

TESTIMONY

Accelerating Economic Progress in Iraq

KEITH CRANE

CT-246

July 2005

Testimony presented to the Senate Foreign Relations Committee on July 20, 2005

This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND®** is a registered trademark.



Published 2005 by the RAND Corporation
1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138
1200 South Hayes Street, Arlington, VA 22202-5050
201 North Craig Street, Suite 202, Pittsburgh, PA 15213-1516

RAND URL: <http://www.rand.org/>

To order RAND documents or to obtain additional information, contact
Distribution Services: Telephone: (310) 451-7002;
Fax: (310) 451-6915; Email: order@rand.org

**Statement of Keith Crane¹
Senior Economist
The RAND Corporation**

**Before the Committee on Foreign Relations
United States Senate**

July 20, 2005

Mr. Chairman, I appreciate the opportunity to be here today as part of this important set of hearings on policy options for Iraq.

OPTION 1 – SHOULD THE COALITION DO MORE TO SHIFT ADDITIONAL ECONOMIC DEVELOPMENT RESOURCES AND EMPHASIS FROM BAGHDAD TO THE PROVINCES?

What have been the challenges in achieving this aim? Will strengthening regional and local authorities outside Baghdad speed delivery of services and broaden the tangible benefits of aid? Are the recently formed Provincial Reconstruction Councils up and running and having the desired impact?

Because the Iraqi government remains highly centralized and because there is still no constitutional basis for devolving authority, technical assistance needs to be concentrated on making the core ministries of the central government function more efficiently, not on channeling assistance through provincial and municipal government institutions that lack the constitutional authority to make and control expenditure decisions. Major efforts to strengthen regional and local authorities should wait until the new constitution defines their authority. The Provincial Reconstruction Councils are up and running. It is too soon to determine whether they are having the desired impact. They do suffer because they are a U.S. government initiative as opposed to an Iraqi government institution.

¹ The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of RAND or any of the sponsors of its research. This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

Unless they become part of the Iraqi government's operations, they are unlikely to survive the eventual U.S. drawdown.

Helping local governments to better manage their affairs is a laudable goal. But until the legislative and executive authority of these institutions is constitutionally defined, governorate and municipal governments will remain weak. Currently, governorates and municipalities rely on the central government for virtually all their revenues. They have little independent expenditure authority. As long as the ministries remain the de jure and de facto centers of power, assistance should be targeted on helping the core ministries to better manage their affairs, despite the attractions of focusing on provincial or municipal authorities with whom it is often easier to work. This said, the Iraqi government will be more effective, if more government functions are decentralized. A modest effort to help improve the abilities of local governments to operate would be useful.

Building the capacity of Iraqi central government institutions to run its own affairs, especially to provide security to its citizens, is the most critical task for U.S. assistance programs. The most important ministries on which to focus are: Interior, Defense, Justice, the Judiciary, Finance, Oil, Electricity, Health, Education, and Municipalities and Public Works. One of the most important lessons of the last two and one-half years, a lesson that well-known by development experts, is that building electric power generating or water purification plants is a waste of resources if the host government is unprepared to operate and manage the facilities or the systems of which they form a part. This has been the case in Iraq. Within 18 months, IRRF II funds are likely to be completely spent. Assisting Iraqi ministries to better manage their own affairs before assistance funds run out is key to ensuring that the provision of government services will improve even as U.S. assistance declines.

OPTION 2 – SHOULD THE COALITION, IN CONJUNCTION WITH THE IRAQI GOVERNMENT, INCREASE RESOURCES AND EMPHASIS ON CREATING JOBS AND DEMONSTRATING TANGIBLE PROGRESS ON THE GROUND?

It has been suggested that WPA-type programs for trash cleanup, local repairs, and the like would let Iraqis see visible progress and make their daily lives more bearable while putting money into the pockets of the unemployed. Would this strategy work? Could the Coalition help the prospects for a functioning economy by encouraging shops and small businesses through micro-credit, small grants, loans and other programs?

The real problem in Iraq is poverty, not unemployment, as shown by a recent in-depth study of living conditions in Iraq.² Make-work schemes are a stopgap measure and are of questionable utility at this point of time in Iraq. At this juncture, assistance needs to be focused on improving the environment for economic development. First and foremost, this means the Coalition and the Iraqi government need to give first priority to improving security. No economy with the levels of violence and crime that currently exist in Iraq can sustain rapid growth. Second, assistance needs to be targeted on improving the capacity of the Iraqi government to function effectively.

Make-Work Schemes

In a long series of opinion polls, high percentages of Iraq's citizens have consistently stated that their number one concern is security. Surprisingly, the same polls have consistently shown that most Iraqis have an optimistic view of their economic future. However, unless security improves, Iraq will not enjoy sustained growth; with security and sensible economic policies, Iraqis should enjoy sustained increases in living standards.

Employment or the lack thereof has been a contentious issue in Iraq. Difficulties in finding work and dissatisfaction with job opportunities ranks as a chief concern in opinion polls of Iraqis. Young men looking for work have reportedly been a major source of insurgents. The "National Development Strategy 2005-2007" states that unemployment is as high as 50 percent.³ Other sources cite figures ranging to 40 percent.⁴

These estimates of unemployment rates are seriously flawed. The only two credible estimates based on nation-wide surveys have been conducted by Central Organization for Statistics and Information Technology of Iraq (COSIT), the Iraqi equivalent of a combination of the Bureau of Labor Statistics and the Bureau of Economic Analysis.

² Ministry of Planning and Development Cooperation, *Iraq Living Conditions Survey 2004, Volume 1*, Baghdad, 2005, at www.undp.org.

³ The Iraqi Strategic Review Board, Ministry of Planning and Development Cooperation, "National Development Strategy 2005-2007," Interministerial Committee on the National Development Strategy, Baghdad, May 2005, p. 5.

⁴ Michael E. O'Hanlon, *The Iraq Index*, The Brookings Institution, Washington, D.C., May 9, 2005, p. 24, www.brookings.edu.

One set of estimates based on COSIT definitions estimates that unemployment rose from 16.7 percent in 1997 to 28.1 percent in October 2003, dropping to 26.8 percent in 2004.⁵ The other survey, conducted using the International Labor Organization (ILO) definition of unemployment, finds that 10.1 percent of the labor force is unemployed.⁶ The ILO definition, accepted internationally, best captures actual economic activity of households. It defines unemployment on the basis of whether one has worked in the week prior to the survey; other surveys often ask the interviewee whether they consider themselves unemployed, not whether they have worked. Because individuals employed outside their chosen profession frequently respond that they are unemployed, even though they work in some other capacity, unemployment rates are often exaggerated in surveys that do not focus on whether the respondent worked recently.

Other data support this view of an economically active, albeit poor male citizenry. Labor force participation ratios, the share of the population in the work force, are similar in Iraq to other countries in Arab countries in the Middle East and North Africa. Ratios for men between the ages of 15 and 65 run 69 percent; those for women are much lower, at 13 percent. The private sector is the largest employer. Most people who work in the private sector are self-employed. They either operate their own businesses or work as day laborers. Detailed studies by anthropologists of street vendors, subsistence farmers, and day laborers, common occupations in Iraq, find that these individuals spend considerable time working each day. They do not receive a monthly paycheck from an employer; their incomes depend on demand for their services. This state of affairs is not unusual in other countries: In the United States, a large number of people run small businesses, farms, drive trucks, or work in construction. Their incomes depend on the profitability of their businesses or what jobs they have lined up. However, in Iraq productivity and hence incomes are low. In contrast, U.S. citizens work in an economy in which they are highly productive, generating much greater incomes.

The Iraqi government is also a major employer (Figure 1). In poorly monitored ministries, some workers treat their government salary as a stipend and spend most of

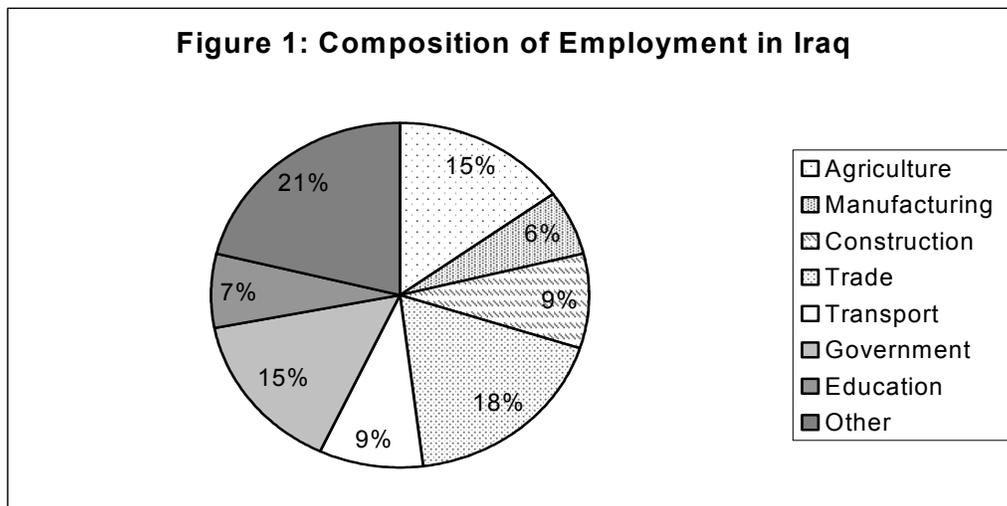
⁵ Central Organization for Statistics and Information Technology, "Report of the Employment and Unemployment Survey Results 2003 Year," January 2004, p. 15; The Iraqi Strategic Review Board, Ministry of Planning and Development Cooperation, May 2005, p. 27.

⁶ Ministry of Planning and Development Cooperation, *Iraq Living Conditions Survey 2004, Volume 1*, Baghdad, 2005, p. 104 at www.undp.org.

their energy pursuing private activities after or during work or using their positions to seek bribes. In many cases, Iraqi government workers supplement their incomes by working in the private sector as well. For example, many Iraqi doctors work in the public health care system, but also take private patients.

I make these distinctions not to minimize Iraqi complaints or perceptions of unemployment, but so as to focus on the real problem, which is poverty, not the absence of economic activity. Because self-employment is often poorly paid in Iraq, when alternative, better-paid employment is available, self-employed individuals quickly take them. This is why participation in make-work schemes has been high.

In some instances, make-work schemes can ease social pressures by taking demobilized soldiers off the streets. However, in general the creation of short-term jobs in an attempt to placate the local population, partly in response to the perceptions of high unemployment, can be a problematic use of assistance. Make-work schemes, if done poorly, can and often do result in a reduction in average real incomes, in other words by wasting tax revenues on work that does not add value to the society, the schemes make the country and its citizens poorer, not wealthier. Poorly-run programs can teach bad work habits, as well as good. Make-work jobs may teach people that advancement results from connections or putting in time, not hard work, and can discourage initiative. Furthermore, if the jobs are truly short-term, the programs can breed more ill will than gratitude as recent hires find themselves laid off once the program expires. There is substantial anecdotal evidence to show that make-work programs employ insurgents without much effect on political views. In some instances, insurgents have participated in make work schemes during the day, then fought the Coalition at night.



Some short-term projects can contribute to private business development. Road rehabilitation programs can generate economic rates of return averaging 20 to 30 percent by reducing transport costs. They can be undertaken by local businesses and involve local resources (gravel, bitumen, labor). Issuing contracts for small private companies is a good use of funds and teaches good habits: the contractor, if subject to adequate oversight, learns to bid, to manage his business, and to keep his workers happy and working. The contractor's emphasis on making the contract profitable results in appropriate motivations for his workers. Moreover, entry into these businesses is usually easy. The more entrepreneurial workers learn from their employers and then start their own businesses, using their current employer as an example of what can be done.

Targeted Lending and Microloans

The key economic policy task in Iraq is to create an economic environment conducive to private sector activity. Successful development needs a favorable economic environment (low inflation, a sound financial system, a legal and commercial framework conducive to business, etc.); the use of markets to allocate goods, services, labor, and capital; security for persons and property; low transactions costs (the ability to travel, communicate, and transport goods easily and cheaply); and the human and physical capital to take advantage of these conditions.

Improving the operation of Iraq's financial system would be an important contribution to financial stability and growth. The current system is underdeveloped: financial assets as a share of GDP are minuscule; financial services contributed only 1.0 percent to GDP in 2000 and no more in 2003. Banks have a very weak capital base. Bank employees, state and private, lack training in assessing credit risk. In other transition and developing countries, banking systems like Iraq's, characterized by a few large state-owned banks and a smattering of small, private banks, have become time bombs. Because of political pressures to lend and the inability to properly evaluate credit risk, the banking system tends to make bad lending decisions at this point in the recovery. When these loans go bad three to four years down the road, the banking system implodes; the government has to bail out the system at great cost while the economy goes into recession.

CPA rightly focused on improving the banking system through training, restructuring, and encouraging foreign investment in the industry. All three initiatives, especially foreign investment, have been highly successful in other developing and transition economies. Building trust in financial transactions is a key part of this process: Central

Bank of Iraq oversight of the banking system will contribute heavily in this regard. Creating a proper regulatory environment and facilitating the development of banking services should result in improvements in the speed and reductions in the costs of financial transactions, increasing financial intermediation as a share of GDP and improving capital allocation. These changes could add 3 to 4 percent to long-term GDP as the share of financial services in GDP moves to levels more typical of medium-income developing countries.

Other financial sector policy initiatives need to be pursued with care. In a number of countries, small-scale microcredit programs have been successful in giving poor households an economic start, but programs rarely cover costs because making and collecting payments on small loans is so expensive. These programs are difficult to expand quickly. Successful microcredit programs entail a great deal of hands-on work within communities. Quality, not quantity, is key to the success of microlending programs as it is with many other assistance programs.

Directed lending to small and medium-sized businesses has had a mixed track record in developing countries: default rates, especially early in the transition, are often high and bad loans have contributed to banking collapses and recessions. As shown by the high degree of liquidity in Iraqi banks, small businesses are currently financing investment through retained earnings. Later in the recovery, banks will begin to provide loans to small business as their ability to judge creditworthiness and evaluate projects improves. However, with growth in GDP of an estimated 51.7 percent in 2004 and a projected 16.7 percent in 2005, there are no signs that the small business sector is severely constrained by the lack of credit at this point in time.

No transition economy has successfully developed mortgage lending in the early years because of high rates of inflation, the high level of economic uncertainty, the absence of information on personal creditworthiness, the large numbers of people without steady incomes, and the lack of objective assessments of the value of buildings. Assistance in setting up titling offices and systems, collecting information on property sales, removing regulatory and tax disincentives to property sales, and preparing legal changes to make foreclosure easier would prepare the groundwork for the development of a national mortgage industry, but in my view subsidized mortgages has been a poor use of assistance elsewhere. Housing is relatively expensive everywhere in the world; as a

consequence, to reach a substantial number of people, mortgage subsidies are very expensive. If programs are kept small, they reach modest numbers of people.

CERP Funds

A substantial amount of assistance in Iraq has consisted of smaller grants provided to local communities from Commander's Emergency Response Program (CERP) funds. This program has been very popular with commanders, as it is perceived as providing quick results that are readily apparent to local populations. Despite their popularity and the very substantial sums of money recently provided to commanders through CERP, it is not clear how useful these expenditures are in terms of fostering sustained growth, permanent employment, or even in counterinsurgency efforts.

A number of analysts have argued that in the aftermath of a conflict, highly visible, quick impact projects are important to sway popular support for the new regime. If this was the case in Iraq, the opportunity has been lost. Coalition forces have been in the country for nigh on two and one half years. In many parts of the country, popular opinions about the Coalition have coalesced around one view or another. For example, it is not clear whether a highly visible U.S. program of rebuilding Fallujah would have a significant impact on perceptions of the United States in that city.

There is a case for the use of grants for small short-term targeted projects as part of an effective counterinsurgency effort. In the case of Iraq, the use of short-term targeted expenditures on neighborhood or town projects coordinated with other counterinsurgency efforts have received high marks in Baghdad and the north. On the other hand, commanders have sometimes focused on construction projects that once completed have not been effectively utilized by the community or have been targeted for destruction by insurgents because of their U.S. origin. Commanders have been confronted with pressure to give construction contracts to politically powerful individuals rather than the lowest bidder, a practice that would help perpetuate a culture of corruption in Iraq. In short, with CERP funds less may be more in a number of instances.

OPTION 3 – SHOULD THE COALITION PUT MORE EMPHASIS ON OVERCOMING THE TWIN CURSES OF THE OIL SECTOR: CORRUPTION AND SABOTAGE?

Can the Coalition work with the Iraqi ministries to develop and fund a full scope program to enhance security of the oil production and distribution infrastructure and combat

corruption in the Iraqi oil industry? Should the Coalition and the Iraqis develop emergency pipeline repair teams, work with local tribes to protect pipelines, and offer incentives or rewards for those who turn in corrupt oil industry personnel? Within the oil sector, where is the corruption problem greatest? Would oil resources be more productively used for the benefit of the Iraqi people if they were managed regionally, instead of by the central government?

Corruption in Iraq is primarily a problem of opportunity. If the opportunities disappear, corruption will decline. Thus policies need to be focused on reducing or eliminating opportunities for graft and corruption. The largest source of corruption in Iraq is the theft and diversion of gasoline and diesel fuel by government officials. Although the scale of this activity is impossible to measure accurately, one contractor reportedly stated that a third of imports of gasoline and diesel fuel “disappear.” These will run on the order of \$2 billion in 2005, roughly a tenth of Iraqi GDP. Eliminating this opportunity by liberalizing gasoline and diesel prices is the single most important economic policy change needed in Iraq today. The second most severe source of corruption by value is government contracting. Working with the Iraqi government to create transparent, simple accounting and competitive contracting systems is a very important economic policy measure for reducing corruption. Transparent, simple accounting systems coupled with “whistle blower” protections and severe sanctions are important for combating the third most important source of corruption by value: garnishing wages by more senior civil servants.

It is impossible to overemphasize the importance of liberalizing gasoline and diesel fuel prices for the health of the Iraqi polity and economy. Currently, gasoline and diesel fuel are sold at about a nickel a gallon; smuggled into neighboring Turkey, they can be resold for more than \$5 a gallon. Confronted with these nonsensical differences in prices, no society is immune from corruption. It is pervasive in the downstream activities of the Ministry of Oil. The severity of corruption is revealed in the lengths to which those involved are willing to go in order to preserve their access to state resources. The last two executives in charge of refining and product distribution were reportedly shot by organizations involved in stealing fuel, not insurgents. The first executive was wounded; the second was killed. These people were not victims of the insurgency, but of corruption.

The economic costs of fuel subsidies form the single greatest economic problem facing the Iraqi economy. Controlled fuel prices are a particularly pernicious form of subsidization. In the case of Iraq, the IMF estimates that fuel price subsidies cost the country \$7 billion in 2004, a third of GDP.⁷ Of this, \$2 billion was in hard cold cash used to import gasoline and diesel fuel from its neighbors (some of which was immediately resold to them at knockdown prices). The rest is the loss to the Iraqi Ministry of Finance from foregone revenues. With a budget deficit equal to 43 percent of GDP in 2004 and an estimated 28 percent of GDP in 2005, the Iraqi government cannot afford to squander its resources this way; at a minimum, U.S. policies should not support this waste.

These subsidies do little to alleviate poverty. Economists at the Coalition Provisional Authority estimated that less than one-fifth of the subsidy goes towards liquid petroleum gas and kerosene, the two fuels of most important to poor households. The rest subsidizes truckers, many of them foreign, or car owners, few of whom fall into the bottom of the income distribution.

Subsidized fuel has created a host of economic and security problems. Because fuel is cheap, consumption is far higher than if Iraqis paid the true value of the fuel. The Iraqi government is unable to satisfy this excess demand, so motorists find gasoline and diesel fuel in short supply and queue. Queuing wastes the time of drivers and truckers and creates hordes of irate motorists; witness Basra and Phoenix in the summer of 2003.

Unless refined oil product prices are liberalized, Iraq will always be beset by corruption. Although not a politically popular move, the alternative is worse. In the case of Iraq, one would be hard pressed to prove that the security situation would be worse following price increases than it has been over the past several months. Which is more of a threat to Iraqi security today: day-in and day-out, three-mile lines of irate motorists waiting 24 hours in 120 degree weather to fill their tanks? Or complaints by foreign truckers and potential blockades by taxi drivers from protests in the immediate aftermath of a price increase? Price increases are not politically popular, but neither are shortages and lines. Moreover, price liberalization provides a solution to lack of supplies by unleashing market forces. Price controls exacerbate the problems.

⁷ International Monetary Fund, Iraq: Use of Fund Resources-Request for Immediate Post-Conflict Assistance, Washington, D.C., September 24, 2004, pp. 15.

There are better and worse ways of raising prices. Despite their unpopularity, controlled prices have been raised hundreds of times around the world. Governments that lay out a strategy for increases, discuss impending increases well in advance, explain where the additional revenues will flow, and then provide concrete evidence of how the price increases have improved supply or made additional public expenditures feasible generally have emerged unshaken, although less popular. Weak, politically unpopular governments that make surprise increases in prices in periods of economic decline after promising not to raise prices are prone to face riots.

Sabotage in the oil industry stems from a variety of sources and motives. Iraqis tap product pipelines (gasoline and diesel fuel) to steal fuel for resale. Some tribes sabotage crude pipelines so as to blackmail the government into paying them not to damage the infrastructure, and insurgents attack the pipelines to reduce government revenues.

The provision of security for the oil industry is the responsibility of the Ministry of Oil and the security ministries. Because of the distorted pricing system and highly centralized way in which oil revenues are channeled in Iraq, the national oil company, which is overseen by the Ministry of Oil, has few financial incentives to guard the oil infrastructure effectively. Because all export revenues go directly to the Ministry of Finance, the oil company relies on budget support for its operations. Managers do not suffer from pipeline breakdowns nor benefit greatly from preventing sabotage. This state of affairs calls for change. The most successful state-owned oil companies around the world are operated as independent, profit-maximizing companies. Management, supervised by an independent board of directors appointed by the state, is rewarded for pursuing profits and penalized for losses. Products are priced by markets. In this environment the state-owned company has financial and governmental incentives to combat sabotage and theft and takes measures accordingly.

**OPTION 4 – SHOULD THE COALITION AND THE IRAQI GOVERNMENT
CREATE A RELIABLE SET OF INDICATORS OF WHEN AND WHERE
ECONOMIC PROGRESS HAS BEEN MADE?**

If the Coalition or the Iraqi government published regular updates on such figures as hours of electricity generated per day, gallons of fresh water supplied, number of beds in working hospitals, children in school, economic activity, oil production, unemployment, incidents of violence and the like for various regions and cities, could this successfully demonstrate progress to the Iraqis and the Americans and also point to areas where more

effort is needed? Which would be most useful? Could such statistics be created free from political influence and would they be seen as credible?

The Iraqi government should focus on improving the timeliness and accuracy of those statistics currently collected and ensure that they are disseminated as broadly and quickly as possible. The Coalition may contribute to this effort with technical assistance to the Central Organization of Statistics and Information Technology under the Ministry of Planning and Development Cooperation. However, it is generally counterproductive for the Coalition to collect and disseminate its own statistics outside of Iraqi institutions. The Coalition needs to help Iraq set up systems to collect and disseminate information after the Coalition has left the country, not to create an autonomous system of statistical collection of dubious validity for current operations.

The collection and dissemination of timely, accurate statistics is a government function throughout the world. Iraq is no exception. The Iraqi government and Iraqi citizens and businessmen need reliable statistics to run their affairs efficiently and make considered decisions. The Iraqi government has a large statistical office, COSIT, headed by individuals with graduate training in statistics from reputable foreign universities. Under Saddam, the office regularly published statistics on inflation within in 10 days of the end of the month, a very credible record. More recently, the office undertook a massive, methodologically rigorous survey of living conditions in Iraq with funding from the Kingdom of Norway and with the assistance of UNDP and the Fafo Institute of Applied International Studies.⁸ The work provides the only credible recent information on living conditions in Iraq.

Although COSIT has shown it can generate accurate, reliable information in a timely manner, the organization currently faces incentives to hoard or delay the release of information. The provision of bonuses and financial penalties coupled with performance audits would likely serve to greatly improve the quantity, quality, and timeliness of statistics collected by COSIT. These national statistics would entail collecting many of the regional and municipal statistics cited above, which could also be disseminated to help assess changes in conditions by governorate or municipality.

⁸ Ministry of Planning and Development Cooperation, *Iraq Living Conditions Survey 2004, Volume 1*, Baghdad, 2005, at www.undp.org.

In most instances, COSIT, in conjunction with other Iraqi ministries, should be able to collect standard statistical information on its own. However, in two instances, numbers of violent Iraqi deaths (including insurgents, security forces, and non-combatants) and numbers of attacks, the Coalition could assist the statistical agency in its work. These two indicators, deaths and attacks, are the most important for tracking trends in security in the country. They are probably the two most important pieces of information for the Iraqi public to make judgments on how security in the country is evolving.

In my view, a number of the economic indicators on which the U.S. government has focused would not sway public opinion and have not been useful for evaluating economic or political progress in Iraq. In some instances, these indicators have had counterproductive effects. For example, the focus on spending assistance quickly has contributed to waste without any noticeable effect on Iraqi public opinion. To focus on jobs created by infrastructure projects does not make sense in the context of a strategy of trying to improve public services through capital-intensive investments. The mixture of inputs, outputs, and outcomes in current reporting at times serves to obfuscate more than clarify.

Congress should think carefully about its own demands for statistics and evaluation. In many instances, the perfect becomes the enemy of the good. A number of colleagues who work in the government have been requested to provide evidence of program effectiveness that is not possible under any conditions, let alone in a war-torn economy like Iraq's. It is impossible in any society to definitively link refurbishment of schools to academic progress. Instead of requesting, for example, numbers of jobs generated by construction programs, Congress would be better served if it requested detailed strategies of how particular assistance programs are to help the Iraqi government improve its abilities to create a basis for sustained economic growth in the country.

Opinion polling suggests that, unsurprisingly, Iraqis feel they have a pretty good handle on their own economic situation. They have much more difficulty in assessing the security situation. They also have suspicions about U.S. strategies and exaggerated expectations of what U.S. assistance will do. More important than providing a steady stream of data on electric power output, number of projects, or dollars spent, the U.S. government needs to repeatedly send the following messages: The U.S. government is in Iraq to help the Iraqi government get on its feet and will then leave. It does not seek to remain in Iraq permanently. Two, the reconstruction of Iraq is the responsibility of the

Iraqi people. The United States has attempted to provide a leg up, but Iraq, not the United States, will operate and pay for electric power, water and other utilities. The sooner Iraq moves to restructure the ministries and companies involved and to bill and collect payment for services rendered, the quicker Iraqis will have reliable water and electric power.