

Rebuilding the Iraqi Economy

by Andrew Brod
Greensboro News and Record, April 27, 2003

The war in Iraq is over already, and it was a hugely impressive showcase for just what the U.S. can do on the battlefield. But now comes the hard part: nation-building. George W. Bush ridiculed the concept during the 2000 campaign, and yet by undertaking this war, President Bush has committed us to nation-building on a grand scale.

As New York Times columnist Thomas Friedman has put it, America broke Iraq and now we own it. We can either leave it broken or try to fix it. The Bush administration has said that it wants to create the kind of Arab state that will be a model for others in the region, with liberal institutions and democratic government. The last thing we want is for this war to generate more terrorism against America and its allies. And because one of the best predictors of terrorism is poverty, there is great pressure on us to rebuild the Iraqi economy as we rebuild the nation.

So how does one go about building a nation? In a way, the use of the word “nation” instead of “country” is instructive here. The latter is a formal governmental structure recognized as such by other countries. “Nation” has come to mean the same thing in common parlance, but it has also retained its original meaning, which has more to do with the cultural, social, and sometimes tribal aspects of a people.

Building a country is easy; building a nation will be tough. And it will take time.

An important lesson in this regard is what has happened in Russia since the late 1980s. After spending most of the 20th century under communist rule, Russians watched as the Soviet government fell apart. The country suddenly became a democracy, and it sprouted a market economy.

However, many of Russia’s social institutions were unable to keep up with the quick pace of political change. Under communist rule, formal prices weren’t allowed to govern markets, and the vacuum this created was filled by informal institutions such as queuing, black markets, and bribery. Those institutions didn’t suddenly vanish in Russia just because the government had changed. Is it any wonder that in many Russians’ minds, capitalism came to be associated with cronyism and favoritism?

The lesson is that it’s very difficult to separate the rebuilding of an economy from the country’s social and cultural context. So much of what we recognize as free-market behavior is made up of what psychologists call scripts, which are determined more by tradition than by the rule of law.

So as we watch American officials enter Iraq and start reinstating essential services such as electricity and police, what advice can we give them as they continue to revive the economy? I have a few ideas.

1. Don't be too quick to institute democracy: I know this runs counter to our national instincts, because one of our overarching foreign-policy goals is to promote democracy around the world. But it's going to take time for Iraq to generate the social institutions that will allow democratic and economic reforms to take root.

In a very real way, these institutional changes will be investments in the future. And one thing we know about democratic processes is that they're not patient when it comes to social investments. If our goal is the economic rebirth of a modern Iraq, the last thing we need is for sectarian politics to undermine these developments.

Moreover, some of the best things about our own society are explicitly anti-democratic. The Bill of Rights is a document that seeks to protect what we believe are fundamental rights from a "tyranny of the majority." Lord knows that if put it to a vote right now, Americans might even vote to ban antiwar protests. Sometimes the people *don't* know what's best.

So it's really not that outlandish to propose that democracy in Iraq be delayed temporarily. Of course there should be a shadow legislature, to which powers would be gradually ceded by U.S. (or U.N.?) authorities. But we need to be wary of granting too much too soon.

2. Give colonialism a chance?: I doubt that the U.S. will choose to be a colonial master of Iraq in the traditional sense. But for what it's worth, Iraq could do a lot worse.

It's an article of faith among many that colonial relationships are bad for the colonized. But while colonialism has a bad name, its history is complicated. For one thing, attempts at colonial expansion have often cost the colonizer more than it gained (e.g. Britain in Argentina in the 19th century). And often, after the colonizer leaves, the colony ends up richer than the colonizer (e.g. the United States).

Colonial rule can benefit the local society when *not* done by an imperially minded power. The U.S. has shown repeatedly in the Pacific that whatever it is, it isn't a serious imperialist. Its two favorite models are staying for a while and then leaving (e.g. Philippines), and staying for a while and then granting state status (e.g. Hawaii). It isn't going far out on a limb to predict that the former model is more likely in Iraq.

Colonial rule can benefit the local society when it avoids restrictive economic policies that are obvious sops to the colonizer's economy. As it is at home, the best policy in Iraq will be to let market forces to act freely and determine the direction of investment.

Of course, in the early going American officials will have to direct some investments, such as the much-discussed reconstruction of Iraq's oil capacity. And that brings up another issue. You might imagine that since we spent our own money overthrowing Saddam Hussein, we should be allowed to benefit financially from the situation. It seems only fair. But there are international rules against bidding processes that favor one country's companies over another's. As a world leader, we stand to lose much more than

we'd gain in Iraq if other governments start freezing us out from bidding in their countries (as a few have threatened to do).

3. Viva OPEC!: Iraq has an obvious advantage when it comes to rebuilding its economy, namely its immense oil wealth. Iraq's oil reserves are second only to Saudi Arabia's, and it must be tempting for Bush administration officials to imagine an Iraq that withdraws from OPEC and thereby puts downward pressure on world oil prices. Nothing would please American voters more than lower gasoline prices (though they've already started falling a bit), and it would be only natural for the ghost of his father's failed re-election to haunt the president.

But while all that would be good for U.S. (at least in the short run), undermining OPEC would be very bad for Iraq. In order to evolve as we hope it does, Iraq's economy needs foreign exchange, and right now that means oil. To the extent that we want to avoid an impoverished and angry Iraq in five or ten years, we want Iraq to benefit as much as possible from its primary export.

The best thing the U.S. can do regarding Iraq's oil economy is to ensure the removal of U.N. sanctions that prevent Iraq from selling its oil freely. And it should try to ensure that the proceeds of its oil wealth get distributed beyond the few and the powerful.

Regardless of their potential economic benefits, my first and second ideas will be tough to implement. Both involve a slow and steady course for the U.S. in post-war Iraq, but the war only just ended and already pressure is building among some groups within Iraq for the American presence to end sooner, not later.

In the U.S., pundits from all over the political spectrum are saying that winning the war won't be enough; we need to win the peace as well. But the kind of peace we need to take hold in Iraq will be elusive unless the Iraqi economy becomes a fundamentally healthy one. Right now, we can only hope that our officials in Iraq can stay the course and lay the groundwork for that to happen. And keep their mitts off Iraq's oil.

© Copyright 2003, *News & Record*