Neoliberalization At The Time Of The 2003 Invasion Of Iraq

Introduction

Neoliberalization was a common method with which developing economies opened their markets during the 20th century. Neoliberalization can be applied either narrowly or in full, narrowly referring to a shift in policies that increase market reliance, and full referring to a change in the relationship between society and the state effectively transferring importance to the market (Walton 2004). Neoliberalization relies on privatization, deregulation, and cutting public expenditure for social services. Neoliberalization occured in Latin American countries such as Peru, Brazil and Argentina, and was accompanied by several problematic outcomes. For these reasons it was not surprising when neoliberalization was the recommended strategy to reconstruct the Iraqi economy after invasion. This aim of this paper is to question why the US chose to neoliberalize Iraq in the manner it did, and the effects this neoliberalization had on the Iraqi economy. The five sections of this paper will examine why neoliberalization was the chosen method of reconstruction in Iraq, neoliberalization in practice within Iraq, the corruption neoliberalization brought with it, the neocolonial aspect of neoliberalization, and the aftermath of the reconstruction of the Iraqi economy. The paper will end with conclusions and external effects of the Iraq war. The neoliberalization of Iraq was carried out with no consideration for why the Iraqi economy behaved in the way it did, resulting in the creation of a humanitarian, economic, ethnic and sectarian crisis within Iraq.

Why Neoliberalism in Iraq?

At the time of the 2003 invasion of Iraq by US special forces, there was no doubt that some level of economic reconstruction would be necessary. After the invasion, the US argued that the Iraqi economy was heavily burdened by endemic corruption and inefficiencies, making neoliberalization the most effective option to kickstart the Iraqi economy (Abboud 2008). Rather than wholly attributing the failed economy in Iraq to rampant corruption and inefficient policies, external causes such as the militarization of the economy and economic sanctions placed on Iraq by the US contributed greatly to the state of the inherited economy (Mahdi 2007). Had the US taken into account the sources of the failed state while determining methods for reconstruction, state failure would've been far less likely.

The history of the Iraqi economy illustrates the negative impact US involvement had inflicted on the state of Iraq prior to the 2003 invasion. The rise in oil prices caused by OPEC in the 1970s allowed Iraq to take a step in the right direction and expand its development budget, increasing both social and infrastructural spending. Most development spending fell behind allocations, due to skilled labor shortages and issues with transportation (Youssef 2007). Still, the creation of infrastructure and investment in social projects allowed Iraq to begin to build the foundation of a strong economy and state. Military conflicts such as the Iran-Iraq War and the 1991 Gulf War left significant impacts on Iraq, especially in terms of Iraqi infrastructure (Mahdi 2007).

The skilled labor market was hit hard by the Iran-Iraq conflicts lasting from 1980 to 1988, augmenting the transportation problems seen in the 70s and costing the Iraqi economy, ultimately resulting in the Iraqi government cutting social spending. Economic sanctions placed on Iraq in 1990 placed the Iraqi economy in a state of distress, collapsing incomes and real GDP while the Gulf War of 1991 saw US troops target infrastructures such as oil refineries, telecommunication networks, and industry that could only be rebuilt using imports and/or foreign expertise (Youssef 2007). Compounded together, these factors left Iraq, its people, and its economy in a state of distress before the 2003 invasion of Iraq.

When the CPA (Coalition Provisional Authority) came into power in Iraq, they implemented the neoliberalized economy rapidly and with little regard for the reasons the Iraqi economy followed the patterns it did, or to whether the Iraqi economy was prepared to exploit a free market, creating systemic problems down the line. When implementing neoliberalization, it's typically assumed that the receiving nation will acquire "macroeconomic stability, reduced government intervention, a dynamic private sector, and prosperity" (Looney 2004). Neoliberalization deregulates banks, privatizes state-owned enterprise, and lays the foundation for the creation of a stock exchange in order to build a competitive free-market (Looney 2004). In theory, these changes would benefit Iraq and it's people substantially, as a history of corruption and a reliance on state-enterprise resulted in high rates of poverty and a weakened state.

There were three main arguments for the neoliberalization of the Iraqi economy, all largely focused on ending endemic corruption within Iraq while allowing the economy to develop. The first argument for neoliberalization was that public ownership was deteriorating the Iraqi economy, limiting privatization while harsh statist policies altered economic outcomes. Secondly, the corruption of the public sector was so significant that to combat it, privatization was crucial. According to the CPA, privatization of firms and industry would allow for an increase in productivity as well as resource allocation efficiency (Mahdi 2007). Finally, it was argued that the market had to be neoliberalized in order to attract foreign direct investment as well as the attention of multinational corporations, which would bring skills and technology with them and increase productivity in the long term.

Another argument for the invasion and subsequent neoliberalization of Iraq focuses on the "transnational crisis of overaccumulation," and views the invasion and reconstruction of Iraq as an "at-large investment in the future". The globalization of production that began in the 1970s occurred concurrently with the centralization of economic control and management (Baker 2014). As capital penetrated economies all over the world, it began to run out of space, creating a crisis of overproduction and overaccumulation. Rampant under-consumption was remedied through US-led militarization designed to spur spending and gain access to otherwise untapped markets. The neoliberalization and subsequent privatization of the Iraqi economy was one such remedy, and aimed to transnationally-orient Iraq to absorb excess capital and engage in global consumption while providing the US with special access to the economy (Baker 2014). The hurried neoliberalization intended to allow for quicker absorption, though it left Iraq in a state of distress.

Neoliberalization in Practice

The neoliberalization of Iraq began long before invasion, when President Bush worked under an Executive Order entitled the Patriot Act in order to fight the financing of terrorism in the War on Terror. Executive Power can be exercised by Presidents without any evidence of wrongdoing by the parties targeted, which provided the President with a powerful tool to pursue his agenda. The Patriot Act allowed the President to freeze the funds of both individuals and non-governmental organizations (NGOs) who were believed to have ties to terrorist organizations (McCulloch et. al 2005). This significantly reduced the funding of NGOs, as the Patriot Act exposed anyone who donated to NGOs to the potential for devastating criminal and financial punishment. NGOs create a space for civil society and are a necessary fixture for any functioning democratic state. NGOs are responsible for supporting social justice movements and civil rights, yet the counter-terrorism tactics favored by Bush significantly reduced funds available to NGOs, further reducing the space for Civil Society and potential for social change in these nations, resulting in higher rates of poverty and destitution (McCulloch et. al 2005).

The Patriot Act also allowed the US to freeze funds in several informal banks, which proved problematic to the Iraqi people as informal banks were more widespread and trusted than formal banking systems in the Middle East (McCulloch et. al 2005). This allowed the US to further dominate financial networks, while forcing the Middle East into a Westernized banking system that was less equipped to meet their needs. Foreign banks were encouraged to open conglomerates in the Middle East, or to purchase equities in existing banks whose assets had not been frozen. The destruction of Civil Society and the seizure of informal banking systems gave the US unprecedented control of the regions and left those affected by US sanctions much more vulnerable to mistreatment by the state.

Phase 1 of the neoliberalization of Iraq began in January 2003 and was led by President George W. Bush. The Office of Reconstruction and Humanitarian Assistance (ORHA), led by Jay Garner, was the first office to be established, intending to lead Iraqis through the creation of a democratic system while reconstructing their economy. The planned reconstruction of the government by the ORHA would involve the removal of any of Hussein and any of his close adversaries while maintaining the structures of bureaucracy already in place in Iraq. The removal of Hussein’s government began in March 2003 and was completed by April 9th of the same year. The removal of Saddam, however, saw the breakdown of the bureaucratic structures of the Iraqi government and its infrastructure, an outcome that was unexpected based on the original plan of the ORHA. Iraq was then divided into six centers of command, referred to as major subordinate commands or MSCs. Each MSC was to focus on reconstruction within its sector - southeast, center south, north, north-central, western, and Baghdad - with funding from the Development Fund for Iraq (DFI), Commanders Emergency Response Program (CERP) and oil export assets.

Iraq’s position as a “state of exception,” at the time of their restructuring was crucial in terms of the CPA’s ability to restructure the Iraqi economy. A “state of exception” refers to a moment in time in which the rule of law is suspended within a state due to emergency conditions, such as war, and relies on the suspension of laws to impose a “new force of law.” The State of Exception in Iraq allowed Paul Bremer, the head of the Coalition Provisional Authority (CPA), to set laws, budget reconstruction, reallocate funds and write the new constitution to be followed and enacted by the Iraqi people. Separation of powers within the CPA was almost negligible, providing Bremer with an astounding amount of political and legal authority.

The Phase 2 initiatives implemented by the CPA began in May of 2003 and focused on neoliberal “shock therapy,” involving rapid privatization and marketization within the Iraqi economy. One-hundred free-market economic orders were passed by the CPA, opening the market and allowing for the privatization of several key industries, as public industry was believed to be ineffective and unprofitable (Youssef 2007). The privatization of industry left thousands of Iraqis unemployed, as the state was Iraq’s largest employer. Phase 2 began with Order No. 1 calling for the controversial “De-Ba’athification” of Iraq, which removed close associates of former President Saddam Hussein from positions of power. De-Ba’athification entailed the purging of Baati party supporters from any position of leadership or authority working in public service within Iraq. The second De-Ba’athification Order given by Paul Bremer focused on the removal of thousands of Iraqis from their jobs and the disbandment of the Iraqi military, further costing the Iraqi economy and its people (Isakhan 2015). De-Ba’athification allowed the US total dominance over reconstruction, destroying the possibility that Iraq could rebuild itself on its own.