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# Once an Economic Dynamo, Iraq Is Now Financial Riddle

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The U.S. government has begun putting together plans to rebuild the Iraqi economy. The trouble is, Washington doesn't know exactly what it's trying to rebuild.

Saddam Hussein's regime, so secretive that it published its last map of Baghdad in 1973, released its last budget in 1978. Experts disagree about the size of the economy and the population. Even life expectancy is a mystery: Many Iraqi families don't report deaths because they would have to turn in the food-ration cards of the deceased.

The U.S. Treasury had to learn the addresses of the Baghdad branches of the Bank for Iraq, the central bank, from the Central Intelligence Agency. Treasury officials then lobbied the Pentagon to exclude the banks from its target list because Treasury fretted that without those records, it might be impossible to figure out the actual size of Iraq's gargantuan foreign debt. It's unclear whether any of the bank's facilities have been hit, although the U.S. has battered and burned Iraq's Ministry of Planning, a repository of many economic statistics.

Under Mr. Hussein, an admirer of Stalin, the Iraqi economy was marked by central planning, fixed prices and wages, informal payments to regime cronies and nationalization of health, education and many other services. But while the broad framework is well-known, details remain scarce.

Unless the U.S. knows wages and prices around Iraq, it risks setting off a round of hyperinflation when wages are no longer fixed. Without knowledge of Iraq's total debt, the U.S. can't begin critical negotiations to write off a portion of it. Without an assessment of Iraq's infrastructure, the U.S. can't accurately gauge how much it needs to budget for Iraqi aid or try to raise from foreign donors.

Before Mr. Hussein ordered the disastrous invasion of Iran in 1980, Iraq had moved to the top echelon of developing nations. The country was flush with oil revenue. Per capita income had doubled in the 1970s, and the government spent heavily to improve education and health services. Today, Iraq is widely believed to have about 112 billion barrels of oil reserves, No. 2 after Saudi Arabia. But in the wake of the nine-year war with Iran, the 1991 Persian Gulf War, years of sanctions and the devastation of the current campaign, the country is a shambles.

The bill for feeding Iraqis, providing security forces and rebuilding hospitals, power plants, telephone exchanges and other vital infrastructure could total more than \$60 billion over the next several years. Baghdad also is saddled with foreign debt and war reparations that could top \$300 billion. While Iraq also has assets, including about \$18 billion a year in oil exports, that amount is dwarfed by the scale of the task ahead. Iraq faces "a double transition" from the ravages of war and the Hussein regime's central planning, says Columbia University economist Joseph Stiglitz, a Nobel laureate.

President Bush, meeting in Belfast, Northern Ireland, with British Prime Minister Tony Blair, said Tuesday that he thinks Iraq is up to the task. "It is a cynical world which condemns Iraq to failure," he said. "We refuse to accept that." At meetings this weekend, the U.S. hopes to get the World Bank and International Monetary Fund more involved in reconstruction planning.

The U.S. plans to offer plenty of help. Reconstruction planning has been parceled out to many different U.S. agencies, under the direction of Lt. Gen. Jay Garner, who has assembled a core team of 230 active and retired government officials in Kuwait City. In coming weeks, the Garner group will grow much larger. Treasury is drafting a budget and banking regulations for a post-Hussein Iraq. The Transportation Department is helping design an air-traffic control system. The Commerce Department is focusing on a customs system. The Justice Department is planning to reform Iraq's civil and criminal courts.

The decisions that U.S. officials make can have a dramatic impact on Iraq, a nation split by deep ethnic divisions. One reason rival Kurdish groups started a four-year civil war in 1994 was because of mutual suspicion that they were cheating each other when reporting customs receipts from trade with Turkey and Iran. Since a peace deal was signed, Kurdish groups have continued to negotiate how to split customs revenue.

Most nations, even secretive dictatorships such as Syria, publish reams of statistics because the World Bank and the IMF require the data for loans. But Iraq stopped borrowing from the World Bank in 1973 and wouldn't allow the IMF to send financial review teams after 1983, making it impossible for the institutions to collect information.

"Iraq became a war economy, so everything became secret," says Baghdad-trained economist Jamil Khidr, now a Kurdish minister in northeast Iraq. "We had five-year plans, but we never knew what proportion was given to the military or security forces and what the oil income was.... The only person who knew it all was Saddam Hussein."

Last month, the U.S. Treasury turned a suite of offices in its Washington headquarters into a center for Iraqi reconstruction planning and information gathering. Staffed by 10 government officials, it has been dubbed "Iraqshack." Most of the financial data Treasury had on file were too old to be useful, so it turned to the CIA, which has spent years trying to monitor the Iraqi economy. Along with information about the central bank, the CIA provided files on the Finance Ministry and rough estimates of government assets, the Iraqi work force and number of pensioners.

Payroll information is useful, Treasury officials say, because a post-Hussein administration would continue to issue government paychecks. And getting wage and price information has become a top priority.

At a rambling, one-story hospital in Az-Zubayr, close to the Kuwaiti border, gynecologist Hana al-Sadi says the government pays her a stipend of \$1.50 a month, which she supplements by charging 50 cents for gynecological exams at a private clinic. Overall, doctors in the south make about one-fourth the \$180 monthly salaries of their counterparts in the north.

Treasury officials say wages and prices must be freed, but they plan to proceed carefully. If prices and wages are allowed to rise too fast, it will further impoverish the country and could worsen the already steep inflation rate, estimated at 70%.

Rubar Sandi, a Washington financier who left Kurdish Iraq years ago, has provided Treasury with detailed price data gleaned from friends and family in Iraq. During visits to northern Iraq, he says he paid workers and professionals from the south \$200 to visit his family home to talk about their local economies.

"We'd sit; we'd eat kebab; we'd have tea," says Mr. Sandi. "Later on, we'd talk. Any other way would look like interrogation." Then Mr. Sandi would pass the information on to the U.S.

The Web also has been helpful. One Iraqshacker put a search engine to work on the words "salary" and "Iraq" and discovered that reports from critics of America's policy on Iraq had statistics on the meager earnings of Iraqis. That information was then compared with figures provided by Mr. Sandi and others. Once U.S. troops secure government ministries and offices, Treasury officials expect far more accurate information.

"We collected everything and sent it to Baghdad. We were well-trained," says Hussein Mohammed, head of statistics in Sulaymaniyah, in Kurdish-controlled Iraq. Kurdish-controlled areas stopped forwarding information to the regime after 1991, but he figures that ministries "will keep backups of all the information, whatever happens in Baghdad."

Although the U.S. hasn't laid out its plans for Iraq's economy, ordinary Iraqis already are placing bets on what Washington might do, particularly when it comes to currency. Two bills circulate in Iraq. The Saddam dinar has a portrait of Mr. Hussein, and circulates in most of the country. It's sometimes called the "copy" dinar because the first bills were so badly printed that they resembled photocopies. Northerners tend to use an older, pre-Saddam dinar, dubbed the Swiss dinar because of its relative strength and the reputation of Switzerland for financial security. Since November, as the U.S. prepared for war, the value of the Swiss dinar has doubled to about 18 cents, while the Saddam dinar tumbled by about 33% to a third of a penny.

After the war in Afghanistan, the U.S. urged the new government to use the dollar as an interim currency, but the Afghans quickly introduced a new currency. In Iraq, the U.S. appears to be pushing again for the dollar. When British soldiers hired dock workers in the southern port of Umm Qasr, they paid in dollars. Faryad Ahmed, a taxi driver in the Kurdish city of Irbil who is saving to get married, says he changed some money into Swiss dinar last week when he saw the value rising. Now, he isn't so sure. "I'm keeping it in dollars," he says.

The U.S. can count on reasonably accurate information on Iraq's oil industry. Under the U.N.'s oil-for-food program, Iraqi oil exports, as much as two million barrels a day, have been tightly monitored by the U.N. But Baghdad also smuggled oil and successfully pressured oil traders to pay illegal surcharges. A report by the General Accounting Office says illegal payments amounted to about \$6.6 billion between 1997 and 2001.

If Iraq can export two million barrels of oil a day at an average price of \$25 a barrel for the coming year, a new Iraqi government could have oil revenue of about \$18 billion.

U.S. Army Corps of Engineers oil experts dispatched last month to the southern Iraqi oil fields say the wellheads -- a tree-shaped collection of piping and valves jutting up from the ground -- are generally in good shape. But other oil-field equipment has suffered from neglect. British and U.S. forces found a brown-paper bag fitted over an open valve, which they figured was used to keep dust and rain out of the piping.

Estimates for rebuilding Iraq vary from about \$20 billion a year for several years (Council on Foreign Relations) to as much as \$600 billion over a decade (Yale economist William Nordhaus) because the scale of reconstruction is so difficult to estimate. U.S. government officials plan to do quick assessments of Iraq's highways, telecommunications network and humanitarian needs as soon as the fighting ends.

Disentangling the regime's government finances is especially difficult. The U.S. isn't sure how many people work for the government, either directly as teachers, port workers, military personnel and the like, or indirectly through government payoffs for regime loyalists. Government paychecks may represent only part of government salaries. Before Yugoslavia broke apart, for instance, government entities there had 120 independent sources of money to augment paychecks, including military-owned hotels on the Dalmatian coast.

One of the biggest questions is the size of the Iraqi debt, which could be between \$60 billion and \$120 billion. One reason for the disparity is that Iraq disavows \$30 billion in assistance it received from several Persian Gulf nations to fight the Iran-Iraq war; the regime claimed the aid was made up of loans not grants.

Then there are claims for war reparations. A U.N. agency is adjudicating claims for the first Gulf War, and says Iraq's bill stands at \$27.3 billion. A further \$200 billion in claims has yet to be resolved. A World Bank official figures that Iran will ask for billions more in reparations from the Iran-Iraq war too. (Under the U.N. oil-for-food program, Iraq has paid about \$16.7 billion thus far in reparations -- mostly for claims by individuals -- for the 1991 Gulf War.) IMF and World Bank officials say that Iraq will have to negotiate to reduce the size of the crushing debt, and U.S. backing will help.

First, Iraq needs to make a full accounting of its debt, and those records, the U.S. hopes, are locked in the central bank. Given Baghdad's isolation from the rest of the financial world, the records may be in poor shape. But although backward, Iraqi systems worked. The entire voter rolls for last year's referendum for Mr. Hussein was printed out by old dot-matrix computer printers.

A senior Treasury official figures the U.S. will be able to interrogate enough central bank and Finance Ministry officials to get an accurate picture of the banking and finance system. Although several banks and credit unions are privately owned, Treasury officials suspect some may be arms of the government -- which might further increase the government's debt. One bank, called the Socialist Bank, is presumed to be used to make payments to regime loyalists. That bank may have to be "rationalized," says a Treasury official, using finance lingo for shutting down the bank.

-- *Chip Cummins in Kuwait City and Bhushan Bahree in Paris contributed to this article.*

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