



BY ROBERT J. BARRO

A Step in the Right Direction for Iraq

Amid the continuing violence, people sometimes lose sight of the nobility of the U.S.-led effort to reform Iraq. The success or failure of this mission—not the existence of particular weapons nor the deplorable bombings—will greatly influence the prospects for peace and economic development in the Mideast and elsewhere. One strongly positive sign is the recently passed

transitional law for Iraq. It carefully lays out a federal system with checks and balances and many individual liberties reminiscent of the U.S. Bill of Rights. Also conspicuous is its attention to the rule of law and private property, which should boost long-term growth. The new law sets a firm foundation for economic and political institutions that can support a modern market economy.

Still, there are some less positive provisions that deviate from those in the U.S. Constitution. For example, the Iraqi law enshrines affirmative action with a goal of at least 25% female membership in the elected National Assembly. There is also a vague right to privacy and an overly ambitious commitment to education, health care, and social security for all Iraqis. A more serious problem is that natural resources—meaning oil—are described as owned in common. This provision impedes privatization and foreign investment in the oil sector. More understandably, in contrast with the U.S. guarantee of the right to bear arms, the Iraqi law says such rights require licensing by an official authority.

THE CLEAREST DEVIATION FROM the U.S. Constitution is the stipulation that Islam is the official religion of the Iraqi state. The provisional law assures freedom of religious practice, but many Westerners would have preferred a separation of church and state. However, my ongoing research with Rachel M. McCleary (“Which Countries Have State Religions?” available at wcfia.harvard.edu/religion) finds that a state religion is nearly inevitable. Out of 34 countries with Muslim adherence rates above 70%, outside of sub-Saharan Africa, only Turkey and Syria don’t have a state religion. In these countries, strong Presidents (Ataturk in the 1920s and Assad in the 1970s) successfully deviated from popular opinion by establishing more or less secular states.

Many economic issues in Iraq remain unresolved, notably those involving internal markets. Price controls on oil products are problematic, as are subsidized food packages and inefficiencies of state-owned enterprises. But global trade and foreign investment have been liberalized. (For discussions of economic reforms, see “Economic Policy & Prospects in Iraq,” by Chris Foote and other researchers working for the Coalition Provisional Authority.)

Another issue is monetary policy, including the form of the currency. My preference was for the adoption of a major currency as a reliable form of money. The euro might have been a better choice than the dollar, avoiding charges of Yankee imperialism and cheering up the French and Germans. Whether the dollar or the euro were chosen, the provision of the requisite amount of currency would have been a productive form of foreign aid.

Instead, the U.S. opted for an Iraqi central bank, which is reasonably charged with maintaining price stability. The chosen form of domestic money was wise—the Swiss dinar, which previously had circulated only in the Kurdish regions. (The origin of the adjective “Swiss” is unclear.) Because this currency was printed in England and no new notes were printed in the 1990s, the quantity of Swiss dinars has remained roughly constant. In contrast, the supply of Saddam dinars that circulated in the rest of Iraq expanded fast—hence, the Saddam dinar depreciated by a factor of around 200 relative to the Swiss version. Given its history of stability, the Swiss dinar is a reasonable choice as the new money. An added benefit is the absence of Saddam’s picture on

The new law lays out checks and balances and many liberties

these bills. To produce the new Swiss dinar bills, the U.S. Treasury had to ask the Bank of England to search for the original plates, last used in the 1980s. The unearthed plates provided the means to implement Iraq’s new currency system.

Prospects for political and economic success in Iraq are uncertain. The U.S.-led effort can fail in many ways, notably by a loss of political will in the face of terrorism and weak allies. On the other hand, success could change the shape of political institutions throughout the Middle East. Iraq’s new provisional law raises the chances of success. ■

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