A Return to Baathist Economics? Escaping Vicious Circles in Iraq

***Strategic Insights*, Volume III, Issue 7 (July 2004)**

by Robert Looney

> "...the lack of law and order is bound to delay the country's economic rebirth. Yet without that rebirth, the country will remain sullen, resentful and a breeding ground for all sorts of undesirable developments. It is a vicious circle." - Al-Jazeerah commentary [1]
>
> "Everyone is aware of the risk of terrorism. But there are risks inside Iraq that are within our control and we're not managing them well. I would like to flag the de-Baathification process." - Samir Shakir Mahumoud, Interior Minister, Iraqi Interim Government [2]
>
> "We want to go back to the old healthy management of the 1970s." - Thamir Ghadhban, Oil Minister, Iraqi Interim Government [3]

Introduction

In the midst of the daily reports of suicide bombings, insurgents, coalition causalities, the relentless toll of civilian dead and wounded, and general all-around grief, any appraisal of Iraq's economy has seemed irrelevant when set against the greater military and security concerns.[4] Yet the long run health of the economy will be crucial in determining if Iraq will be able to transition to a stable democracy.[5]

Many authorities on post-conflict reconstruction believe that the post-June 30Interim Government's most significant challenge will be delivering measurable improvements to the Iraqi people. Typical comments to this effect usually run along the following lines: "I think the new government will gain legitimacy in the eyes of the people on one condition: if it delivers on security, infrastructure, and employment." "If [Cabinet members] manage to deliver, even on the latter two, it will make a major difference. If not, the whole thing will fall apart." [6]

Significantly a large proportion of the Interim Iraqi Government's Prime Minister Iyad Allawi's initial national address was focused on the economic issues confronting Iraq. Allawi, a Baathist who served in the Iraqi intelligence services until falling out with the regime and leaving Iraq in 1971, cited inflation, unemployment and weak purchasing power as the main economic problems facing the country. He indicated that the government planned to stabilize the exchange rate for the dinar, improve living conditions, and boost oil output. While he offered [7] no specific prescription toward solving these problems would be attacked, he did at least acknowledge that a year after the fall of Baghdad, the country's economy is at a watershed.

Report Documentation Page

Form Approved
OMB No. 0704-0188

1. REPORT DATE **JUL 2004**	2. REPORT TYPE	3. DATES COVERED **00-00-2004 to 00-00-2004**

4. TITLE AND SUBTITLE **A Return to Baathist Economics? Escaping Vicious Circles in Iraq**	5a. CONTRACT NUMBER
	5b. GRANT NUMBER
	5c. PROGRAM ELEMENT NUMBER
6. AUTHOR(S)	5d. PROJECT NUMBER
	5e. TASK NUMBER
	5f. WORK UNIT NUMBER
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) **Naval Postgraduate School,Center for Contemporary Conflict,1 University Circle,Monterey,CA,93943**	8. PERFORMING ORGANIZATION REPORT NUMBER
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)	10. SPONSOR/MONITOR'S ACRONYM(S)
	11. SPONSOR/MONITOR'S REPORT NUMBER(S)

12. DISTRIBUTION/AVAILABILITY STATEMENT
Approved for public release; distribution unlimited

13. SUPPLEMENTARY NOTES

14. ABSTRACT

15. SUBJECT TERMS

16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT **unclassified**	b. ABSTRACT **unclassified**	c. THIS PAGE **unclassified**	**Same as Report (SAR)**	**10**	

Standard Form 298 (Rev. 8-98)
Prescribed by ANSI Std Z39-18

Clearly many factors have interacted to produce the country's current economic malaise. The sections below attempt to identify these factors and in doing so hopefully shed some light on how Iraq's economy is likely to fare after the June 30th 2004 transfer to Iraqi sovereignty. What will be needed to stabilize the economy and prepare it for recovery? Are these policies likely to be undertaken through the neo-liberal free market framework put in place by the Coalition Provisional Authority (CPA) or a neo-Baathist statist program? How would a return to Baathist economics affect Iraq's recovery?

The Baathist Economic Model

Many observers[8] liken Iraq's present economic situation to that of the Eastern European Transition economies of the early 1990s. There are, however, significant differences however between those previously socialist economies and the one created by the Baathists. While the formal name of the party that ruled Iraq from 1968 to 2003 was the "Arab Socialist Baath Party," its economic orientation was far more Arab than Socialist. Abbas Alnasrawi [9] places Baath socialism in the mainstream of Arab socialism which, as a political ideology, comprises a complex mélange of Islamic egalitarianism, influenced in large part by Eastern political tradition, modern social democracy, latter-day anti-colonialism, and a dash of socialist orthodoxy.

To its adherents, Baathism in the 1970s incorporates these influences into an economic system centered on a powerful, paternalistic, and benevolent government whose objective was to provide economic welfare and security for all Iraqis. Baathism's anti-colonialist origins are evidenced by its hostility towards foreign aid and loans, suspicion of multinational private investments, and intense nationalistic policies such as nationalization of most key industries. [10]

The Baathists followed a "top-down" approach to development, financing the creation of large state owned industrial firms with oil revenues. Their hope was to diversify the economy and kick-start economic growth. Many of the state enterprises they created as a means to this end still operate today, albeit as models of inefficiency.[11] Interestingly, it appears that in actual practice Baathist development policies were virtually identical to those of all Iraqi governments that ruled after the overthrow of the British-installed monarchy in 1958.[12] Nationalism and economic realism [13] are the constants in Iraqi economic policymaking in the post-1958 period.

In implementing its socialist development plans, Iraq adopted a full employment policy in 1968.[14] Under this program the public sector was obliged to provide a job for each individual regardless of market forces. The result was over-employment in the public sector and manpower shortages, especially of skilled workers, in the private sector. Still, the Baathist economic model appeared to revitalize the economy. Gross Domestic Product (GDP) grew dramatically in the 1970s and early 1980s. This expansion contributed to the Baathist economic mystique. In less than a decade, Iraq had become the leading Arab economy of the time in terms of modernization and long-run growth potential. Under the surface, however, many problems were developing.

As might be expected, the Baathist program created severe economic imbalances, resulting in inflationary pressures and lower productivity. Many of the economy's fundamental weaknesses were covered-up by the surge in oil revenues during most of the 1970s and into the 1980s. However, with the war with Iran (1980-88) and its high demands on manpower and resources, economic growth began to slow down. The war, together with an oil price crash in 1986, brought the economy to a near halt.

In 1987, Iraq launched its "economic revolution" by abandoning its full employment policies. Almost immediately, the private sector flourished through wider access to available national skills. Growth picked up to the point that by 1989 there was a significant demand for migrant labor, especially in the construction sector. In the period leading to the Gulf war, Iraq employed more than four million migrant workers. This boom period came to an end with the 1991 invasion of Kuwait and the subsequent decade of U.N. sanctions and Iraq's increasingly corrupt and authoritarian leadership.[15]

In short, the Baathist economic model provided the government bureaucracy with a pragmatic, albeit doctrinaire framework for setting prices for many goods, controlling the country's vast oil resources, running nearly two hundred state-owned enterprises, and dominating most aspects of the economy. The country experienced impressive rates of growth, but perhaps given the buoyant oil revenues at the time, the economy grew in spite of the Baathist programs. On the other hand, given wars and sanctions, certainly not all of the economy's demise can be attributed to a failure of the Baathist model. The record is stark however: World Bank estimates suggest Iraq's per capita income dropped from a height of $3,600 per year in the early 1980s to around $720 per year in 2002.[16] As a basis of comparison, the countries throughout the Middle East and North Africa (MENA) region as a whole also suffered declines in per capita income during the 1980s. However these declines averaged only about a percent per annum. For most MENA countries, these losses were more than recouped by positive rates of growth in the 1990s.[17]

The extent to which the economic principles noted above are held by post-war Baathists is unclear. Porch [18] has noted that many party functionaries who were around at the time of Saddam's demise were already "de-Baathicized" - disillusioned in the aftermath of the disastrous wars against Iran and the Allied coalition, followed by ten years of sanctions and the complete demise of the economy. On the other hand, many Baathists in the new Interim Government (and presumably subsequent governments) left Iraq in the early 1970s, at the height of the Baathist model's apparent economic success. They may still hold many of the core Baathist economic principles, dismissing the poor economic performance in the 1980s and 1990s as simply resulting from wars and sanctions, but not the result of any inherent contradictions or flaws in the Baathist model itself. Even in the West, there is some grudging admiration for the country's accomplishments under Saddam and the Baathists in the 1970s: "While other Arab states traded their petrodollars for palaces, Iraq built roads, schools and factories, and sent engineers and doctors to study in the United States and Europe." [19]

It is very likely that this period in Iraqi history is still fresh in the minds of many former Baathists returning to help rebuild Iraq, so. some form of neo-Baathism -- the notion that the government has a major role to play in the direction of the economy, both directly through the operation of state owned enterprises and indirectly through the management of the overall economy -- may be second nature to many of the bureaucrats in the new Interim Government - much more the case than many of the principles of neoliberal market reforms espoused and introduced by the Coalition Provisional Authority (CPA).[20] The quote at the beginning of the paper by the Iraqi Oil minister echoes this sentiment.

As to the likely attractiveness of a neo-Baathist model vs. the free-market neoliberal approach to economic management in post-war Iraq: when the pollsters asked what promise a political party could make to win votes, nearly half of those surveyed said the promise of jobs created in the public sector would entice them. Only a tenth as many said they would be swayed by promises of market-generated jobs in the private sector.[21]

The Post-War Economy

Versions of either the neo-Baathist or the Neoliberal economic programs face a daunting task. World Bank estimates suggest that GDP may have declined by over $500 per capita during 2003. This decline reflects in part the drop in oil production caused by the war. Widespread electricity outages also hobbled many businesses. Other factors hurting businesses included post-war looting, increased crime, the ongoing insurgency, and damage directly caused by fighting.[22]

Estimates of unemployment in the spring of 2004 range anywhere from 20 to 70 percent.[23] These figures are made plausible by a sense that the economy is coming to a grinding halt due to a breakdown in security. Of particular concern is the withdrawal of a number of key foreign construction and engineering companies and the isolation of many foreign workers into the safe security areas in Baghdad and elsewhere.[24] Even as early as January 2004, the deterioration in the lives of many Iraqi families prompted representative Sam Farr of Monterey Country, California to demand action noting that "The current situation for workers in Iraqis intolerable. There is massive unemployment ranging from 60% to

70% of the working age population, with no system whatsoever of unemployment compensation benefits of any type of subsistence income for people to survive on until jobs become available."[25]

Failure of Neoliberalism?

To many,[26] the deterioration of the post-war economy and the subsequent breakdown in security can be attributed to the CPA's neoliberal approach towards reshaping the Iraqi economy. While the neoliberal model is sound theoretically and stands on solid empirical grounds[27], there were admittedly many technical flaws in the way it has been introduced into Iraq . In its haste, the CPA initially pushed ahead with the reforms despite the absence of creating critical supporting institutions including a sound legal system for contracts, a functioning financial sector[28], and, initially, a national currency[29]. Also, the neoliberal model relies on a surge in private investment to take advantage of the profit opportunities opened up by freeing market prices. Yet the manner in which the reforms were introduced created a state of uncertainty and insecurity discouraging that very sort of investment. Would the state enterprises be privatized? If so when and how? Would the Baghdad Stock Exchange be resurrected? If so, with what rules of trading and inclusion? Would the to-be legal system protect private property? And so on. No doubt, all of these factors contributed to the lack of enthusiasm on the part of investors, which without their support, and financing the neoliberal program struggled to initiate economic recovery.

In part, some of the difficulties encountered by the neo-liberal approach in Iraq stem from the way it is perceived by Iraqis[30]. Even to most Western non-economists, neoliberalism does not appear to form a coherent strategy aimed at job creation and economic recovery. Instead, the approach conveys the impression that that most important decisions concerning the allocation of resources are simply left to capricious markets, with resulting unchecked expenditures on non essential items, increasing disparity of incomes and regional imbalances. If economic recovery and growth occur, it is more by luck than design. Unfortunately the absence of a marked economic recovery or growth months after the introduction of the reforms in Iraq only confirms the skeptics' worst suspicions:

> In Iraq, without economic vision and realistic policies, the goodwill of spending efforts may end in chronic structural problems, high inflation, leading to political and social disturbances. As a matter of fact, since the war ended, the implemented economic measures and the actual expenditures have neither increased domestic production and productive employment nor improved the living standards of the majority of the people. Moreover, the main structural problems have not eased.[31]

In addition, for many Iraqis the failure of the neoliberal approach to deliver economically has lent credence to the notion that neoliberalism is simply a mechanism introduced by the Americans designed to shift the country's resources out of Iraqi hands and into the control of foreign interests and the multinationals. The scores of web-based neoliberal conspiracy sites the average Iraqi finally has access to only feed this fear.[32]

Neoliberal reforms have been successfully implemented, albeit usually under more favorable conditions, in other countries[33]. And while they have come under harsh criticism from a variety of sources, detractors have usually focused on the victims of the reforms, rather than the winners, who in most cases were in the majority[34]. While it is tempting to attribute much of the post war economic malaise to the neoliberal model and the manner in which it has been implemented, another view stressing a series of shocks to the economy brought on CPA miscalculations may be a more accurate explanation for the country's dire economic plight.

Post-War Miscalculations

The world has had a lot of practice at rebuilding after conflicts and disasters, and several clear lessons have emerged. The most important is that failing to quickly ensure local livelihoods is the best way to create the conditions for ongoing conflict and civil strife[35]. In Iraq, a pressing concern has been the need to alleviate chronic unemployment. Responding to this need, the United States' Agency for International Development's (USAID) The National Employment Program, together with additional employment programs in the northern states has created close to 100,000 out of a target of 155,000 new public jobs. The Iraqi ministry of finance plans to invest $125 million this year to create an additional 125,000 jobs [36]. However, these programs have only begun to make a small dent in the country's massive pool of unemployed. Unfortunately, while the CPA has also done much to improve the lot of the average Iraqi, it has simultaneously undertaken actions that have either directly or indirectly contributed to the nation's unemployment, and sense of despair.

The De-Baathification Program

One of the more controversial decisions made by the CPA was to initiate in May 2003 a wide-scale process of de-Baathification. Of Iraq's twenty-five million people, about 2.5 million belonged to the Baath Party toward the end of Saddam's rule. After the fall of Saddam's government, Bremer and the Governing Council decreed the top three levels of the party membership could not be on the government payroll. Estimates vary, but a safe guess is that more than 120,000 people lost their jobs. True, some were diehard Saddam loyalists, but many others were doctors, nurses, university professors and other professionals who argued that they had joined the Baath Party simply to obtain their jobs or to receive promotions or advance their careers, not out of ideology or loyalty to Saddam[37]. Not only are there productive services lost, but their reduced or lost incomes result in a slack demand for consumer goods, throwing many workers in those sectors out of work for lack of demand.

The educational system was particularly hard hit by the de-Baathification initiative. Thousands of professors and all university deans and presidents were dismissed under the Bremer executive order. At the University of Basra, roughly 15 percent of the faculty members were fired. At the university of Baghdad, 5 percent lost their jobs. At the University of Tikrit, twenty percent of the professors were dismissed. University administrators throughout Iraq are now concerned about a shortage of faculty members.[38]

Not all of the de-Baathification initiatives have been undertaken by the CPA. In September, the Interim Governing Council, with Ahmed Chalabi serving in it rotating presidency, issued an edict calling for even greater cleansing of the Baath party ranks and allowing no exceptions. Again, estimates vary, but if implemented fully this expanded purge could involve another 500,000 lost jobs.

At a hearing of the Senate Armed Services Committee, Senator Carl Levin noted, "Most experts agree that the de-Baathification program went beyond what was needed to assure that the Baathist leadership was not maintained." He also pointed out that the UN envoy to Iraq, Lakhdar Brahimi, had complained, "It is difficult to understand that thousands upon thousands of professionals who are solely needed have been dismissed within the de-Baathification process"[39].

Prime Minister Iyad Allawi, while a member of Iraq's Governing Council, argued that the U.S. policy of de-Baathification is hampering restoration of political and economic life in the country. He feels that the policy is creating a culture of "false accusations" and "cronyism."

> Unfortunately, the current, indiscriminant policy of 'debathification' - the wholesale purging of Iraqis who joined the Baath Party to get a job - does not contribute to economic reconstruction, political stability or the cause of justice and national reconciliation. . . . Such a process is patently vulnerable to corruption by vested interests and can create a legal culture of false accusations, corruption and cronyism, undermining justice as well as free-market competition[40].

Belatedly, in April of 2004 after much of the damage was one, Ambassador Bremer reversed the much criticized de-Baathification policy and noted that many laid-off Baathist teachers would be eligible to regain their jobs through a newly streamlined appeals process[41].

Disbanding the Army and Security Forces

Public employment also fell after the war, largely as a result of the CPA's controversial decision in May 2003 to disband the army. When the war ended, the army consisted of about 500,000 or about 7 percent of the labor force. The coalition would later pay stipends to former soldiers, but the decision to put them back on the streets without jobs has been blamed for the increase in insurgency[42].

Numerous Iraqi accounts[43] document the disruption caused by both the de-Baathification program and the disbanding of the army and security forces:

> As a result the local economy suffered as unemployment jumped and former residents returning from Baghdad, after losing government and military jobs, pushed rents and property prices higher[44].
>
> They have wounded pride to restore. Entire tribes feel embarrassed that they supported the invasion only to be left out in the cold by the Coalition's myopic vision of how Iraq should be run. And it is men like them that have become easy prey for foreign fighters, Saddam loyalists, criminal gangs and other groups that have no interest in seeing Iraq become a success story[45].

Prime Minister Iyad Allawi has also made it clear[46] that Iraq needs the expertise of many who worked under Saddam if it is to rebuild security and intelligence services to the point that they can quell Islamist militants and sectarian militias once the American troops leave the country. Until then, the reduced level of security stemming from this lost expertise is taking a tremendous toll on employment, economic activity, and civilian life.

Delays in Reconstruction

As he travels across Iraq, Retired U.S. Admiral David Nash, the official in charge of reconstructing the war-shattered country, is greeted with a common complaint: "If Saddam Hussein could rebuild the country in three months after the Persian Gulf war, why is it taking the Americans so long?" "Saddam Hussein used methods we don't subscribe to," he tells the Iraqis[47]. Unfortunately, there is more to it than that. Seven months after Congress approved the largest foreign aid package in history to rebuild Iraq, less than 5 percent of the $18.4 billion had been spent[48].

Clearly, lags in expenditures have been caused by the insurgency and on-going terrorist attacks. Still as of March 24, 2004, and before the escalation of conflict, only $1 billion had actually been spent. In January, the CPA indicated it planned on spending nearly $8 billion through March of 2004. Much of the short-fall was attributed to what Representative Jim Kolbe termed "bureaucratic infighting" and a "loss of central command and control[49]." By late May the pace of expenditure appeared to be picking up, under Congressional pressure[50]. However, by then, the damage to Iraqi good will caused by unnecessary delays was more than apparent and perhaps beyond repair.

Once many of the problems holding back expenditures were resolved in the spring of 2004, and up to $4 billion obligated[51] to specific projects (twice as much as was intended earlier in the year), the insurgency and the overall deterioration in security added further delays to the reconstruction efforts. As a result, of the dozens of U.S. corporations that have government contracts to help rebuild the country, relatively few have invested their own capital. In addition, the volatile security situation has kept many potential investors away, and even as the U.S.-led coalition government has called on businesses to come to Iraq, the State Department has warned Americans to stay out of the country.[52]

Over-Reliance on Big Projects/Foreign Contractors

For the most part, the CPA has tried to rebuild the economy by relying largely on specialist contractors who have specific skills and international experience. This may make a certain amount of sense in terms of expediency and efficiency, but overlooks the simple fact that the reconstruction projects need to be viewed in a broader, multiple goal context. Not only should they reconstruct Iraq in the fiscal sense, but they should have the potential to immediately address many of the country's social problems.

In principle Iraqi companies were to be secondary beneficiaries of the $18.6 billion in aid allocated for reconstruction by the U.S. Seventeen primary contractors were to be chosen and, in turn, sub-contracting out to other firms. Iraqi firms were to be given priority in the sub-contracting bidding, although firms from a list of sixty-nine coalition countries could also bid. As it turned out, Iraqi companies were at a distinct disadvantage in competing with foreign firms because they did not have the capital, nor could they obtain the necessary financing from the country's primitive banking system.[53]

As contracted therefore, reconstruction projects are simply not getting enough money into the hands of entrepreneurial Iraqis and large segments of the Iraqi workforce. As noted above, one theory gaining wider acceptance is that with the economy struggling, and millions of Iraqis with little to do, people are becoming ever more tempted to join the resistance[54]. By May 2004 fewer than 25,000 Iraqis were working on projects funded by the U.S. "tempering expectations that more than $18 billion in American spending would jump-start Iraq's economy and trigger a surge in goodwill towards the United States[55]."

Delays in Restoring the Financial System

As noted above, most Iraqi companies are not able to take advantage of reconstruction jobs because of lack of credit. Whether these midsize businesses succeed or fail with their job creating expansions is critical for stability. Again, delays in restoring the country's banking and financial system are severely limiting the economy's recovery.

At the start of the war, Iraq's two state owned banks, Rasheed and Rafidain, controlled over eighty-five percent of banking assets. They were at best marginally capitalized and had loan portfolios with a high concentration of non-performing loans. Before March 2003, the banks clearly lacked modern comprehensive accounting standards and systems[56]. They had little or no expertise in lending to the corporate sector.

Currently, the U.S. Treasury is working with the state banks enabling them to provide better domestic services such and taking deposits, clearing checks and making loans to support business activity. There are some limited signs of success. For the quarter ending November 30, 2003, Iraq's two large state-owned commercial banks, Rafidain and Rasheed, extended loans totaling about $6 million primarily to small and medium enterprises[57]. Again, a sum far short of making any sort of meaningful contribution to the country's economic recovery. It will take even longer for the country's twenty or so small private banks to make any significant contribution to private sector investment.

Other sources of finance have not developed. Although now permitted, foreign banks have not ventured into Iraq. After much fanfare in late 2003 of a January 2004 opening, the Baghdad Stock Exchange was still not in operation.

Belatedly, to address the private sector's dire credit needs CPA has begun (May 2004) accepting applications for a new program designed to provide loans of $500,000 to $5 million for midsize companies. However as of early June 2004 the program was still not formally approved[58] . Under other programs the coalition has distributed about $7.5 million in "microfinance" credits, typically loans averaging $2,500 for small businesses such as bakeries and grocery stores. An additional $17.5 million is in the pipeline for that effort[59] . Again, these amounts are dwarfed by the country's needs.

Vicious Circles

Rather than the neoliberal policies initiated by the CPA, most of the economy's post war failure is no doubt due to a series of administrative blunders. These have created shocks to the economy so severe that that price mechanisms are unable to equilibrate at a satisfactory level of output and employment.

Specifically the five major CPA miscalculations noted above have combined to produce a vicious cycle in Iraq (see Figure 1) to the extent that the price system is not able to counteract.

The job losses, both actual and potential created by these miscalculations have resulted in wide spread disillusionment with the CPA. Growing despair, growing resistance and diminished confidence in the future have lead to increased violence and insurgency. In this situation, Patrick Clawson has noted after returning from a recent fact-finding mission to Iraq:

> It is hard to overstate the importance of the economic issue; as one Iraqi politician put it, "the belly is more important than the tongue," meaning people care more about meeting basic needs than about their new-found freedom of speech[60].

The security situation and the economy are now interlinked. Unless each improves dramatically, the country is likely to be trapped in a longer term vicious circle (see Figure 2), whereby poor economic performance leads to increased instability, in turn making the continuation of neoliberal reforms extremely difficult.

But these reforms are necessary if the economy is to become integrated into the world economy and achieve international standards of efficiency. Lower growth rates stemming from the lack of reforms would then no doubt eventually initiate more unrest and further deterioration of the economy.

Assessment

Clearly a number of pressing issues are before the new Interim Government:

1. Impact of security situation and other investor concerns on private investment-what factors will it take for investors to gain confidence in the future?
2. Links between deteriorating economic conditions and reform process-how much pressure will this place on authorities to slow-down or reverse reforms?
3. Manner in which budget deficits financed? Will there be adequate aid, or will the government be forced to sell bonds? Will the markets be able to absorb this debt without crowding out private investment?
4. Can the country overcome the likely initial drop in private savings with added foreign funds?
5. The extent to which low initial savings rates limit financial development

The answers to all of these are important in policy planning and budgeting over the next several years. However, in the bigger scheme of things, the new Iraqi government starts at a crossroads. Its leaders can either choose to press ahead with the neoliberal reforms or to revert to some sort of Baathist-type state controlled system, emphasizing jobs through perhaps creating massive public works programs, increased staffing at the state enterprises and an expanded government bureaucracy. No doubt there will be strong advocates for this latter nationalistic approach from large constituencies - it worked in the 1970s and was a source of pride for the Iraqis. The neo-Baathist economic option is expedient and would, in contrast to the neoliberal model, face little domestic opposition. If oil prices remain high and the country can prevent sabotage to the oilfields, this would be an attractive as well as feasible option.

One needs only a casual look around the Middle East, however, to quickly realize that neo-Baathism or some statist variant will not put the country on a path to high sustained growth and broad based prosperity. The history of the region is awash with stories of failed state controlled economies. If Iraq does decide (and is sanctioned to by the U.S.[61], major aid providers, and international institutions like the IMF/World Bank) to revert down the neo-Baathist economic path to escape its vicious cycle, the great risk is in creating forces and interest groups that will later oppose the necessary eventual transition to a normal economy.

References

1. "Vicious Circle," Al-Jazeerah.info (July 5, 2003).
2. Quoted in Paul Richter, "Official Rethink Ban on Baathists," *Los Angeles Times*, April 22, 2004, A1.
3. Quoted in "Iraq to Shed US Oil Advisers," *BBC News* (June 10, 2004).
4. Bill Jamison, "Dawn of Hope for Iraqi Economy," *Scotland on Sunday*, May 30, 2004.
5. Robert Barro, "A Democratic Iraq Isn't an Impossible Dream," *Business Week*, March 31, 2003.
6. Quotations from "Iraq: Who's in Charge," (Council on Foreign Relations, June 2, 2004).
7. Hamza Hendawi, "Iraq Prime Minister Makes First National Address," *Sacramento Bee*, June 4, 2004.
8. For example, Robert Lane Green, "Socialist Realism," *The New Republic*, October 21, 2003.
9. Abbas Alnasawi, *The Economy of Iraq: Oil, Wars, Destruction of Development and Prospects, 1500-2010* (Westport, Conn.: Greenwood Press, 1994), 61.
10. Jahangir Amuzegar, "Ideology and Economic Growth in the Middle East," *The Middle East Journal* (Winter 1974): 2.
11. William Block, Christopher Foote, and Simon Gray, *The Current Economic Situation in Iraq*, Draft, November 10, 2003, 6.
12. Alnasrawi, *The Economy of Iraq*.
13. Cf. Robert Looney, "Economic Realism," in R.J. Barry Jones, ed., *Routledge Encyclopedia of International Political Economy*, Vol. 1 (London: Routledge, 2001), 411-9.
14. Regional Office for the Arab States, International Labor Organization, "ILO Multidisciplinary Mission to Iraq" (April 28-May 5, 2000).
15. Sharon Otterman, "The Iraqi Economy" (Council on Foreign Relations, March 25, 2004).
16. Ibid.
17. Mustapha Nabli, "How Will Current Economic Trends Influence the Developing Markets in the Middle East," *Middle East Economic Digest* (November 15, 2000).
18. Douglas Porch, "Germany, Japan and the 'De-Baathification' of Iraq," *Strategic Insights* (March 7, 2003).
19. Stephen Glain, "Saddam the Builder: He Created the First Modern Arab Economy," *Newsweek* (March 11, 2002), 30.
20. Cf. Robert Looney, "Iraq's Economic Transition: The Neoliberal Model and its Role," *The Middle East Journal* 57:4 (Autumn 2003):568-87.
21. Quoted in Neela Banerjee and John Cushman, "Unemployed Iraqis Say New Jobs Will Pay Off in Greater Security for All," *New York Times* (February 8, 2004) 1.11.
22. Sharon Otterman, "The Iraqi Economy" (Council on Foreign Relations, March 25, 2004).
23. Anthony Shadid, "Jobless Unionize to Publicize Plight," *Washington Post* (March 9, 2004).
24. Paul Rogers, "An Iraqi Intifada?" *Open Democracy* (April 29, 2004).
25. Sam Farr, Dennis Kucinich and Barbara Lee, "Help Iraqi Workers Get their Jobs Back!" (U.S. House of Representatives, January 22, 2004).
26. Cf. Jeff Madrick, "The Economic Plan For Iraq Seems Long on Ideology, Short on Common Sense," *New York Times* (October 2, 2003), C.2.
27. Robert Looney, "The Neoliberal Model's Planned Role in Iraq's Economic Transformation," *Middle East Journal* 57:4, (Autumn, 2003), 568-87.

28. Robert Looney, "Banking on Baghdad," *Strategic Insights* (May 2003).
29. Robert Looney, "A Monetary/Exchange Rate Strategy for the Reconstruction of Iraq," *Middle East Policy*, 10:3 (Fall 2003), 33-42
30. Robert Looney, "Neoliberalism in a Conflict State: The Viability of Economic Shock Therapy in Iraq," *Strategic Insights* (June 2004). http://www.ccc.nps.navy.mil/si/2004/jun/looneyJun04.asp
31. Sabri Zire Al Saadi, "Iraq's Post-War Economy: A Critical Review" (Middle East Economic Survey April 5, 2004).
32. "UN Security Council Resolution on Iraq," Submerging Markets.
33. Cf. Lance Taylor, "Polonius Lectures Again," *Bangladesh Development Studies* 20:2-3 (June-September 1992): 25-53.
34. Robert Looney, "Neo-liberalism," in R. J. Barry Jones ed., *Routledge Encyclopedia of International Political Economy* (London: Routledge, 2001), 1106-10.
35. Andrew Simms, "Keep it Local," *Guardian*, May 14, 2003.
36. Bill Jamison, "Dawn of Hope for Iraqi Economy," *Scotland on Sunday*, May 30, 2004.
37. Eric Schmitt, "U.S. Generals Criticize Ban on Employing Ex-Baathists," *International Herald Tribune*, April 21, 2004.
38. Daniel del Castillo, "In Iraq, Daunting Tasks for Higher Education," *The Chronicle of Higher Education 50*, no. 3 (September 12, 2003): A37.
39. Quoted in Eric Schmitt, "U.S. Generals Criticize Ban on Employing Ex-Baathists," *International Herald Tribune*, April 21, 2004.
40. Quoted in "De-Baathification Hampering US Reconstruction," *Jordan Times*, December 29, 2003.
41. Nicholas Riccardi, "Iraqi Teachers Learn Hard Political Lesson: Hussein's Victims and Baath Party Members Compete for Lucrative and Limited Positions," *Los Angeles Times*, May 14, 2004, A10.
42. Christopher Foote, William Block, Keith Crane, and Simon Gray, "Economic Policy as Prospects in Iraq," Federal Reserve Bank of Boston, Public Policy Discussion Paper, no. 04-1 (May 4, 2004), 11.
43. See for example, Mustafa Alrawi, "Will the Coalition Ever Want to Understand Iraqis?" *Iraq Today*, November 3, 2003.
44. Ibid.
45. Ibid.
46. Alastair Macdonald and Lin Noueihed, "Allawi Slams US Over Iraq Army," *Swiss Politics.Org*, June 5, 2004.
47. Geoffrey York, "U.S. Repairs in Iraq May Come to Late," *Globe and Mail*, May 25, 2004.
48. Jonathan Weisman and Ariana Cha, "Rebuilding Aid Unspent, Tapped to Pay Expenses," *Washington Post*, April 30, 2004, A1.
49. Ibid.
50. Robert O'Harrow, "U.S. Finally Spending Iraq Construction Funds," *Washington Post*, May 25, 2004, A11.
51. Ibid.
52. Ariana Eunjung Cha and Jackie Spinner, "U.S. Companies Put Little Capital into Iraq," *Washington Post*, May 15, 2004, A17.
53. Ali B. Al-Shouk, "CPA Prepares Iraqi Firms for Reconstruction Subcontracts," *Iraq Today*, December 29, 2003.
54. Hassah Fattah, "Put Iraq to Work," *The New Republic*, June 6, 2004.
55. Matt Kelly, "Fewer than 25, 000 Iraqis Working on Reconstruction Funded by U.S.," *Associated Press*, May 19, 2004.
56. John B. Taylor, "Financial Reconstruction in Iraq," Testimony, Senate Banking, Housing, and Urban Affairs Committee: Subcommittee on International Trade and Finance (February 11, 2004).
57. Ibid.
58. David Lynch, "Cash Crunch Curbs Rebuilding in Iraq," *USA Today*, June 1, 2004.
59. Ibid.
60. Patrick Clawson, "Iraq for the Iraqis: How and When," *Middle East Quarterly* (Spring 2004).
61. Cf. Yochi J. Dreazen and Christopher Cooper, "Behind the Scenes, U.S. Tightens Grip on Iraq's Future," *Wall Street Journal*, May 13, 2004, A1.