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FORGIVE THE IRAQI DEBT

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The Bush Administration should formally call upon the European powers (primarily Russia, Germany, and France) and Arab nations (including the Gulf states and Egypt) to forgive the huge debts owed by the Iraqi government. Forgiving these debts would constitute both an historic contribution to the economic development of post-Saddam Iraq and a major gesture of support for the Iraqi people.

The world must heed the lessons learned from the immediate aftermath of the Versailles Treaty of 1919, when France demanded \$32 billion in reparations from Germany. This onerous debt burden contributed to Germany's financial collapse in the 1930s and the end of the Weimar Republic, paving the way for the rise of the Nazi Party.

There has been a great deal of rhetoric from European leaders in recent weeks calling for a prominent role for the international community in shaping the future of the Iraqi people. While Moscow, Paris, and Berlin are unlikely to play a role in the administration or security of Iraq, they can make an invaluable contribution to the country's future economic prosperity.

The Extent of the Debt. Estimates of Iraq's indebtedness vary greatly, from 60 billion to several hundred billion dollars. The most comprehensive study of Iraqi debts, by the Center for Strategic and International Studies (CSIS), calculates Iraq's total debt to be \$127 billion, of which \$47 billion is accrued interest (based on 2001 World Bank figures). Iraq owes a further \$199 billion in Gulf War compensation and \$57 billion in pending contracts signed between the Saddam Hussein regime and

foreign companies and governments. Iraq's overall financial burden, according to the CSIS figures, is \$383 billion.

Based on these figures, Iraq's financial obligations are 14 times its estimated annual gross domestic product (GDP) of \$27 billion—a staggering \$16,000 per person. Measured by the debt-to-GDP ratio, Iraq's financial burden is over 25 times greater than Brazil's or Argentina's, making Iraq the developing world's most indebted nation.

U.S. Treasury Secretary John Snow recognized the gravity of the problem at the recent G-7 summit of finance ministers in Washington, declaring that “the Iraqi people cannot bear the burden of current debt levels.” While Russian President Vladimir Putin has acknowledged that Europe's leaders need to consider debt forgiveness, his French and German counterparts have steadfastly opposed it.

The estimated debt owed to European governments, while much smaller than that owed to Arab countries, is also of huge symbolic importance. The Europeans, among the world's richest and most powerful nations, have an historic opportunity to

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lead by example and help pave the way for debt forgiveness by the Arab world.

The Economic and Moral Imperative. Establishing fiscal and monetary stability and a stable currency will be virtually impossible if Iraq has no realistic prospect of paying down the debt to manageable levels in the near future. The Iraqi government has made virtually no debt-service payments since 1991. With its huge debt burden, Iraq will have extreme difficulty in attracting substantial foreign direct investment, and this will further limit economic growth.

Free of debt, Iraq has the potential to become an economic powerhouse in the Middle East and an example for others to follow. With the world's second largest oil reserves (112 billion barrels) and vast supplies of natural gas (110 trillion cubic feet), Iraq's economy can be transformed if it adopts sound principles such as keeping tariffs and taxes low, privatizing state monopolies, and upholding the rule of law. These principles will enhance economic freedom and create the conditions for a thriving entrepreneurship. Without substantial debt relief, however, Iraq's economic rejuvenation will be significantly delayed.

The case of Iraq also raises an important moral dilemma: Should the citizens of a liberated country be burdened with the debts of a brutal dictatorship? As U.S. Deputy Secretary of Defense Paul Wolfowitz observed in testimony before the Senate Armed Services Committee, much of the money borrowed by the Iraqi regime had been used "to buy weapons and to build palaces and to build instruments of oppression."

Arguably, the people of Iraq should not be burdened with the lavish spending of a tyrannical regime, which borrowed heavily to oppress its own people and enrich its rulers. The U.S. General Accounting Office calculates that Saddam Hussein and his family alone have amassed \$6.6 billion in hidden accounts internationally. Indeed, the doctrine of "odious debt," which dates back to the

aftermath of the Spanish–American War of 1898, could be applied in the case of Iraq. (The doctrine of "odious debt" argues that debts incurred by a dictatorship without the consent of its citizens, and which were not used for the benefit of the population, should not be transferred to a successor regime.)

Key Recommendations. The Bush Administration should:

- **Advocate debt forgiveness as opposed to debt restructuring.** Debt restructuring would not create a realistic prospect for debt elimination and would only prolong the suffering of the Iraqi people.
- **Apply diplomatic pressure on Paris, Berlin, Moscow, and Arab nations to consider the issue of debt relief for Iraq.**
- **Work closely with Downing Street to develop a joint U.S.–U.K. position on debt.** Prime Minister Blair's support will be vital for future negotiations with Britain's European partners on this issue and invaluable in discussions with Arab leaders.
- **Not allow a *quid pro quo*.** European nations must not expect a say—directly or through the United Nations—over Iraq's political and economic development in return for debt forgiveness, nor should their companies automatically be given a role in post-war Iraqi reconstruction.

Conclusion. If Iraq's debts are not forgiven, the Iraqi people will be financially crippled for a generation, or even generations, eliminating any prospect of a growing and prosperous Iraq. If European and Arab leaders truly want to help the people of Iraq, the best way to demonstrate this would be by easing the debt burden.

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