flexibility, allow some exemptions from sanctions, and allow this SWIFT entity to allow the transactions to take place, we're again going back to the same situation. Liquidity is not going to be there. We're going to be choking off the economy overall.

Do Not Bypass the Central Bank!

Belsky: Dr. Mehrabi, there's been a recognition by many individuals and organizations of the point you're making, that humanitarian aid will not work if there's no banking system. However, one individual has floated a proposal. In 2019 Alex Yerden, the former financial attaché for the Treasury Department in Kabul, put forward a proposal that may be being discussed behind the scenes.

His proposal is to bypass the Central Bank in order to avoid giving money to the current government, and to set up a private central bank, or to use a commercial bank like the Afghanistan International Bank or some other bank, to which some of these funds can be channeled which are being illegally held. The proposal is to set up a private bank that would carry out some of the functions you've described, such as the auctioning of money to prop up the currency. What is your view of this idea of setting up a private central bank to bypass the current Central Bank?

Dr. Mehrabi: We have invested about 20 years in modernizing, in establishing a Central Bank that is able to administratively, based on the law, perform all the functions that a central bank is to perform. That includes supervision of the Central Bank, issuing of banknotes, being able to be the lender of last resort, and to provide liquidity to the commercial banks. Those functions cannot be taken over by a commercial bank. A commercial bank is there to be able to earn profit, while a central bank's main function is not profitability. Also, a commercial bank cannot be relegated with the responsibility of a central bank. A central bank has personnel that are well trained, who have the education and experience that they could perform all their particular duties based on the law. That is still not revised, it still is in practice.

To allow another entity, or a parallel institution, to a great extent is going to result in a situation where it will



Emblem of Afghanistan's Central Bank



UN/Eskinder Debebe

Deborah Lyons, UN Special Representative for Afghanistan: "The dire humanitarian situation in the country is preventable, as it is largely due to financial sanctions that have paralyzed the economy."

create a lot of confusion, and in one way or another, it will result in the credibility in the Central Bank being eroded in the mind of the public at large.

The issuing of currency is the domain of the Central Bank. A commercial bank does not have the authority, legally or otherwise, to be able to engage in issuing currency or injecting liquidity, or afghani, into the system. It cannot issue currency as a medium of exchange. The currency issued by the Central Bank, however, is accepted because the people trust that particular currency to use as a medium of exchange or store of value and use it as a unit of account

Remember here, it's not only U.S. dollars, it is also Afghanistan's currency that is an important element in bringing about liquidity into the economy. So, establishing a parallel institution, if it's designed for dismantling the Central Bank, as some of these people have advocated, is not a move that will rescue the poor people, ordinary Afghans, from the misery that, out of no fault of their own, they are experiencing.

The Prospect of a Banking Collapse

Billington: The UN has addressed the crisis in the banking system. The U.N. Special Representative for Afghanistan, Deborah Lyons, gave a report to the UN Security Council Nov. 17, saying: "The dire humanitarian situation in the country is preventable as it is largely due to financial sanctions that have paralyzed the economy." Also, in November, the UN Development Program said that "the commercial banking system is critical to continue even the humanitarian and other

basic programs that are supported by the UN and some of the NGOs and other partners. So, the economic cost of a banking system collapse, with the concomitant negative social consequences, would be colossal." That's what the UN Development Program said. Has the UN taken any significant steps to stop this disaster, which they are describing?

Dr. Mehrabi: That's a good question. Let's look at what we know. I want to mention also that UNAMA, the United Nations Assistance Mission in Afghanistan, was able to bring in \$16 million in cash, as a part of the humanitarian aid for Afghanistan. So, they have taken that measure.

Even UNAMA, however, does not have a very good record in the mind of many Afghans—their record of performance in the past, as far as efficiency, credibility and accountability is concerned. But anyway, \$16 million has been brought in twice. So, there's been about \$32 million in cash, almost all of it directed toward humanitarian aid to Afghanistan. It was not brought in through the Central Bank. While the UN clearly talks about the collapse of the system—and I think in talking about a financial sector and the constraints that the financial sector is faced with—they realize that the liquidity of both commercial banks and the Central Bank have been eroded.

But still they have not taken enough measures to be able to address the channeling of these funds to the Central Bank for the purpose of auctioning. So, you know, we say, talk the talk, but walk the walk. I think it is an issue that needs to be brought up on this UN position. But the statement by the UN Special Representative, they clearly realize that, and understand that a banking system collapse could come into being. But you have to take concrete measures to prevent the banking system from collapsing. And what do you do in this case? It is not going to happen by only addressing humanitarian aid. Firms and households will be unable to access bank deposits. To begin with, right now they are not able to get access to their bank deposits. The Central Bank has put strict limits on withdrawals because they don't have enough liquidity in the system.

So, when you look at these international transactions that were mentioned before, SWIFT and all that—that has been blocked to a great extent. Firms are unable to transfer funds overseas to pay for imports. Bottlenecks are created in every direction that you can think of. The outlook, obviously, is very bleak unless measures are

taken by the United States—in this case to release these particular funds and to allow them to be channeled to the Central Bank. At this stage, the depletion of international reserves has created a quagmire here. I would hope that the UN Special Representative would look clearly at what we have suggested in this case. Look at a very simple thing—economists usually look at the costs and benefits. What is the cost of a collapse of the banking system, and what are the benefits of making certain that it is rescued?

How much would we—that is, Europe and the United States—gain by making certain that the economy functions in a normal way by allowing them to have access to their reserve, and then also inject other liquidity in terms of cash to the people who were funded by ERDF [European Regional Development Fund]. ERDF has a lot of funds, and that could be used for the salaries of these people who are not being paid, so that when they have their salary, they could spend it in order to buy goods and services. That will help. The aggregate demand, or the total demand, would be activated and the economy will be able to use the multiplier effect to generate economic growth.

A Direct Appeal to President Biden

Belsky: Dr. Mehrabi, you have been meeting with members of the Congress to urge them to call on President Biden to release the Afghan assets. I know that a letter is being circulated. In fact, I received an email from the Maryland Peace Action Group, and I know peace action groups all over the United States are circulating an appeal to people to call on their congressmen to sign on to this letter. The letter is being circulated by representatives Pramila Jayapal, Sarah Jacobs and Jesús García, to urge President Biden to release the \$9.5 billion in frozen Afghan reserves. What can you say about your efforts in the Congress and with the news media to promote this policy?

Dr. Mehrabi: This letter is an effort we jointly wrote back, I think, in October, but then the Congress was very busy. Our meetings have continued with congressmen and senators. Through those meetings and efforts, we have been able to get a number of sponsors for this particular letter. So far, we have 23 people who have signed it. Initially, Jayapal, Jacobs, and García signed. But now we have other Congress members who have joined the bandwagon and have signed.

I had a meeting today with the staff of the Congress

and the Senate, where I made a presentation and pitched the notion of this letter, and got signatures by more people. We were hoping to get more signatures, and then present this two-page letter to President Biden.

We are highlighting what needs to be done and why it should be done, and how important it is to make certain that people in Afghanistan are not going to suffer from starvation, and to make certain that we do not have famine and universal poverty. This is in the national interest of the United States.

The argument has been made that the United States has lost a lot of sweat and financial resources in making certain that these institutions were established. And now we should not be dismantling this particular institution. The Afghans deserve to have access to their foreign reserves. They deserve to have a life that is lived in peace and prosperity, in a country that has suffered from 40 years of war. So, all those arguments are clearly spelled out in the letter to President Biden. It will be submitted to President Biden soon, most likely on Monday or Tuesday of next week.

Operation Ibn Sina

Billington: Helga Zepp-LaRouche, as you know, the founder of the international Schiller Institutes, stands very strongly against this policy of genocide that is being waged against Afghanistan by the U.S. and the allied NATO nations. What is needed beyond the immediate aid, she insists, is the launching of a modern health care system with all that that entails, meaning clean water, electricity, transportation as well as the medical facilities. Zepp-LaRouche has called this project for international cooperation Operation Ibn Sina, after the famous 11th century medical genius, poet, astronomer, and philosopher, who was in fact born in the region of today's Afghanistan and is much beloved across the entire Islamic world. What do you think about this effort, and what can you say about Ibn Sina?

Dr. Mehrabi: I thank you for the question again. Here it is that we are looking at the current Afghanistan, a collapse of a government that is coming into being, and Afghanistan is faced with economic and development challenges, and daunting economic and political challenges. Any effort to bring about development and to be able to bring economic growth is welcome.

I think the effort by Mrs. LaRouche in terms of making certain that the health issues [are met]—

Afghanistan has a very high mortality rate—is a move that will at least expand the life of many of those people who are suffering shortened lives because of the ailments that they suffer from, and because of not having access to health care. And also, obviously, access to clean water and electricity. Right now, Afghanistan cannot import a lot of electricity and cannot pay for it because of, again, the shortage of currency. I think these are all moves that we should all support, and we should all be able to at least in one form or another, be very appreciative of.

In the health area, Afghanistan is experiencing a third COVID-19 wave that started back in April. Infection rates have reached a very high level. Coupled with a drop in foreign aid, the government is not able to generate enough money to address the health issues. At the top of it is the World Bank, which was paying the employees of the health sector—they stopped the payments. All of this combined has really brought about a catastrophic situation for the economy of Afghanistan.

So, a move like this, brought about by Mrs. LaRouche, is a welcome move. And I think Ibn Sina obviously, as you mentioned clearly, is well known in that part of the region as well as in Afghanistan. [There is an] Ibn Sina Hospital right in the heart of Kabul that many patients visit. Modernizing that particular institution, with the help of Mrs. LaRouche and others would be highly valued and appreciated.

Large-Scale Infrastructure for Economic Development

Billington: The other major issue, which we at the Schiller Institute and *EIR* have promoted is large-scale infrastructure development, especially with the help of the Belt and Road Initiative. We've just learned that Pakistan has now begun constructing a rail connection from Quetta to Kandahar, and we know that starting last February, there was a plan approved between Pakistan, Afghanistan and Uzbekistan to develop a rail link from CPEC, the China-Pakistan Economic Corridor, from Islamabad through the Khyber Pass into Kabul and then on to Tashkent, as part of the Belt

and Road, which would give all of the Central Asian countries access to the Arabian Sea for the first time, and also transform Afghanistan.

What is your vision for Afghanistan's development, and do you think it's possible that these projects can continue without fixing the banking crisis first, getting cooperation from China and other neighboring countries?

Dr. Mehrabi: I think we should. Besides humanitarian aid, this Belt and Road Initiative from China could provide Afghanistan with long-term economic viability.



UNICEF/Omid Fazel

Humanitarian aid is good, but not a solution. Here, children in an Afghanistan refugee camp in 2020 have lost just about everything required for life.

I think that is an important point to keep in mind.

One possibility is obviously Afghanistan joining the China-Pakistan Economic Corridor, which is a central part of that Belt and Road Initiative. I think Beijing has pledged over \$60 billion for infrastructure in Pakistan. Initially, Afghanistan was not allowed to be a part of it, but now I think it has been invited. This initiative, the China-Pakistan Economic Corridor, is a good option for the development of Afghanistan.

It is also important to keep in mind that we talk about the Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline. TAPI could generate quite a bit of money for Afghanistan—transit fees I think have been projected at over \$400 million. This pipeline clearly is also an important work.

But we also have other areas for development purposes that have been addressed or talked about, but

have not been fully explored and materialized, such as minerals. When I was in Afghanistan in 2008 at the Ministry of Finance, a contract was signed with the Metallurgical Corporation of China to develop the Mes Aynak Copper Mine, but because of the security situation, it has not really been able to produce much. Then we had the Hajigak iron ore mine as an important one to explore.

We have oil basins that China is trying to explore as well. So, there are many other opportunities. Also, Afghanistan has a large reserve of lithium besides other minerals that could be generating quite a bit of foreign exchange reserve, if these were active.

Belsky: Are there any other thoughts you would like to convey?

Sanctions Only Hurt the Ordinary People

Mr. Mehrabi: Well, I am a firm believer, as I have said all along, that the reserve has to be released and we should be able to make certain that ordinary Afghans are not put in a position where they could be forced to not have adequate food.

As an economist, as an Afghan-American, I am deeply concerned about the fate of the 35 million people in Afghanistan who have known little more than war and suffering their whole life. And now for another country to suffocate those particular people—you know, the result will only be a new refugee crisis, a new refugee crisis of the kind that we saw in 2014 in Syria, or even worse. Afghans will flee on foot. They will carry their babies in one hand and whatever belongings they have in the other, and they will go to the west, to Iran, in hopes of making it into Turkey and then into Europe. I think it is a failure—not only shortsighted—for the United States, but also the final abandonment of the Afghan people.

I think it's very important that the United States, which negotiated the evacuation with the Taliban, which was negotiating how they could attack IS [Islamic State terrorists], could engage fully in those



Sanctions hit the ordinary people the hardest. At only 8 months, baby Danyal has been hospitalized with complications arising from severe malnutrition.

activities, but does not want to get fully engaged in releasing these particular funds.

You see these policies, the kind that are now in force. They never hurt the people who they are intended to. It will not hurt the current government. We know that, by the evidence in many other areas. It hurts the ordinary Afghans who deserve to have access to their particular money. They deserve to not have their life savings become worthless, worthless because inflation is going to eat them, the value of their money, in a

blink of an eye. They deserve to be able to feed their families. So again, that failure to provide access, as I said before, I think it's shortsighted.

Let's try to act in a way where indeed we help these people. The United States invested a lot of money. Try to avoid the spiral of price increases and food shortages and currency depreciation and bank closures. Let's try to avoid the complete collapse of the economy.

Billington: Well, thank you very, very much, Dr. Mehrabi. We appreciate it. We will do everything we can to get your message out with our effort and others who are joining with you and trying to prevent this atrocity, and to at least make up for the destruction that has been waged against your country over all these years.

Dr. Mehrabi: Thank you very much. Thank you, Gerry, and thank you, Mike, for all your help and efforts in this area. I'm very appreciative of your dedication to this area. I'm an optimist. It took a while to get this letter out, but we finally did it, with meetings almost twice, three times a week, or sometimes four times, for different groups. We have got to a level where at least we have 23 co-signers today. Hopefully, the number will increase. I would like to get this letter out before Christmas and before the congressmen disappear, rather than bringing it out in the new year. We'll try to do that. We will keep you apprised of what is going on, and we'll keep in touch. And thanks again very much.

Belsky: And thank you for your efforts, Dr. Mehrabi.