

>>>> AN ECONOMIST REPORTS FROM BAGHDAD >>>>

BENJAMIN LOWY/CORBIS; RIGHT, TOP: LYNSEY ADDARIO/CORBIS; BOTTOM: TERU KUWAYAMA/CORBIS

Iraqis change 10,000-dinar notes for smaller denominations last summer in an exchange set up to shorten long bank lines. New currency was introduced in October.

The Iraqi Central Bank building after it was looted and burned following the collapse of the Baathist regime.



BY CHRIS FOOTE

Reviving the Iraqi economy in the aftermath of war



It's a pitch-black midsummer night in Baghdad, and I'm standing outside the Republican Palace, hoping for a ride back to my hotel. Four giant busts of Saddam Hussein sit atop the palace roof and look down on me as I wait. In the darkness, I hear occasional bursts of gunfire, but I know the shots are not fired in anger. Hours earlier, up in Mosul, Saddam's sadistic sons, Uday and Qusay, met their ends in a hail of American bullets. Just moments ago, standing in the palace, I saw the American military commander arrive to confirm news of their deaths. (His smile was so bright it cut through the darkness of the dimly-lit rotunda.) Residents of Baghdad are so ecstatic to learn that Uday and Qusay will not be around to terrorize them anymore that they celebrate in their favorite way—by blasting gunfire into the air. Unfortunately, what goes up must come down, and the bus drivers who shuttle coalition workers back and forth between the palace and the Al-Rasheed Hotel worry that some bullets will come down on them. They've suspended the shuttle service for the evening, which has stranded me, after midnight, without a ride home.

I could walk back to the hotel if I wanted. The area between the palace and the hotel lies within the "green zone," completely protected by the U.S. Army. But it's a long walk—about 1.5 miles—and it's still hot outside. (July temperatures in Baghdad range from 80 to 110 degrees.) Also, the walk takes me uncomfortably near Iraq's Tomb of the Unknown Soldier and the "crossed swords" monument where Saddam used to review his troops. I decide to take my chances hitching a ride on an Army Humvee passing on the road in front of the palace. But it's been about 15 minutes, and no luck. So I wait.

TALKING WITH PEOPLE now about my summer stint as an economist in Baghdad is not easy. Everyone wants to know: "What was it like over there?" Sometimes I'm tempted to answer, "I don't know, what was it like back here?" Every big place—the United States, Iraq, Boston—has millions of stories, millions of people embedding their private lives amid the wider world around them. I can't hope to summarize "what's going on" in Iraq with a few sentences. I can only talk about my own experiences.

People are often surprised to learn that I rarely felt in danger during the entire three months I was there. My feeling of safety came partly from the fact that I spent most of my time ensconced on the second floor of the Republican Palace, which by July had become one of the best-fortified bits of real estate in Asia. It also may have stemmed from my native Midwestern trust: I'm an economist, not a soldier. I came to help Iraq's economy get moving. Why would anyone want to hurt me?

My typical workday starts at 8:00 a.m. and lasts until 11:00 p.m. (Everyone in the palace works long hours.) My job is to help Peter McPherson, the coalition's director of economic policy, answer macroeconomic questions. In many ways, the job is similar to the one I held at the Council of Economic Advisers (CEA) before coming to Iraq. There the economic questions changed from day to day, sometimes from hour to hour. Baghdad is the same. What is the best way to fix Iraq's currency? How could foreign investment help Iraq? What tariff regime should we recommend? The questions are all over the map, so I draw more from my experience teaching macroeconomics to undergraduates, and less from my own specialized research.

The macroeconomic model I take with me to Iraq is simple: In the long run, markets and prices allocate resources efficiently, so it's best to keep government interventions in the market to a minimum. But in the short run, prices don't adjust to changing circumstances right away, leading to temporary problems like recessions. Because the U.S. economy is set up well, the problems at the CEA were usually of the short-run variety. Iraq is different. Under Saddam, Iraq's economy was riddled with corruption, inefficiency, and waste. The looting and sabotage to the country's infrastructure immediately after the war made things worse. The job of the economists I work with is to stabilize the economy from the immediate effects of the war, then help to put the country on a solid long-run foundation.

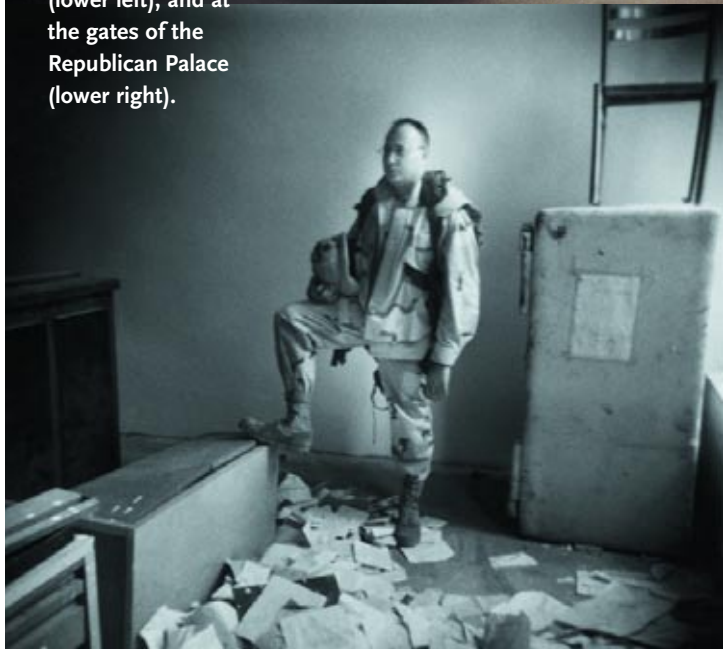
One of the toughest problems Iraq faces is what to do about its state-owned industries. After the British-installed monarchy was overthrown in 1958, successive Iraqi governments tried to diversify the economy by building state-run factories. Because these factories were owned by the government and not by pri-

>>>>EVERYONE WANTS TO KNOW: "WHAT WAS IT LIKE OVER THERE?" SOMETIMES I'M TEMP

TOP AND BOTTOM LEFT: TERU KUWAYAMA / CORBIS; BOTTOM RIGHT: REUTERS / CHRIS HELGREN / CORBIS



Soldiers stand guard at an Iraqi bank (above); at the Central Bank (lower left); and at the gates of the Republican Palace (lower right).



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vate investors, many of them became models of inefficiency, surviving only through government subsidies. An important part of economic reform will be to reduce these subsidies and divert government revenue to more productive uses, such as investments in education, transportation, and the oil industry. But reducing subsidies too quickly or too much would force many state-run factories out of business, worsening the unemployment problem.

Cutting the subsidies to consumers may prove even more difficult. Iraq's oil exports were prohibited by the United Nations after its 1990 invasion of Kuwait. Since 1996, Iraq has been able to export specified amounts of oil under an "oil-for-food" program run by the United Nations. Iraq's government distributed the food and other goods it purchased through this program at prices far below their market values. A nominal fee of 250 dinars (about 15 cents) buys a month's food ration. Subsidies also extend to goods produced inside Iraq—four cents gets a gallon of gas. In the long run, these prices will have to rise if the economy is to have the right market incentives, but price increases will also have to come about as part of an overall program that maintains Iraqis' living standards.

Like doctors performing triage, we leave these reforms for later. More pressing concerns include restarting the banking system, which is crucial for resuscitating the country's private sector. Postwar looting damaged many of the 300+ bank branches. To reopen them, we move cash around the country under military guard. Figuring out which banks can open, and

when, takes up countless meetings for several weeks.

Early on, I visit Iraq's Central Bank, which was also destroyed by looters. Our mission is to check on the Treasure of Nimrud, a collection of ancient Assyrian jewelry that was stored in the bank's vault for safekeeping in the early 1990s. The bank's basement was flooded with sewage water during the looting and has only recently been drained. Our group trudges down the unlit, still slimy stairs, careful not to slip. When we reach the bottom, I see that the corner of one of the vault doors has been peeled away, as if by a giant can opener. I am told that during the postwar chaos, someone tried to open this door with a rocket-propelled grenade, incinerating himself in the process. (The lock in the door held.) The deputy head of the Central Bank jiggles a number of keys and opens another door nearby. We are happy to learn that the treasures are intact.

Another financial problem we face concerns Iraq's currency. Only two denominations of the "Saddam dinar" circulate widely—one worth about \$5, another worth about 15 cents. Some of the plates and paper to make the larger note have been stolen, so everyone worries about counterfeits. This fear has caused the larger bill to trade at a discount to the smaller one, making it impossible to pay government salaries in the local currency and forcing Iraqis to carry bags of the smaller bills whenever they go shopping. We decide to start printing the smaller bills in an effort to raise their supply and thereby cut the discount. Yet the discount remains stubbornly positive, making our jobs that much harder.



Author Chris Foote (center with hat) stands with residents of Mosul at a stopover during his flight to Baghdad in late May.

CHRIS FOOTE

>>>> UNDER SADDAM, IRAQ'S ECONOMY WAS RIDDLED WITH CORRUPTION, INEFFICIENCY, AND WASTE. LOO

Postwar looting damaged the Central Bank (pictured here) and many bank branches. Figuring out which ones could reopen took several weeks.



TING AND SABOTAGE TO THE INFRASTRUCTURE AFTER THE WAR ONLY MADE THINGS WORSE.

SORTING OUT THESE PROBLEMS often leaves us frustrated. At our daily meetings, tempers can be short. Our frustrations stem from the workload, from the 6,000 miles that separate us from our families and friends, and from the oppressive Baghdad heat. We sweat over laptops and gulp down bottles of water until the palace's air conditioner is fixed at the end of June. But the Iraqis we work with go home to much worse conditions.

I come to appreciate my room back at the Al-Rasheed Hotel a great deal by the time the summer ends. Coalition workers fill the hotel, which (like the palace) is heavily guarded. My room is on the ninth floor, and from my window, I have a great view of Baghdad. I love to look out the window, whenever the hotel's electricity goes out—which happens every few days—to see how much of the city is dark. During the day, I can see a number of smoke-damaged buildings, including one that looks like a bombed-out ziggurat. Straight down, I see the wing of the Al-Rasheed that houses a number of restaurants and shops. The roof is covered with eight-pointed stars, the symbol of the Baath party.

In the hotel coffee shop one day, a woman who grew up in the Kurdish part of Iraq spends two hours telling me of life under the Baathists. When she was a girl, her father had to flee for his life, and his family hid from Saddam's men for months in their own house. They later escaped by foot over the mountains to Iran. She also tells me of a 16-year-old boy she knew. At school one day, the boy made a single, offhand comment disparaging the regime. After he got home, policemen visited his house, called him outside, shot him dead, and threw a piece of paper on his body—an order to his family not to give him a proper Islamic burial. His father disobeyed and buried his son with the appropriate ceremony. The men came back later and shot the father.

Over lunch in the palace cafeteria, two young Iraqi women working as translators tell me that they never talked politics in the old days. You didn't know if someone would turn you in for what you said. "I'm even a little nervous talking about this now," one of them said as she ate her lunch alongside dozens of U.S. troops.

While many Baghdad residents grow frustrated with the pace of the reconstruction during the summer, ending Saddam's regime has earned the coalition a great deal of goodwill. Children—Iraq's least political residents—seem to appreciate us the most. When I end a visit to the Central Bank or Ministry of Planning to go back to the palace, I typically see my military escorts hanging out with curious kids from the city. The children seem fascinated with all things American—especially Army paraphernalia—and they peer at me through a back-seat window as my SUV inches its way down Baghdad's crowded streets. One of the best pictures I took in Iraq shows

two boys, each about 11 or 12 years old, pressing their faces up to my window, as if I am a strange goldfish in a bowl.

I often wish I could hop out of my fish bowl and learn more about Iraq's economy by talking with people in the streets. Much of what I learn comes from the Iraqi economists with whom I work. We share a similar language and way of thinking, even though their English is sometimes halting and my Arabic is nonexistent. As economists, they speak with special sadness about the economic tragedies of the past. One Central Bank official told me of not being able to give his children the same standard of living his father gave him. "I was in kindergarten in the 1950s, but now I can't send my children to kindergarten," he said. "It costs too much money." Another, who holds a Ph.D. from a British university, recounts the time he wanted to figure the nation's balance-of-payments accounts using accurate methods. His bosses said no—they didn't want to publish bad news.

It amazes me that a sliver of Iraq's population wants to see those days return. Although I personally felt safe, security concerns were quite serious. Two economists with whom I worked, one from the International Monetary Fund and another from the British government, were injured in separate incidents. I know the British economist, Jacob Nell, the best. He is the type of person you would want rebuilding your country, with smarts, energy, common sense, and a cowboy-style straw hat that looks funny on someone who went to Oxford. On October 26, a rocket went through Jacob's window in the Al Rasheed, flew over his bed, and exploded in his bathroom. As I write this, Jacob is back in Britain, recuperating from injuries to his leg.

I EVENTUALLY FIND a ride home to the hotel on the night that Uday and Qusay are killed. A truck comes by driven by a soldier named Tony, who, in an astounding coincidence, is also detailed to the economics unit. I hop in the front seat, thank him profusely for the ride, and ask him how his day went.

"Not that good," Tony replies. He tells me of the trip he took with former prisoners of the regime, each of whom had a hand amputated while in jail. The men had heard a rumor that their hands had been buried under a tree near the prison. So Tony drove them to the prison, they dug up the dirt around the tree—and found nothing. The prisoners rode home discouraged.

After about five minutes, we arrive at the Al-Rasheed. As I hold up my identification badge to the troops guarding the hotel's front gate, I look forward to getting back to my bed. I need to sleep. Tomorrow is likely to be another long day. *

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