

# Executive Memorandum

No. 900  
September 19, 2003



Published by The Heritage Foundation

## Bolster Freedom, Not Dependence, in Iraq

*James Phillips and Marc A. Miles, Ph.D.*

President George W. Bush has called on Congress to approve an \$87 billion supplemental appropriations request, most of which is earmarked for Iraq. Congress should approve the Administration's request, which is sorely needed to stabilize Iraq, improve security against terrorist attacks, and finance reconstruction. But in the long run, only the Iraqi people can assure the successful transition to a secure and stable Iraq. Thus, Iraqis must be liberated from the restrictive economic system imposed by Saddam Hussein's dictatorship, just as they have been liberated from Saddam's tyrannical political system. As The Heritage Foundation's *Index of Economic Freedom* shows, countries with free and transparent economies are the ones best able to grow and prosper.

**Saddam Stifled Private Enterprise.** Saddam's regime inserted a number of restrictions into the Iraqi constitution and legal statutes that stifled private enterprise and assured state domination of the economy. The result was a sluggish economy increasingly dependent on the state-owned oil sector, which served the interests of Saddam's socialist Baath Party. In fact, Article 1 of the 1990 interim constitution, Iraq's most recent constitution, proclaims that the promotion of a socialist system is one of the basic goals of the state. Article 13 prohibits private ownership of natural resources and the "basic means of production." Article 18 prohibits foreign ownership of immovable property (land, buildings, and other permanent structures). Companies Law No. 21 of 1997 requires

that all founders, shareholders, and partners of Iraqi companies must be Iraqi nationals or citizens of other Arab countries.

The net effect of these legal restrictions was to suffocate private enterprise, reduce job opportunities for Iraqis, perpetuate state monopolies over many sectors of the economy and discourage private investment. These distortions hurt the interests of the Iraqi people but enabled Saddam Hussein to appropriate Iraq's huge oil wealth to maintain himself in power, reward his supporters, and fund his grandiose ambitions to claim leadership of the Arab world and dominate the Middle East. Iraqis would be far better served by shaking off the dead hand of Saddam's Baathist commissars and undertaking free market economic reforms to jumpstart their limping economy.

Removing barriers to private Iraqi and foreign investment would also lower the burden on American taxpayers for rebuilding Iraq, which is projected to cost \$50 billion to \$75 billion. While Ambassador L. Paul Bremer, the Administrator of the Coalition Provisional Authority, has taken some steps to move

- While Iraqis have been liberated from Saddam Hussein's political repression, they continue to be hamstrung by Baathist-inspired economic repression.
- The United States should immediately void these restrictions and encourage the nascent Iraqi government to advance economic freedom to reinvigorate the economy.

This paper, in its entirety, can be found at:  
[www.heritage.org/research/iraq/em900.cfm](http://www.heritage.org/research/iraq/em900.cfm)

Produced by the Center for International Trade and Economics (CITE)

Published by The Heritage Foundation,  
214 Massachusetts Ave., NE, Washington, D.C. 20002-4999  
(202) 546-4400 [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Iraq toward a free market economy, including suspending tariffs and import fees, many laws that severely restrict free enterprise remain in effect.

To energize Iraq's moribund economy and help stabilize Iraq by giving Iraqis hope for a more prosperous future, the United States should:

- **Immediately abrogate the Iraqi constitution and legal edicts that obstruct economic reforms.** The 1990 interim constitution, which was never approved by the Iraqi people through a free vote, was designed to prop up Saddam's Baathist regime by giving it total control over the country's economy. Ambassador Bremer should void the constitution and other harmful laws and strongly encourage the Iraqi committee charged with writing a new constitution to eliminate restrictions on private ownership of property. Setting aside these economic diktats would free Iraqis to own property, engage in private enterprise, and attract foreign investment that will help accelerate economic recovery.
- **Encourage the development of a modern legal system that recognizes property rights and is conducive to privatization.** Protection and enforcement of property rights are important for fostering economic growth and foreign investment. Such guarantees are necessary to encourage Iraqis to take the risks necessary to invest in their own future. Iraqi laws should not discriminate against foreign or non-Arab nationals.
- **Prepare Iraqis for comprehensive structural reforms and privatization.** The United States should encourage the Iraqi Governing Council to hire Iraqi expatriates and Western-educated technocrats who understand the benefits of economic freedom. The emerging Iraqi government should then launch a public information campaign to educate and prepare the people for structural reforms and privatization, particularly in the energy sector, which dominates the Iraqi economy. Suspending tariffs, freeing capi-

tal markets, and creating and protecting property rights is not enough. As the *Index* indicates, the Iraqi government should also sell state-owned enterprises, permit both foreign and local banks to do business with minimal regulation, reduce bureaucratic red tape, minimize labor laws, and implement low, flat taxes. Together, these reforms will create the basis for a strong market economy in Iraq.

- **Prepare a comprehensive economic reform package.** Once the public is educated about reforms, the government must follow through. The U.S. government should continue to work closely with the Iraqi Governing Council to implement systematic economic reforms, including price deregulation; privatization of state assets in the utility, transportation, energy, and other sectors; liberalization of trade policy and seeking entry into the World Trade Organization; and a commitment to keep taxes, tariffs, and inflation low.

**Conclusion.** For more than three decades, Saddam Hussein's regime imposed severe political and economic restrictions on the Iraqi people. While the Iraqis have been liberated from Saddam's political repression, they continue to be hamstrung by Baathist-inspired economic repression. The United States should void these restrictions immediately and encourage the nascent Iraqi government to advance economic freedom to reinvigorate the economy. The sooner Iraqis are free to own property, invest private capital as they see fit, freely borrow from banks, set up businesses with minimal red tape, and trade products freely across the Iraqi border, then the sooner the Iraqi economy will revive, living standards will improve, and Iraqis will take ownership of their political future.

—James Phillips is Research Fellow in Middle Eastern Studies in the Kathryn and Shelby Cullom Davis Institute for International Studies and Marc A. Miles, Ph.D., is Director of the Center for International Trade and Economics at The Heritage Foundation.