

# ***A Commentary on Transitional Iraq***

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## Executive Summary

*“History is a gallery of pictures in which there are few originals and many copies.”*

Alexis de Tocqueville

By trying to forcefully transplant Western institutions, blindly establishing economic prerogatives, and ignoring emerging socio-economic patterns, the current path towards a sovereign, democratic nation in Iraq is at a dead end. Indeed, America appears to be bound to repeat the mistakes of its Ottoman and British predecessors, leading to the reemergence of tyranny and domination through the social structure. Though some may see an inevitable fate to the situation in Iraq, a few alterations in current policy – primarily centered on economic growth – will facilitate the materialization of a stable nation.

Currently, economic policy stresses a neo-classical ideal of the efficiency of market forces to advance economic growth. However, this policy has failed to employ Iraqi's, raise the standard of living, or alleviate economic hardship. Instead, Iraqi contractors have been ignored, unemployment is at an estimated thirty percent, and privatization has been pursued without deliberation. What is truly needed is neo-Keynesian policy, using government revenue sharing of oil profits and enacting a New Deal for the Iraqi's carried out by Iraqi's that will build and maintain the infrastructure necessitated for private growth, employ vast amounts of people, and encourage investment. This will, most importantly, instill faith and legitimacy in the public for the benefits of a democratic government.

Compounding flaws in economic policy are misappropriations in foreign aid. Though over twenty billion will be given this year from the United States with additional loans from Japan, Australia, and Great Britain, the concentration of monetary aid has left Iraq at a disadvantage. Further, conditional loans from the World Bank and International Monetary Fund have left the Iraqi government trapped in guidelines that will not be beneficial in the long run. Perhaps

hesitant because of security concerns, the relatively small amount of economic advisors from Western nations have spent little time outside of Iraqi Ministry offices. Currently an undervalued and unrecognized asset of foreign aid, advisors were the backbone of successful implementation of the Marshall Plan in the rebuilding of Western Europe, a tool that could have the same success in Iraq. Increased and informed foreign expertise would prove to be more meaningful than money while guiding a sovereign Iraqi economic policy away from reliance on foreign aid.

Socio-economic forces drive history, and the United States constant inability to comprehend Iraqi social conditions only leaves America the prospect to succeed in the economic arena. By combating an acknowledged but ignored aspect of complete failure in current Iraqi administration, America can solve several other problems. Economic instability, from the wheat crisis during the *ancien régime* to the macroeconomic failures of Weimar Germany, has always provoked strong political instability. By embarking on an Iraqi 'New Deal', the government can increase the standard of living thus decreasing opposition that may arise out of pure human need, as evidence supports that much of passive insurgent aid resides from. Additionally, the achievement of such a project will isolate those disenchanting politically and give counter-insurgency a better base of support (and perhaps intelligence and collaboration as well). Political and institutional success is contingent in this circumstance to rebuilding the Iraqi economy.

We have commenced in an insurgent war that looks to destabilize Iraq. As Sean Edwards spoke, insurgent warfare is a battle of wills where only ten to thirty percent of the effort is militarily. The rest of the thrust is primarily cultural and economic in the quest for the minds of the people. Though it appears we will lose much of the battle culturally and socially, we can still win the war by addressing what matters most: the Iraqi checkbook.

## Interconnectedness

*“The day is not far off when the economic problem will take the back seat where it belongs, and the arena of the heart and the head will be occupied or reoccupied, by our real problems - the problems of life and of human relations, of creation and behavior and religion.”*

John Maynard Keynes

Under a misleading media, Americans tend to believe that an invisible line divides the world, separating the West from Islamic nations. In reality, Middle Eastern societies are divided up by the same principles and conditions that the West has experienced. But economic windfalls, such as the fall in per capita income from 874.2 in 1982 to under 400 currently have made for strange bedfellows as much as the occupation has eroded former divisions (Sluglett 232). Springing out of Paul Bremer’s decision to disband the 400,000 strong Republican Army, former Ba’athists are collaborating with the very religious fundamentalists and insurgent forces they once brutally suppressed. As Eric Davis describes, “suddenly unemployed, and in an inflation plagued economy, many former troops provided weapons to the insurgents or participated in attacks on US forces in return for money, which they often needed to feed their families” (2). Economic instability has unfortunately pushed many into the arms of extremist camps.

Though it would be irresponsible to simply suggest that cultural, political, and religious values do not provide the elementary support for most insurgent groups, the amount of support could be drastically reduced by economic growth. It is estimated that there are over 10,000 insurgents, plus 400,000 passive supporters. These supporters provide what is really crucial to violent insurgents: the ability to blend in the background, economic support, and a basis of legitimacy for their actions. By providing economic stability, one would expect these numbers to dwindle for passive support, and continued attacks by insurgents on

economic targets would turn national opinion against such support for debilitating Iraqi economic self-sufficiency.

Col. Mathieu stated in *Battle of Algiers*, “In reality, it's only a small minority that dominates with terror and violence.” This minority is our adversary and we must isolate and destroy it.” In Iraq, the insurgency dominates with common attitudes towards American occupation as well with terror and violence. As stated before, the United States ability to partake in a cultural campaign is negligible, as it has already irrevocably hindered its image in the prison and torture scandal. Economic stability, however, is a feasible goal that will induce Iraqi support for the government, reduce the beliefs of economic self-interest and ‘blood for oil’ that dominate much anti-American sentiment, and ultimately against the insurgent activity. As Khajaf stated, much relies on a reconstituted armed forces and law enforcement apparatus to enforce a legitimate state. Much of this authority may be achieved through such economic activities with renewed respect for the forces that act on the states behalf. Simply, “Successful counter-insurgency requires popular support” (Hoffman 5). Popular support for the government will naturally turn opinion against the insurgents and for counter-insurgent measures, severing the head of passive support that is not stemming from absolute zealotry. This will leave the remaining hardcore insurgents isolated from the rest of the population.

In its greatest feat, the insurgency movement of the few has suppressed political activism of the many in the natural progression of democracy. Further, the daily attacks have led many in America to believe democracy is unattainable. Though image improvement and understanding of the typical Iraqi will enrich relations, America’s ability to improve the Iraqi economy behind the scenes is the greatest hope to end the insurgency against occupation.

Eric Davis notes America missed an initial opportunity to provide adequate income and a source of hope that would have also ‘undermined support for those seeking to subvert democratization’, but this opportunity has not completed eluded America (3). In this, the debilitation of the insurgency movement supplies the greatest opportunity for political institutions to effectively emerge. Though it is overly idealistic to assume freedom and liberty will flourish when the reign of anarchy and fear are cast aside, the building blocks for democracy will be more easily put into place. “Democratic theory holds that independent and self-sustaining middle classes create the basis for democratic civil life”, which a Keynesian economic policy will help create (Dawisha 5). With a middle class, an environment not restricted by terror, and a strong economic foundation, America will have provided the best opportunity for a legitimate Iraq democracy to survive. In the end, it is our prerogative to put the task of democracy under Iraqi control under the best possible conditions.

## Economic Strategies

*“The manner in which the benefits and burdens are apportioned by the market mechanism would in many instances have to be regarded as very unjust...”*

- Friedrich Hayek

Under the auspices of American encouragement, the CPA has pursued a policy of market liberalization, almost non-existent tax and tariff rates, and privatization. Economic policy, in an administration that is dominated by short-term considerations, is oddly long-term oriented. Though these are wonderful practices for developed countries, they neglect to focus on overarching short-term issues including infrastructure and employment problems that scar the idealism of American involvement and legitimacy of Iraqi sovereignty.

“Establishing a functioning market economy in Iraq is a cornerstone of the Bush administrations goals of bringing lasting prosperity to Iraq” (Crocker 73). But is a market economy truly in Iraq’s self-interest? A few sentences later, Crocker inadvertently evaluates the sincerity of administrations goals by stating, “the United States hopes that a free market Iraq will be a bonanza for US companies” (73). The self-proclaimed market therapy that were enacted in the former Soviet Union (and pursued in Iraq) led to a ‘privatization’ of public companies and assets into the hands of the few (and most likely in Iraq’s case, former Ba’athists and other opportunists). Order 39 permits hundred percent foreign investment and ownership in Iraqi business entities, worrying outside observers that the ‘instant discarding’ of Iraqi’s commercial sector will create ‘serious distortions in Iraq’s economy’ (Crocker 77). If such a course occurs in Iraq, it truly will be the revenge of social structure.

This will compound problems naturally associated from economy’s reliant on oil such as Iraq. Evaluated by Birsdall and Subramanian, oil has a pocked legacy in developing countries as only one nation, Norway, has an abundance of oil and a thriving democracy (and that was in place

before oil was discovered) (Judis 2). Oil is a resource with a large rent: a high reward in excess of effort (2). In the development of states with concentrations of valuable resources, they miss the ‘privations of what Marx called the primitive accumulation of wealth’ (Judis 3). This lends itself to power consolidation and the corruption of political institutions, as it is ‘easy to appropriate – either by the state or by the few who control the resources’ extraction” (2). The domination of the oil industry can also lead to the ‘Dutch Disease’, where the crowding out of the market of other economic activities, inhibiting growth and diversity (2). In this manner, oil wealth naturally undermines the type of institutions America is trying to install.

Further, there has been little genuine Iraqi involvement in the economic decision making process. The American economic advisors, attached to every ministry in the CPA, have veto-power and are the primary decision makers. Under this guise, the CPA pursued its economic program with ‘minimal Iraqi input’, making Crocker question whether a representative government will continue to follow the CPA’s goals and policies (Crocker 74). A simple fact that drew my attention explains this situation: of over 20 billion dollars given in foreign aid, only 150 million has been autonomously used by the CPA with only 15,000 jobs created (Crocker 87). As an Iraqi construction manager complains “US contractors are importing labor and expatriating the benefits—where is the benefit for Iraq?” (Medani 29). Rather than attain the altruism Fukuyama insists is necessary to gain inhabitants faith, Crocker illuminates that US policy has been directed at paying for profits, security, and insurance for US companies rather than job creation in Iraq (Crocker 89). Nothing belies this point more than the hiring of foreign workers over unemployed Iraqi’s by American companies, alienating businessmen and laborers alike.

The precarious Iraqi economic situation calls for a drastic plan inspired by America’s own history of battling economic depression. While the CPA did succeed in rebuilding some of Iraq’s



infrastructure like potable water and electricity, “much of the funds designated for rebuilding Iraq would have been better directed towards a comprehensive New Deal-type public works and education program that would have provided Iraqi’s with immediate employment” (Davis 3). Vast unemployment is the most pressing economic issue that’s persistence will lead to increased political instability. The government must make up for short-term solutions that cannot be created in a newly formed free market if inefficiencies are to be remedied. This Iraqi New Deal will have other implications as well; most notably the creation of a stable infrastructure that will encourage private sector growth, education, and give Iraqi’s input into how US money is spent (Crocker 89).

A corrective measure suggested by Birdsall on the redistribution of oil revenue would have provocative effects on the Iraqi economy. Apart from resolving foreign debt and aiding investment for public works projects, oil revenue distribution would be an excellent way for individuals to increase their purchasing power or savings. An increase in savings, a noteworthy problem in a cash-driven society like Iraq, will promote investment and the diversification of assets out of oil. Birdsall also acknowledges the problems that may arise from distribution, namely the inefficiency from retaxing of assets given out by the government. This can be solved by encouraging a consumption tax based on sales that would induce saving.

Through a program of wealth redistribution in oil revenues, the revitalization of the Iraqi economy with a large government program, and preventive steps to stop the forming of monopolies and tycoons will the long-term goals of free market enterprise be reachable. Encouraging economic growth will underpin the basis for a self-sustaining democracy, ultimately creating a strong middle-class, and reducing the antagonisms felt towards the occupation.

## Foreign Aid

*“The trade of the petty usurer is hated with most reason: it makes a profit from currency itself, instead of making it from the process which currency was meant to serve. Their common characteristic is obviously their sordid avarice.”*

Aristotle

Foreign aid, perhaps rosily viewed as a beneficial device, has actually hindered the growth of the Iraqi economy and thus the Iraqi state. Currently floating approximately 120 billion dollars in debt, with expectations of it reaching around 400 billion dollars, Iraq faces an international debt crisis before it is even off the ground (Crocker 82). More perturbing is the fact that foreign aid in many ways has just gone back to US contractors instead of the Iraqi people. Though foreign aid has succeeded in reestablishing Iraq’s vital infrastructure, it was through American companies rather than Iraqi effort. Suffering from image problems related to the blood for oil view, the United States would aid Iraq and its international reputation by reevaluating its foreign aid procedures.

A primary concern will be that international debt will suffocate Iraqi revenue, deterring internal development and hindering the providing of service. Debt repayment will be a crucial element of how the Iraqi government will function in the future. “Without a radical reduction, debt servicing will tie up Iraq’s oil revenues”, causing much cash flow out of the government hands and back into international debtors who may not reinvest in Iraq (Crocker 82). A more honest plan (but would put Iraq at the mercy of the West’s good graces), will be to seek debt forgiveness, including the 20 billion that is still desired in reparations for the Persian Gulf War. Much can be learned from the lessons of Weimar Germany, where international reparations precipitated internal collapse and the rise of National Socialism.

However, the West will be more inclined to forgive Iraq's debt in light of current situations with Iran and the necessity for regional stability than from learning from past mistakes.

Frustrating for Iraqi's and reflective of the current administrations relation to business is the practice of distribution (or mismanagement) of foreign aid in Iraq. In a well-articulated line, Medani states, "in direct contrast to neo-liberal nostrums about the virtues of market competition, Iraqi reconstruction has been a decidedly political and non-competitive affair" (31). Almost all large contracts, including those involving Iraq water and oil where Iraqi businessmen have firsthand experience, have gone to US-based corporations (Medani 31). Increasingly, money has been diverted away from reconstruction, particularly for security, limiting reconstruction projects (Crocker 82). More disturbing is widespread allegations of corruption in the post-Saddam era in the form of kickbacks and unfair contracts that may be consuming up to twenty percent of funds (Crocker 83). History has repeated itself in this sector, from the Anglo-Ottoman agreements of the 19<sup>th</sup> century to the current policy in Afghanistan. In America's largely ignored secondary nation-building country, Afghanistan, aid has failed to go above 75 dollars per person and been widely 'insufficient' (Gannon 5). Similar scenarios are being lived out in Iraq, where only 1 billion of the 18.4 billion appropriated by Congress has been released for use (Hoffman 4). Agreements with the WTO and IMF have also promised foreign aid – on the stipulation that Iraqi markets remain free. A corrective adjustment to move foreign aid into sovereign Iraqi control will bolster public confidence in his or her own government and actually allow Iraqi involvement in its reconstruction process.

Foreign aid does not have to be strictly limited to the financial arena as well. French and German businessmen following World War II studied on industrial tours in America,

learning about normalized labor-management relations, assembly-line production, and mechanization. Though estimates are around 1500 for economic advisors in Iraq, they are attached to primarily to government functions then on grassroots level organization. Their efforts are necessary in the inexperienced de-Ba'athized bureaucracy, but they would also be effective in addressing the private sector. The effort to augment foreign advisors would be invaluable to future business leaders who have lived under a restricted economy during Saddam's reign. Having a large urban population (75 percent) and the most educated citizenry in the Middle East will make such advisory exponentially more effective and accessible (Byman & Pollack 15). The move towards capitalism is far from intrinsic but very possible considering Iraqi conditions.

In itself, monetary financial aid is not a sufficient condition for economic recovery<sup>1</sup>. The continuation of bloated financial packages that exclusively award American companies has cast a 'deep shadow over the idealistic language of the administration' (Hoffman 2). Indeed, a primary component of foreign aid in Iraq has been just that: foreign. Absent of Iraqi employment or contractors, aid has not reached those it should intend to: the currently thirty percent unemployed. If the current administration is to right the course of the Iraq reconstruction, more Iraqi-centric policy combined with the importation and transfer of human capital (the economic term for human knowledge) will help dispel the image of a profit-motivated occupation. A reshaped agenda on foreign aid is the secondary core issue that will determine the economic future and thus the success of nation building in Iraq.

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<sup>1</sup> <http://www.cato.org/research/articles/vasquez-030509.html> "A Marshall Plan for Iraq?"