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THE ROLE OF THE IMF AND WORLD BANK IN RECONSTRUCTING IRAQ

Jim Saxton (R-NJ), Vice Chairman

Joint Economic Committee
United States Congress

May 2003

Summary

Iraq has a historic opportunity to become an open society, with democratic political institutions and a full-fledged market economy. The International Monetary Fund (IMF) and World Bank have indicated their willingness to assist Iraq. The usual rationales for loans by the IMF and World Bank—to rebuild infrastructure, support the value of the currency, rescue financial institutions, or help avoid default on foreign debt—are not as strongly present in Iraq as in some other recent cases. The IMF and World Bank may still be of use in a number of areas, though.

Joint Economic Committee
1537 Longworth House Office Building
Washington, DC 20515
Phone: 202-226-3234
Fax: 202-226-3950

Internet Address:
http://www.house.gov/jec/

G-01 Dirksen Senate Office Building
Washington, DC 20510
Phone: 202-224-5171
Fax: 202-224-0240

THE ROLE OF THE IMF AND WORLD BANK IN RECONSTRUCTING IRAQ

For more than a generation Iraq was a closed society, politically and economically. It now has a historic opportunity to become an open society with democratic political institutions and a full-fledged market economy. International organizations have indicated their willingness to assist Iraq. In the economic sphere, the international organizations that will have the most impact will be the International Monetary Fund (IMF) and World Bank. Iraq is a member of both.

Since the late 1980s many countries, notably formerly communist countries, have undergone political and economic transitions similar to the one now beginning in Iraq. In some cases the IMF and World Bank acted in ways that helped make the transition both faster and smoother than it otherwise might have been. In other cases, they supported policies that turned out badly, although that was not their intent. For example, in Russia, a particularly important country, their advice and loans supported policies that in the early and mid 1990s resulted in high tax rates, high inflation, financial crises, chaotic privatizations, and a deeper depression than in other former communist countries that followed different policies.[1]

Were the IMF and World Bank to repeat the mistakes they made in some countries in the 1990s, they could hinder rather than help Iraq and its people. The United States, as the leader of the coalition that overthrew the dictatorship of Saddam Hussein and as the largest shareholder in the IMF and World Bank, has an especially strong interest in seeing that the IMF and World Bank play the most beneficial roles they can. This study draws on past research by the Joint Economic Committee into the IMF and World Bank[2] to suggest what they might do and avoid doing in the reconstruction of Iraq.

I. KEY FACTS ABOUT IRAQ

Modern history. A century ago, what is now Iraq was three provinces in the Ottoman Empire. British troops conquered Iraq during the First World War (1914-18). Britain drew the boundaries Iraq now has. Though the western and southern boundaries were somewhat arbitrary straight lines through the desert, they left an economically viable entity. The British ruled Iraq until 1932. They introduced certain political and economic institutions of British origin, whose influence generally has not lasted. The British brought in an Arabian prince and installed him as king in 1921 after a carefully controlled popular vote approved him. In 1941, during the Second World War, British troops removed a prime minister sympathetic to Germany. A military revolution in 1958

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[1]U.S. House of Representatives (2000), especially chapter 8. At times, the governments of the United States and some other large shareholders in the IMF and World Bank exerted strong influence to encourage those organizations to lend to Russia. For a discussion of the policies of the World Bank in a number of countries, see Easterly (2001).

[2] Available at <http://www.house.gov/jec/imf/imfpage.htm>.

overthrew the monarchy. Iraq became in name a republic, but in reality a dictatorship. Saddam Hussein became a high-ranking official after a coup in 1968; in 1979 he became president. His wars against Iran (1980-88) and the United States and its allies (1991, 2003) severely weakened Iraq's economy.

Land and population. Iraq is almost 169,000 square miles, which is slightly larger than California. Its estimated population is roughly 24 million people, or somewhat more than Texas. Unlike most of its Middle Eastern neighbors, Iraq has ample supplies of water for much of the country, provided by the Tigris and Euphrates rivers.

Economy. There are few reliable economic statistics on Iraq. Because of Iraq's closed society, outsiders lacked access to data enabling them to make good estimates of economic magnitudes. It is clear, though, that Iraq grew poorer under the rule of Saddam Hussein, with income per person shrinking by perhaps two-thirds. Iraq's gross domestic product (GDP) is estimated at anywhere from $20 billion to $35 billion.[3]

Oil dominates Iraq's economy. In some parts of the country, oil is so close to the surface that it seeps out of the ground. Commercial quantities of oil were first discovered in 1927, and Iraq began to export significant amounts in 1938. Iraq is estimated to have the second largest oil reserves in the world, after Saudi Arabia, and considerable fields of natural gas as well. Oil has for many years provided most of Iraq's exports and most of its government revenue.

Oil has also been the foundation for the country's shift from a rural society to an urban one. Almost 80 percent of the population now lives in cities and towns. Agriculture produced only 6 percent of GDP as of 1993, which seems to be the latest date for which an estimate is available, and apparently employs no more than 25 percent of the population.

Unlike the case in the United States, in Iraq the subsoil is owned by the government rather than by owners of the surface. Oil in the ground is therefore government property. Originally the government granted concessions to foreign companies to drill for and extract oil. In 1964 it established the Iraq National Oil Company as a competitor to the foreign companies, which the government thought were not offering advantageous terms. In 1972 the government nationalized foreign oil concessions.

Since that time, the government has dominated the economy. In the 1970s the government took over the large enterprises it did not already own, and many medium and small enterprises as well. The resulting system proved inefficient, and in the 1980s the government privatized gasoline stations, department stores, agricultural enterprises, and some factories. It continued to control key sectors such as oil, utilities, communications, banking, and foreign trade.

[3] On an exchange rate basis; on a purchasing power basis the Central Intelligence Agency (2002) estimated the size of the economy at $59 billion in 2001.

II. IRAQ'S FINANCES AND TRADE

Currency. Iraq's currency is the dinar. Under Ottoman rule (until 1917), the official currency was the Ottoman pound, also called the lira. In practice, though, the Indian rupee was the most widely used currency because of strong trading links between the Persian Gulf and India. Under British occupation, the rupee became the official currency. In April 1932, just months before granting Iraq independence, the British oversaw the establishment of a currency board monetary system. The currency board was the first body to issue the Iraqi dinar. The dinar was worth one British pound. (The Indian rupee was also linked to the British pound at the time.) The Iraq Currency Board held assets in British and other foreign securities equal to at least 100 percent of its monetary liabilities, which consisted of dinar notes and coins in circulation. In 1949 Iraq replaced the currency board with a central bank, because it wished to exercise greater independence in monetary policy. The central bank was originally called the National Bank of Iraq; since 1956 it has been called the Central Bank of Iraq. Under Saddam Hussein, the dinar depreciated enormously. Officially one dinar has been worth $3.22 since 1982, but on the black market the exchange rate depreciated to as much as 4,000 dinars per dollar this year. Currently the exchange rate is around 1,000 dinars per dollar.

Economic sanctions and the oil-for-food program. In August 1990, the United States and the United Nations imposed economic sanctions on Iraq in response to Iraq's invasion of Kuwait.[4] In 1991, a military coalition led by the United States expelled Iraqi forces from Kuwait and Iraq signed a peace agreement. The United Nations, including the United States, became concerned that the sanctions and the policies of Saddam Hussein's government were creating malnutrition in Iraq. The United Nations offered to establish and monitor a program whereby Iraq could sell oil for food. Iraq did not accept until 1995, and the program did not actually begin until December 1996.[5]

Under the program, 72 percent of the proceeds are earmarked for supplies, 25 percent for war reparations to some of Iraq's neighbors, 0.8 percent to fund the United Nations program of weapons inspections, and a further 2.2 percent for United Nations administrative expenses. Total revenue from the program has been $64 billion. The United Nations has therefore received $1.9 billion in earmarked funds so far. By way of comparison, the two-year regular budget of the United Nations for 2002-3 is $2.6 billion. Many financial details of the program remain obscure.[6]

The United States and United Nations removed sanctions on Iraq in May 2003, after a second U.S.-led military coalition had removed Saddam Hussein from power. The oil-for-food program is now set to expire by November 2003.[7]

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[4] United States, Executive Order No. 12722, August 2, 1990 and No. 122724, August 9, 1990; United Nations, Security Council Resolution No. 661, August 6, 1990.

[5] United Nations, Security Council Resolution No. 986, April 14, 1995, authorized the program. The United Nations maintains a Web page on the program, <http://www.un.org/Depts/oip>.

[6] Rosett (2003); for a response by the United Nations, see United Nations (2003).

[7] U.S. Treasury, "Statement Prepared by Secretary of the Treasury John Snow Announcing the Lifting of U.S. Sanctions against Iraq," May 27, 2003; United Nations, Security Council Resolution No. 1483, May 22, 2003.

Foreign debt. During the rule of Saddam Hussein, Iraq accumulated large amounts of government debt, both to foreign governments and to the private sector. No authoritative figures exist yet, but one study has estimated that Iraq owes $127 billion for arms and other supplies it has bought over the years and the accumulated interest. This amount is quite large compared to the size of the economy, which, to repeat, is estimated at anywhere from $20 billion to $35 billion. Simply paying market rates of interest on the debt, without paying down the principal, might be enough to absorb most spending by Iraq's national government. In addition to its foreign debt, Iraq has another $57 billion in pending contracts. It also owes reparations to the governments of Kuwait and some other countries under the agreement of 1991 that ended the Gulf War. The unpaid portion of the reparations amounts to $199 billion. Iraq's total estimated foreign obligations are therefore $383 billion.[8]

Iraq has not made payments on its loans from the IMF and World Bank since 1990, when the United Nations imposed economic sanctions. Iraq continued to be a member of the IMF and World Bank but was stripped of its voting rights. It owes the IMF $72 million (52 million Special Drawing Rights) and the World Bank $82 million.

Government finance. No recent published statistics of government finance exist. During the recently concluded war, coalition troops ensured that Iraq's oil wells, refineries, and pipelines remained intact. Iraq is ready to begin producing for the international market under normal conditions as soon as sanctions imposed by the United Nations are removed. Since oil revenue provides the bulk of government revenue, in the near term the status of government finances depends mainly on what happens with oil production. Iraq has the potential to run a balanced budget or a surplus for its primary government spending (spending on everything except debt service).

Foreign trade. The Iraqi dinar has had exchange controls (restrictions on buying and selling foreign currency) continuously since 1941. Exchange controls enabled the government to exert considerable influence on foreign trade. Under Saddam Hussein, foreign trade became in effect a monopoly of his family and friends. The United Nations oil-for-food program inadvertently strengthened the monopoly by confining legal trade to parties chosen by Saddam Hussein's government. Even large-scale illegal trade was managed by Saddam Hussein's family and friends. The exception to their monopoly was the Kurdish area in northeastern Iraq, which following the Gulf War of 1991 became autonomous in practice.

Iraq is neither a member nor a nation with observer status in the World Trade Organization (WTO).

III. SUGGESTIONS ABOUT THE ROLE OF THE IMF AND WORLD BANK

To achieve prosperity, Iraq needs to undergo extensive social learning that will include some successes and some failures. That will be up to the Iraqi people. Outside

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[8] Barton and Crocker (2003), Supplement I, p. 1.

parties cannot force Iraq into prosperity, although they may be able to help the Iraqi people accelerate progress toward prosperity. Important tasks for economic policy in Iraq in the near term include giving the country a sound currency; re-establishing the financial system so it can function at least at a rudimentary level; determining what tax system would initially be desirable; restructuring Iraq's heavy foreign debt; determining a regime for foreign trade; deciding what structure of ownership of companies currently owned by the Iraqi government would best promote economic growth; promoting true rule of law to replace arbitrary practices of the deposed dictatorship; and rebuilding or modernizing infrastructure.

Although there is some overlap in what the IMF and World Bank do, generally speaking, the IMF focuses on macroeconomic matters, particularly monetary policy, financial sector problems that are potentially of short duration, and government finance. The World Bank focuses on microeconomic matters, particularly infrastructure and building institutional capacity in a variety of areas.

Reconstruction more a matter of institutions than of infrastructure. The strategy of the coalition forces and the speed of the recent war meant that Iraq suffered relatively little physical damage from the war. Oil wells and refineries, roads, bridges, and utilities survived intact or with sufficiently little damage that they are quickly being restored. Emergency humanitarian and reconstruction needs exist in some areas, but overall, Iraq is more like Eastern Europe at the end of the Cold War than like Europe at the end of the Second World War. Europe emerged from the Second World War with extensive destruction of its factories and transport system, conditions of near starvation in some areas, and millions of refugees. Eastern Europe emerged from the Cold War with an intact though frequently shabby infrastructure, and with populations that were low-income but not desperately poor by world standards. Eastern European nations have modernized their infrastructure extensively, in some cases with assistance from the World Bank, but the most pressing initial choices their governments faced concerned institutions and policies, rather than getting food to millions of starving people or rebuilding bombed-out rail lines between major cities.

Currency. A reliable currency promotes economic growth by facilitating trade. Like other developing countries, Iraq has suffered inflation and extensive currency depreciation under its central bank. When the permanent government of Iraq considers economic policies for the long term, one question it will face is what currency arrangements would best foster economic growth. That is a decision for the Iraqi people, but in similar circumstances, people and governments in other countries have often been influenced by ideas suggested by the IMF. The IMF could promote more informed decision-making in Iraq by stressing something many people may not know: continuing with a central bank is not the only option. Other systems are possible, have worked in Iraq before, and could work today.

One option would be to officially replace the dinar with a foreign currency. The obvious choices would be the dollar itself (dollarization) or the euro (euroization). The dollar is already widely used in the Middle East, including Iraq. Coalition forces are currently paying some Iraqis in dollars, including dockworkers unloading relief supplies and certain government officials. The euro would also be a strong possibility because it is the only currency that rivals the dollar in terms of international acceptability and because the "eurozone" is likely to be Iraq's largest trading partner.[9] The euro might be more politically advantageous than the dollar because it is not issued by the United States. Both the dollar and euro have good prospects of retaining their value in the foreseeable future, whereas the same cannot necessarily be said about the dinar if it continues to be issued by the central bank.

Another option would be a currency board. Iraq's currency board successfully maintained a fixed exchange rate between the dinar and its "anchor" currency, the British pound, throughout its existence from 1932 to 1949. Today, the most logical anchor currency would be the dollar or the euro, for reasons just mentioned.

Compared to dollarization, the main advantage of a currency board is that it retains the profit of issuing currency (seigniorage) for the local government rather than allowing a foreign government to capture it. The main disadvantage is that a currency board is typically easier to convert into a central bank, so a currency board may have lower long-term credibility than dollarization. There are ways to fortify a currency board, but in practice, few countries have adopted them. In the 1990s the trend was instead in the opposite direction. Several countries established systems that mixed elements of a currency board with elements of central banking. The most notable of these currency board-like systems was that of Argentina, which was ended in January 2002 during an economic crisis. Historical experience has been that an orthodox currency board, such as Iraq had, is less likely to encounter problems than a currency board-like system. A currency board-like system may work better than a typical central bank would have, but it contains built-in tensions because the discretionary power characteristic of central banking is incompatible with the rule-bound nature of an orthodox currency board.

The IMF has at times been unhelpful in countries considering dollarization or currency boards. The IMF was unprepared for Ecuador's dollarization of January 2000 despite extensive public debate on the subject inside Ecuador that had being going on for months. The IMF's managing director commented that "Dollarization was not, I must be frank, the kind of policy we would have recommended at this stage to Ecuador," although he added that the IMF would support Ecuador.[10] Under dollarization, Ecuador's economy turned around from decline to growth, and the currency and banking crisis ended. The IMF initially opposed the currency board-like systems of Estonia (established 1992) and Lithuania (1994), which have been successful in reducing inflation to single digits and promoting economic growth.[11] The IMF instead recommended retaining central banking, which by causing high inflation had created severe economic problems. In early 1998, the IMF, supported by the Clinton administration, vigorously opposed the Indonesian government's proposal to establish a currency board to stop the free-fall of the Indonesia

[9] Hanke (2003) has proposed replacing the dinar with the euro.
[10] Reuters (2000).
[11] On Estonia, see Hansson and Sachs (1992), p. 2; on Lithuania, information comes from private communications with participants.

rupiah during the East Asian currency crisis.[12] The government backed away from the proposal, the rupiah continued to depreciate, the economy shrank 13 percent in 1998, and popular discontent over the economic situation led to bloody riots.

Iraq may decide that, despite problems in past, central banking remains its preferred monetary system. If so, the central bank will have to consider what exchange rate policy to follow. Because of the difficulty central banks have historically had in maintaining pegged exchange rates, a consensus has arisen that most should have floating rates. The consensus is consistent with economic theory.[13] To promote monetary stability, a central bank that issues a floating currency needs a substitute for the anchor of a pegged exchange rate. A number of countries have chosen an explicit inflation target as their anchor. (The United States has a less explicit system where inflation clearly matters, but is not the subject of a formal target.) Inflation targeting began in developed countries, but quite a few developing countries have also adopted some form of it. The IMF has given advice about the subject and members of its staff have published books and papers on it.[14]

Iraq already has some reserves of foreign exchange—which may turn out to be substantial once they are fully accounted for—and it can generate further foreign exchange from sales of oil. Loans from the IMF may therefore not be necessary to establish a reliable currency.

Financial system. Like a reliable currency, a reliable financial system promotes economic growth by facilitating trade—across time, by matching lenders with borrowers, and across space. Iraq nationalized banks and insurance companies in 1964. At first government-owned financial firms continued to operate on commercial principles, but eventually, as often happens, they became political as much as commercial institutions. The condition of the financial system is not yet known. The system may be bankrupt. If so, the resulting problems may be quite small. The depreciation of the dinar has reduced the value of bank deposits and other liabilities along with the value of assets. At any likely exchange rate, the value of bank liabilities in dinars will be small.

In many countries, the IMF and World Bank have lent substantial amounts to enable governments to rescue troubled financial institutions. Major cases in the last ten years where such rescues were explicitly or implicitly part of loan packages include Mexico and Argentina (1995); Thailand, Indonesia, and South Korea (1997-8); Turkey (1999-2000); and arguably Russia (1998). In Iraq, the economy and financial system are small, and the task is one of building a free-market financial system nearly from scratch rather than helping a large system already in place. The situation seems to call more for a modest effort of giving technical advice than for large loans to the financial system.

Taxes. A well designed tax system minimizes the deadweight loss of taxation on economic growth. In many cases, the IMF has advised countries to raise tax rates to

[12] Blustein (1998).
[13] See JEC (2002).
[14] For example, Carare and Stone (2003). For a book-length treatment of inflation targeting, not by IMF staff, see Bernanke and others (1999).

balance their government budgets. Piling higher tax rates on a slow-growing or stagnant economy can plunge it into recession, though. In January 2000 Argentina raised tax rates to balance its federal budget, ending a brief economic recovery. The IMF supported the tax increase.[15] In Ecuador that same year, only a ruling by the country's constitutional court prevented the government from raising the value added tax from 12 percent to 14 percent, as the IMF had wanted. A growing economy yielded revenue 31 percent above budget projections.[16]

Conversely, the IMF has opposed reducing tax rates in a number of cases where governments have wanted to do so to spur economic growth. Russia in August 2000 passed a law replacing income tax rates of 12 to 30 percent with a flat-rate tax of 13 percent. At the same time, Russia reduced social security taxes from 39.5 percent to 35.6 percent, and lowered turnover (gross sales) taxes from 4 percent to 1 percent. (Some local taxes were increased to compensate for the reduction in the inefficient turnover taxes.) The IMF wanted fewer reductions in tax rates.[17] A growing economy and a tax that was easier to comply with increased revenue in real (inflation-adjusted) terms. Real revenue from the income tax rose 28 percent in 2001 and 21 percent in 2002—much higher than projected.[18] In Argentina the IMF recently opposed cutting the rate of the value added tax from 21 percent to 19 percent.[19]

The IMF likes value added taxes because, other things being equal, they create fewer economic distortions than some other widely used kinds of taxes. The IMF seems quite comfortable with rates of value added tax exceeding 20 percent. Such rates are three times or more the average rate Americans pay in sales taxes. Value added taxes collect large amounts of revenue "efficiently" in developed countries, but they require a level of administrative capability frequently not present in developing countries. A radically simple possibility in Iraq would be to head in the opposite direction. Since oil has long been the main source of government revenue in Iraq, one suggestion that has been made is that initially, Iraq should impose no taxes other than those on oil.[20]

Foreign debt and new loans. Because Iraq already has foreign debt estimated to be $127 billion and total foreign obligations of as much as $383 billion, proposals for adding to those obligations should be treated with great caution. This caution applies to loans from any source, including the IMF and World Bank. Iraq has no realistic prospect of repaying its foreign debt under the original terms; some type of restructuring will be necessary. It is helpful to remember that restructuring existing debt to reduce repayments is like gaining new loans in the sense that both enable a government to have more money

[15] Stanley Fischer (2000), the acting managing director of the IMF, termed the tax increase "an unfortunate necessity at the moment."

[16] EFE (2001); Ecuador (2002).

[17] "The [IMF] staff, however, are concerned that compromises to ensure the passage of this [tax] legislation in the Duma are turning out to be excessively costly. The revenue loss should be strictly limited to ensure that fiscal sustainability is not threatened in the event of a downturn and given the uncertain costs of structural reform." International Monetary Fund (2001), pp. 18-19.

[18] For a discussion, see Rabushka (2003).

[19] *Clarín* (2003).

[20] Rahn (2003).

now than would otherwise be the case. Debt restructuring also has the advantage over loans that, if done in the right way, it avoids encumbering future governments of Iraq with obligations they may not have wished to undertake had it been their choice. Economists have explored some possibilities for debt restructuring that may be relevant for Iraq.[21]

Although Iraq grew poorer under Saddam Hussein, it still likely has a standard of living too high to qualify for grants from the International Development Association (IDA), an arm of the World Bank. The IDA makes grants and zero-interest loans to countries that have annual income per person of less than $875 in 2001 dollars and lack the financial ability to borrow from the main part of the World Bank. Iraq's income per person seems to be $1,000 or more. Money for Iraq from the World Bank would therefore take the form of loans unless World Bank rules were changed to emphasize grants rather than loans, as some economists have recommended.[22]

To promote beneficial use of loans made by the IMF to Iraq, if any, Representative Jim Saxton (R-New Jersey) has introduced H.R. 2080. The bill requires the United States to use its voice, vote, and influence at the IMF to oppose loans to the government of Iraq unless the Secretary of the Treasury determines that there are sufficient safeguards to prevent the loans from being used to reimburse persons or governments holding existing Iraqi debt for any losses on that debt.

Foreign trade. Over the years, the IMF and World Bank have frequently emphasized the desirability of greater openness to international trade, meaning the absence of import quotas and the desirability of low and uniform tariffs (in the limit, zero). Making Iraq's system of foreign trade more open by allowing free entry into trading would both promote economic growth and eliminate foreign trade monopolies as sources of political power for holdovers from Saddam Hussein's regime.

There are two parts to ensuring an open regime of foreign trade: trade policy and monetary policy. If there are no restrictions on trade itself, but exchange controls exist, the exchange controls can become de facto trade restrictions. Hence the IMF should keep in mind that if it wishes to promote maximum openness to international trade, it should recommend that there be no exchange controls.

Advice to Iraq about foreign trade should consider whether it would be to Iraq's advantage to join the World Trade Organization, which includes most of the world's large trading nations.

Government-owned companies. The worldwide experience of government-owned companies is that they are generally less efficient than privately owned companies. They often drain resources from the rest of the economy by accumulating losses, thereby reducing growth. Accordingly, there have been a number of proposals that Iraq's government-owned companies should be privatized. The largest of those

[21] Elali (2000), Lerrick and Meltzer (2001, 2002).
[22] Lerrick and Meltzer (2002a).

companies is the Iraq National Oil Company, which has been efficient enough to generate large revenues for the government. Proposals to privatize the Iraqi oil industry are compatible with proposals to collect most or all tax revenue from oil. The government need not own the industry to collect revenue from oil; it could impose a tax on every barrel of oil produced. Because Iraq is a low-cost producer, the tax could be large and still enable Iraqi oil to be competitive in world markets.

Not all privatization schemes work equally well. In Eastern Europe, some privatizations were transparent and improved economic efficiency; others were plagued by cronyism; still others were encumbered by rules that were well meaning but hindered efficiency. The hard school of experience offers some cautionary lessons about the need to think through the details of privatization. The World Bank has distilled some of the lessons of Eastern European and other experience in its research.[23]

Legal system. Sustained economic growth requires settled expectations about how property will be treated. Among all institutional reforms to promote economic growth, establishing the rule of law is perhaps the most difficult. Whereas a telephone system or even a currency can be imported and quickly "plugged in" to the local economy, the rule of law is by nature more of a spontaneous and homegrown phenomenon. The rule of law tends not to develop or to wither in dictatorships because dictators are above the law. In recent years, though, many former dictatorships have made substantial progress in fostering the rule of law. Iraq's legal tradition, though somewhat deformed by years of dictatorship, is fairly well developed. The World Bank has offered technical advice to a number of countries seeking to improve their legal systems.[24]

IV. CONCLUSION

To repeat, Iraq emerged from the recent war with relatively little physical damage. The Iraqi dinar in effect has a floating exchange rate. As a result of the depreciation of the dinar, the dinar liabilities of the financial system seem to be low expressed in terms of dollars. Iraq is already behind payment or in default on its foreign debt. Hence the usual rationales for loans by the IMF and World Bank—to rebuild infrastructure, support the value of the currency, rescue financial institutions, or help avoid default on foreign debt—are not as strongly present in Iraq as in some other recent cases. The IMF and World Bank may still be of use in a number of areas, though.

Kurt Schuler
Senior Economist to the Vice Chairman

[23] For example, the World Bank's "Toolkits" Web site, <http://rru.worldbank.org/Toolkits>.
[24] The Iraqi Jurists' Association, a nongovernmental organization based in London, has made proposals for legal reform; they are available on its Web site.

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