IRAQ'S BALANCE OF PAYMENTS AND ECONOMIC DEVELOPMENT, 1947-1955

DISSERTATION

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CHAPTER ONE

INTRODUCTION

The importance of Iraq, as well as other countries of the Middle East, dates back through many centuries. In recent years its importance in international economic relations increased with the heightening tension in the cold war between the U. S. S. R. and the Western powers. Iraq is a large producer and exporter of oil which is purchased largely by countries of Western Europe. Russia, with plans for world domination, finds that Western influence in Iraq and the Middle East, particularly with reference to oil, is a serious obstacle to its expansionist policies. To achieve its objectives, Russia has attempted (with some success) to create and strengthen anti-western feelings and capitalize on the area's ever-growing spirit of extreme nationalism. The prevailing poverty and unstable political conditions in the Middle East have facilitated Soviet efforts. Also, Arab suspicion of Western colonialism helps to create a suitable environment for communistic infiltration. Thus, in the midst of a serious international struggle, Iraq has become involved in world politics.

Aside from its strategic location and oil resources, Iraq also occupies an important position in world affairs as one of the so called "Underdeveloped Countries". The conviction has been growing in the free world, especially since the end of World War II, that the extension of aid to the non-communistic underdeveloped countries, to help them along the road of economic development and modernization, would thereby strengthen the West's relationship with
these countries and bolster them against communistic penetration.

Iraq can rightly be considered typical of this group of countries. Poverty, illiteracy, a diseased population, an unjustifiable social structure, and weak public administration are the obvious qualitative characteristics which have prevailed in the country over the past several centuries. But the impact of the more developed countries as a result of the last world war, and advances in transportation and communication have created overwhelming feelings among the people of Iraq of dissatisfaction and discontent with their prevailing conditions. In many instances these feelings have found expression in stormy upsurges of nationalism and demands for social and economic reform. Such movements have become instruments in the hands of disturbing elements and a direct, effective threat to the Western countries in their endeavor to contain the Communist sphere of influence. Thus, foreign policies shaped to assist underdeveloped countries in solving their vital domestic problems have become of compelling significance to the Western nations.

To achieve this goal, effective assistance to such countries depends in a vital way on the knowledge and understanding of the economic, social and political conditions which typically prevail. Since Iraq is representative of the Arab nations, a thorough study of its economy can be justified in part as offering an understanding of the current situation in underdeveloped countries generally. In addition, such a study may assist the responsible authorities of Iraq in carrying out their domestic and foreign policies without hampering the development presently unfolding in the country. With these
considerations in mind, the following analysis of the economy of Iraq is undertaken. It is concerned primarily with the economic relationship between Iraq and the rest of the world since the end of World War II; the monetary, fiscal and foreign exchange policies of the country; and its future economic development.

A study of the economic relationships of Iraq with foreign countries will contribute to a better perception of the country's internal economy and its many complicated problems. The internal economy is very much influenced by the country's foreign transactions, especially since the 1951-1952 oil agreements. In fact one can safely state that the level of the national economy is substantially determined by the production and exportation of oil. In brief, economic forces outside of Iraq, particularly the demand for oil, can have serious repercussions on the country's domestic livelihood.

In addition, a study of a country's balance of payments over a period of time is the best method available to indicate the economic soundness of the country. The balance of payments records all the transactions that the country has engaged in from year to year. These transactions result in either increasing or decreasing the country's gold reserves and credit balances with other countries. Such transactions, therefore, reveal the ability of a country to produce sufficient exports (in the absence of long-term loans and grants) in order to pay for its imports. If the export capacity is weak as compared with the demand for imports, corrective measures may be essential. At present, Iraq is not in this position.

In order, however, to estimate Iraq's potential position in
international economic relations, an analysis of certain mainly non-economic features of the people and the country is necessary. Accordingly, the study is introduced by a descriptive summary of the geography, history, culture and political system of Iraq (Chapters Two and Three). Within the limits, primarily of the natural and cultural resource patterns now existing, an examination of the Iraqi balance of payments for the period between 1945 and 1954 is made (Chapter Four).

The next problem to be explored involves the monetary, foreign exchange, and fiscal policies of Iraq. It is generally recognized that as a result of the recent oil agreements, Iraq's economy was influenced by two very important changes; namely, an increase in the production and export of oil, and consequently in royalties; and secondly, an impulse toward economic expansion and development under the direction of the newly formed Development Board. The sharp increase in the revenues from oil and in the contemplated, relatively huge expenditures in an underdeveloped country such as Iraq present certain difficulties. The main one is the likelihood of inflation in various degrees of severity. Hence, a description and general analysis of the monetary and banking structure are presented as a background to the study of Iraq's monetary and foreign exchange policies (Chapter Five).

However, the monetary and foreign exchange controls available to the National Bank did not seem adequate to assure an uninterrupted and stable pattern of economic development. Consequently, the cooperation of the fiscal authorities, and fiscal policies in general
were examined. This is undertaken (Chapter Six) in order to determine how important the fiscal policy of Iraq seems to be as a supplement to monetary policy. Apparently, certain changes in the basic status and activities of the Treasury may be necessary in order to strengthen it in promoting orderly economic development of the country.

And lastly, the obstacles confronting Iraq's economic development are surveyed and some suggestions are presented (Chapter Seven). Unlike most of the underdeveloped countries, Iraq has resources to finance capital expansion. In fact, the country's recent sharp increase in revenues from oil appears to be more than adequate to cover current public expenditures, and at the same time to maintain a favorable position in its international balance of payments. Also, Iraq is not confronted, as are many other countries, with the problem of over-population. However, despite these significant advantages, there are some offsetting conditions which appear in the analysis of economic development. The general conclusions are given in the final and summary chapter.
CHAPTER TWO
IRAQ - THE COUNTRY

Iraq is a small country of 168,040 square miles, or about the size of California and Ohio. It is bounded on the north by Turkey, on the east by Iran, on the west and south by Syria, Jordan and Saudi Arabia, and on the south by the Persian Gulf. Its population of approximately 5,000,000 is predominantly Arab. A major part of the country is desert, but two great rivers, the Tigris and the Euphrates, provide for an economy which is largely agricultural. The oldest civilization in the world has been traced to Iraq.

I. GEOGRAPHICAL FEATURES

Iraq consists of three main areas--the Mesopotamian Plain, the Uplands and the Folded Mountain Belt. The plain is at no point more than 150 feet above sea level. The rivers flow through land a few feet higher than the rest of the plain because they are in fact flowing through their deltas. When the spring rains come in Kurdistan the plains are flooded causing great damage to the countryside. The rainfall in the plain itself is only six inches annually, and since it comes mainly during a few weeks in February, is not enough to mature a winter crop. Moreover, the April flood season begins too late to mature the spring grain crops and ends before the summer crops are ripened. The soil is alluvium, stoneless and very fertile, but the plain is completely dependent upon irrigation for crops. The Uplands, or most of northern Iraq, is gravel steppe, with some rich farm land and considerable stone. The area between the two rivers in the vicinity of Kirkuk, Mosul and Erbil is uncultivable
gypsum desert called Al-Jazira (the island). The Uplands along with the Folded Mountain Belt is the rain-fed zone of Iraq. Here the rainfall averages 13 inches annually. This provides sufficient water to yield a single winter crop without irrigation. Located in the Uplands is Mosul, which is the gateway to Syria, and Kirkuk, which is the center of Iraq's principal oil fields.

The Folded Mountain Belt is a crescent shaped range of mountains on the northeast frontier comprising the basins of the Dyala, Lesser Zab, Greater Zab and Khabur rivers. Rainfall is heavy here from October to May. Some of these mountains are as high as 11,000 feet and are covered with snow during the winter. The soils are heavily calcareous, deficient of soluble salts, and contain amounts of organic debris. The mountains are not heavily wooded and are well suited to grazing.

Three subsidiary geographical regions are of importance. West of the Euphrates river in the Uplands section is a large desert called al-Badiya, the Syrian Desert. This is populated only by Bedouin tribes and their flocks of sheep, goats and camels. West and southwest of the irrigation zone are what are known as the southern and northern deserts, an area that comprises 40 per cent of the land area of Iraq. This too is the home of wandering tribes and their flocks who come into the river valleys annually for summer pasture. Finally there is the triangle formed by Basra, Nasiriya and Amara, an area irrigated by natural inundation during the spring floods. This is actually a marshland and is unlike any other portion of Iraq. It is an area of rice fields and date palms, including the world's
largest date palm belt running along either side of the Shatt-al-Arab. Basrah, Iraq’s only port, is located here, and there are some subsidiary oil fields nearby.

II. WATER RESOURCES AND CONTROL

Iraq is rich in the waters of its rivers, but conservation is required to derive full benefit from them. Underground water is plentiful, but in the north deep wells must be sunk before it is reached. In the central and southern parts the water table is high and the water is inclined to be unfit for consumption.

A. Navigable Waterways

The Shatt-al-Arab is navigable by ocean going vessels as far as Margil. The Tigris is navigable by shallow-draught river steamers as far as Baghdad and by smaller craft in the winter high river season as far as Mosul. Both the Euphrates and the Shatt-al-Oharraf are navigable only by shallow-draught boats. In 1951 there were 203 steam and motor-propelled boats on the rivers with a net registered tonnage of 10,975 tons, as well as 451 motor launches for passengers.

B. Storage and Flood Control

One of Iraq’s main problems is to equalize the water supply of its rivers throughout the seasons of the year. On the Euphrates the mean monthly discharge of water varies from 293 cubic meters per second in September to 2,235 in May. On the Tigris the variation
ranges from 359 in October to 2,951 in April. It is obvious that means need to be taken to protect the plains from ruinous spring flooding. The water so plentiful in the spring must be stored for use in the dry summer season. Dams are needed to maintain river levels that will permit irrigation by canals throughout the growing seasons. Finally, proper drainage of irrigated lands is necessary to overcome the salinity of those lands.

Neither the ancient nor the present irrigation systems have attempted to control floods or store water. When flood danger threatens, the government breaches the embankments of the rivers at various points to allow the flood waters to run out over uncultivated and uninhabited land. Particularly just above Baghdad a breach is made and the waters flow around and behind the city which is protected on the west by mud walls, or bunds. Thus in flood time Baghdad is a veritable island. These valuable waters are lost to agriculture.

Near Ramadi, west of the Euphrates, is a large natural depression in the desert known as Lake Habbaniyah which is capable of storing 2,500 million cubic metres of water from the Euphrates floods. South of Lake Habbaniyah, but separated from it by high ground, are two even deeper depressions known as Abu Dibbis and Bahr el Milh. On seven occasions since 1920 the embankment of the Euphrates was breached and waters flowed into the Habbaniyah depression. Work begun on this project in 1913 was interrupted by World War I and again in 1939 by

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World War II. In 1942 a weir from the river to Habbaniyah was constructed. Also constructed was the Miarreh channel which connects Lake Habbaniyah and the Abu Dibbis depression and regulates the level of water in the Lake. Stored water is returned to the Euphrates through the Dhibban outlet of Lake Habbaniyah. This scheme is not yet completed, but it is well under way and contemplates increasing the capacity of Lake Habbaniyah and using the nearby depressions for storage. There is some question as to the use of these stored waters for irrigation since all three depressions are very salty. Lake Habbaniyah is said to contain about two million tons of salt. The problem of desalting these depressions or of finding alternate sites along the lower Euphrates is still under consideration.

C. Irrigation

Until the thirteenth century a vastly greater area was under cultivation by means of irrigation canals than at present. At that time the bed of the Euphrates was on a higher level than that of the Tigris, and a series of almost parallel canals drained water from the Euphrates into the Tigris. This intricate irrigation system made Iraq one of the granaries of the world in ancient time.

At the present time both the Upland region and the Mesopotamian Plain are irrigated to some extent. In choice areas of the Upland region a type of irrigation has been practiced for centuries to water gardens and special plantations. This is known as the "Karez" or linked-wells system. Where the land to be cultivated lies at the foot of hills, a series of wells are dug in the hills and connected by underground tunnels. The slope of the tunnels directs the water
out of the hills and on to the fields. The well diggers have been able to
gauge the depth and slopes so perfectly as to produce the water where
needed.

Irrigation on the Mesopotamian Plain is of three types: pump irrigation along the banks of the rivers for those lands nearby, flow irrigation by means of canals running from the rivers to more remote areas, and natural inundation. There are now more than 18,000 pumps capable of delivering nearly 700,000 horsepower. Due to the fact that the banks of the rivers are higher than the surrounding land, these pumps are required to raise the water over the banks and into the fields. Flow irrigation is assisted by barrages, or dams, such as the Kut Barrage on the Tigris, the Hindiya Barrage on the Euphrates and the Diyala weir on the river of the same name. The Hindiya Barrage was completed in 1913. It is 787 feet in length and brings 445,000 acres of land under irrigation in the winter season through the Hilla canal and other channels. The Kut Barrage, completed in 1939, is 1,625 feet in length and makes possible the irrigation of about 900,000 acres through a canal called the Gharraf. The dam across the Diyala river at Table Mountain controls the whole irrigation system of the Diyala Province.

The other canals in Iraq are inundation canals which operate in the winter rainy season only. In the Tigris basin the tributaries are responsible for most of the irrigation.

D. Recent Developments

Iraq's problems of irrigation and flood control have been discussed for forty years. Sir William Willcocks, who designed the Hindiya Barrage, was requested by the Turkish government to make a survey which was completed in 1917. Among his recommendations only the Kut and Hindiya Barrages were completed. His well considered and thorough suggestions were not acted upon because the government lacked money, because the sparse population over the countryside did not seem to warrant a thorough system of irrigation and because the incomplete method of land registration and tax collection slowed down planning. Moreover, the Iraqis were suspicious of foreign borrowing. Finally, being inexperienced administrators, they were unable to undertake the planning and execution of anything so elaborate as the irrigation needed in Iraq.

In 1940 another report was made, but World War II prevented its being acted upon. After the war an Irrigation Development Commission was formed which worked on its suggestions from 1946 to 1950 and published its report in 1951. A Development Board, constituted to invest oil revenue, subsequently approved several units of the plan of the Irrigation Development Commission. The plan incorporates recommendations of Willcocks and those of the 1940 report. The Tharthar depression is to be utilized in the same way as Lake Habbaniyah, and dams are to be constructed on each of the major tributaries of the Tigris.

But Iraq's water storage and control problems are far from solved. The Tharthar depression is not likely to be as successful as Habbaniyah. It would take ten years to fill and then may be used only
as a flood control measure without any water returned to the Tigris for irrigation. The best dam sites are in the mountains, but these sites are within Turkish borders. Finally, to be successful, control of the intricate system must be centralized and complicated operational rules must be followed carefully. In any event, completion of the plan will be a long and tedious project. Eighty years were required to accomplish the same in India.

III. INDUSTRY

A. Agriculture

The most important industry in Iraq is agriculture which occupies approximately four-fifths of the population. A wide variety of crops is produced several of which are important exports. However, there is room for considerable improvement and development since most of the cultivable land is not cultivated and since agricultural techniques now in use are relatively crude.

1. Principal Crops

The principal crops of the country are winter crops—barley and wheat. Summer crops, primarily rice and cotton, are grown on a limited scale by irrigation. In the north the most important money crop is tobacco; in the south it is dates.

Dates are grown along the banks of both the Tigris and Euphrates rivers from Ana on the Euphrates and Samara on the Tigris southward to the Shatt-al-Arab. Along the banks of the Shatt-al-Arab are located seven million of Iraq's thirty million date palm trees. The date palms in the date belt follow canals leading as far as five miles into the desert. The tree is easily grown; it requires only
much moisture and five to six months of steady high temperature.

The importance of dates lies in the fact that, aside from oil, they are the principal exports of Iraq. Three-quarters of the date palms of the world grow in Iraq and 80 per cent of the dates in international trade were produced there prior to World War II. Although 350 different types of dates are grown in Iraq, only five are cultivated for export. In September the ripened fruit is harvested for export, packed in wooden boxes and sent down the river to ocean-going steamers. The dates are then selected, cleaned and shipped or converted into special delicacies by the substitution of nuts for their seeds. The date growing industry is under the control of the government. A Date Board is located in Basrah to assist in marketing problems and a Research Station is continually looking for possible improvements. Growers' and Packers' Associations are mutually cooperative.

Wheat, like barley and other grains in Iraq, is cultivated "extensively", meaning that small amounts of labor are expended upon large areas. When lack of drainage and excessive use exhausts the soil, another area is taken over and the exhausted one abandoned. This method makes for poor yields. Government experiments with wheat have produced Ajiba, a variety with early maturity, resistance to rust, and heavy yield. This is a wheat superior to that which is native to Iraq, and it is far more acceptable as an export. When harvests are poor, however, it is necessary to import wheat to meet internal demand.

The yield per acre of barley is nearly twice that of wheat
making it a more popular grain with the farmers and resulting recently in a tendency for it to replace wheat. The government has introduced two superior types of malting barleys, the Moroccan and the Californian. These are suitable for export, but when the harvests are bad an embargo is placed upon the exports of all cereals.

Rice is grown principally in the marshlands of the lower rivers. Because of its requirements of water its growth had to be limited by law. Nevertheless, its production has increased and there is a small exportable surplus.

Cotton cultivation, which dates back to the seventh century, B.C., is well established. Some short staple cotton is still cultivated for domestic use, but the experiments of the British Society for the Cultivation of Cotton and their introduction of the first ginnery created interest in superior types. Since 1920 American upland (long-staple) types have been producing a good yield and have been grown for export. In 1950 approximately 130,000 donums\(^3\) were devoted to the raising of cotton. High prices and government encouragement have brought more and more acreage under cultivation.

Tobacco is grown in the Kurdish hill regions, the Sulaimaniya and Erbil provinces, where soil and climate are favorable. Production increased rapidly in the 1930's when cigarette making machines were introduced. It increased still further after 1939 when new methods of growing, curing and storing were utilized and new varieties of tobacco were tried. The government has a monopoly in the purchase of

\(^3\)Donum equals 0.62 acre.
tobacco.

Citrus fruit for domestic consumption is grown in the Diyala river valley. Other fruits as well as nuts are grown in the northern hill sections, and small quantities of fruits and vegetables are grown throughout the date palm belt. Vegetable gardens are important in the environs of the large cities. No animal fodder crops are grown, and areas devoted to soil-building crops are small.

**TABLE 1**

Cultivated Land, Cropped Land, and Land in Agriculture Use in Iraq, 1951

<table>
<thead>
<tr>
<th>Description</th>
<th>Million Donums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivable Area</td>
<td>48.1</td>
</tr>
<tr>
<td>Irrigation Zone</td>
<td>32.1</td>
</tr>
<tr>
<td>Rain-fed Zone</td>
<td>16.0</td>
</tr>
<tr>
<td>Area Actually in Crops</td>
<td>11.1</td>
</tr>
<tr>
<td>By Area</td>
<td></td>
</tr>
<tr>
<td>Irrigated Zone</td>
<td>7.6</td>
</tr>
<tr>
<td>Rain-fed Zone</td>
<td>3.5</td>
</tr>
<tr>
<td>By Type of Crops</td>
<td></td>
</tr>
<tr>
<td>Winter</td>
<td>8.4</td>
</tr>
<tr>
<td>Summer</td>
<td>1.9</td>
</tr>
<tr>
<td>Orchards</td>
<td>0.8</td>
</tr>
<tr>
<td>Area Under Cultivation</td>
<td>17.5</td>
</tr>
</tbody>
</table>


2. **Agricultural Development**

Two important problems of agricultural development face the people of Iraq. The first of these is the fact that although cultivable land is plentiful, most of it has not yet been brought under cultivation. Table 1 presents estimates by the Department of Agriculture of the cultivable land compared with that which is actually
being cultivated.

The above table indicates that only about 36 per cent of the total cultivable land is being put to use in crops. It is estimated that the cultivated area in the rain-fed zone could be doubled and that in the irrigated zone tripled.

The second problem is that the land which is being cultivated in Iraq is producing relatively poor crop yields. There are a number of reasons for this. Artificial fertilizers are almost unknown, and animal manure is used as fuel rather than applied to the fields. Water is inadequate, and poor drainage in the irrigated zone causes salt deposits beneath the ground. Lack of mechanization slows down the work and leaves the fields poorly prepared. The fallow system is followed which causes almost half of the land sown in winter crops to lie fallow during the summer. However, since weeds are allowed to grow in these fallow fields as pasturage for the flocks, this attempt to restore fertility is rather futile.

Another factor in the low crop yield is the sharecropper system. There are almost no peasant proprietors, the land being held by wealthy landowners of 100 acres or more and sharecropped by tenants. These tenants have little knowledge and no incentive to increase production. The tenant does not farm the same piece of land in successive years and therefore has no desire to improve it. Since the landowner has no interest in fodder crops, cultivation of such crops is discouraged by a system which apportions the harvest by shares to landowner and tenant. The landowners, who themselves put forth no effort and enjoy a large portion of the output, have no incentive to introduce
improved methods of farming and only a minority have attempted to do so.

The extremely low standard of living of the peasant, or fellah, has undermined his health and detracted from his working ability. It also excludes his class as a market for industrial products which results in the market for such products being very limited. The sharecropper's low standard of living is due partly to the poor crop yields and partly to his poor bargaining position. Since in most cases he possesses neither land, seed, tools nor animals, he must take that portion of the crop which the landowner and possessor of these factors assigns to him. In the irrigated zone, where the state has provided irrigation works, the fellah's share is half of the crop. Wherever the landowner provides his own irrigation the fellah's share is much less. Added to this is the fact that the sharecropper may not leave the land to seek work elsewhere as long as he is in debt to the landowner, which is usually the case.

B. Oil

The pressure of oil in Iraq was manifested by surface signs recognized many years ago. The great bitumen deposits at Hit and elsewhere, the burning gas which seeped from the ground near Kirkuk, traces of oil in the waters of the Tigris, and oil seepages through cracks in the rocks were all signs of possible oil reserves. However, until war and industry proved the great need for petroleum, these signs were considered merely freaks of nature.\(^4\)

\(^4\)The oil seepages were utilized by the local population in several ways—crude oil was distilled into kerosene for lamps and was also prized for its medicinal qualities. Bitumen was used as caulking for
Oil was discovered in commercial quantities in 1927, but it was not produced in large quantities until a pipeline to the Mediterranean was completed in 1931. Following is a table which shows the production of oil in Iraq from 1927 to 1955. It reflects several of the factors which influenced production.

<table>
<thead>
<tr>
<th>Year</th>
<th>Tons</th>
<th>Year</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1927</td>
<td>45</td>
<td>1942</td>
<td>2,595</td>
</tr>
<tr>
<td>1928</td>
<td>95</td>
<td>1943</td>
<td>3,572</td>
</tr>
<tr>
<td>1929</td>
<td>116</td>
<td>1944</td>
<td>4,146</td>
</tr>
<tr>
<td>1930</td>
<td>121</td>
<td>1945</td>
<td>4,607</td>
</tr>
<tr>
<td>1931</td>
<td>120</td>
<td>1946</td>
<td>4,680</td>
</tr>
<tr>
<td>1932</td>
<td>115</td>
<td>1947</td>
<td>4,702</td>
</tr>
<tr>
<td>1933</td>
<td>123</td>
<td>1948</td>
<td>3,427</td>
</tr>
<tr>
<td>1934</td>
<td>1,031</td>
<td>1949</td>
<td>4,067</td>
</tr>
<tr>
<td>1935</td>
<td>3,729</td>
<td>1950</td>
<td>6,479</td>
</tr>
<tr>
<td>1936</td>
<td>4,011</td>
<td>1951</td>
<td>8,351</td>
</tr>
<tr>
<td>1937</td>
<td>4,255</td>
<td>1952</td>
<td>26,130</td>
</tr>
<tr>
<td>1938</td>
<td>4,298</td>
<td>1953</td>
<td>26,940</td>
</tr>
<tr>
<td>1939</td>
<td>3,963</td>
<td>1954</td>
<td>29,363</td>
</tr>
<tr>
<td>1940</td>
<td>2,514</td>
<td>1955</td>
<td>32,326</td>
</tr>
<tr>
<td>1941</td>
<td>1,566</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


As is indicated in the table, there was a steady increase in oil production up to the outbreak of World War II in 1939 at which time production began to fall off. It declined rapidly until 1942 when it ships, as flooring material, as pipe linings by plumbers, as an ingredient in pottery and as a fuel.
began to increase slowly again. By 1945 it had exceeded all former outputs and continued to increase until the closing of the pipeline to Haifa in 1948. By 1950, after the opening of the 16-inch pipeline to Tripoli in Lebanon in 1949, production again began to increase rapidly. However, the sharp increase from 1952 onward was primarily due to the 1952 oil agreement and other factors as indicated in Chapter Three.

The great refineries where most of the oil was refined were located in Europe and in Haifa. By 1951 the Iraq Petroleum Company had only two small refineries at Kirkuk and Haditha and a processing plant at Kirkuk. In December, 1951 the government signed an agreement to purchase the small refinery at Alwand which was owned by the Khanaqin Oil Company. Bids were also accepted for the construction of a large refinery near Baghdad to satisfy all local consumption demands.

There are at the present time five pipelines to convey Kirkuk oil to the Mediterranean. One of these is a 30-inch line which is 556 miles long and runs from Kirkuk to Banias, Syria. Two lines, 12 inches and 16 inches in diameter, run 531 miles from Kirkuk to Tripoli, Lebanon. Finally, there are two lines, 12 inches and 16 inches in diameter, that run 600 miles from Kirkuk to Haifa. The operations of these latter two are presently suspended because of hostilities with Israel. The new Zubair field, which came into production in December of 1951 has a direct outlet to the Persian Gulf at Fao which is linked to the field with a 12-inch pipeline. Fao has been developed as a deep sea port for tankers.

At present a number of oil companies operate in Iraq. The Iraq Petroleum Company which operates on behalf of an international
group made up of the Anglo-Iranian Oil Company, the Royal Dutch Shell Group, the Near East Development Corporation and the Compagnie Francaise des Petroles, each of which holds a 23 3/4 per cent interest, is one of these. Five per cent of the Iraq Petroleum Company's shares are in private hands. The Near East Development Corporation is controlled equally by Standard Oil of New Jersey and Socony Vacuum. The Basrah Petroleum Company, an associate of the Iraq Petroleum Company, operates in southern Iraq. The Mosul Petroleum Company, also an associate of the Iraq Petroleum Company, operates in northwestern Iraq. The Khanaqin Oil Company is a subsidiary of the Anglo-Iranian Oil Company.

On December 23, 1951 an agreement was signed between the government of Iraq and the two subsidiaries of the Anglo-Iranian Oil Company which have been responsible for oil marketing and refining in Iraq. The government bought distribution facilities from one of these, the Rafidain Oil Company. It also bought the refinery of the Khanaqin Oil Company at Alwand with the stipulation that this company was to continue its operation on behalf of the government until 1961 and act as sole distribution agent for certain oil products. These arrangements are only concerned with oil for local consumption. There is no government control over the industries operated by the Iraq Petroleum Company which is responsible for most of Iraq's oil production. It was agreed that the Khanaqin Company would train Iraqis for jobs in the oil industry. It would also be prepared, if requested, to operate a new refinery with a capacity of one million tons per year which was being planned for Baghdad. Also, it would operate, if requested, a topping
plant with a capacity of 125,000 tons per year which was being planned for the Basrah area. The Khanaqin Oil Company will continue to supply the refinery at Alwand with oil from the Naf-Khaneh oil field along the Iraq-Persia frontiers by means of a 25 mile pipeline. Profits of the company on any export of crude oil are to be shared equally with the Iraq government.

The new oil refinery at Daura, which was the one mentioned above for the Baghdad area, was completed in June, 1955. It was the first major industrial project to be put into production under the Development Board. The first half year of operation saw the refinery working at about 75 per cent capacity or an average daily rate of 18,000 barrels of crude oil. It was designed for a daily throughput of 24,000 barrels, but could successfully handle 27,000 barrels. The location in the vicinity of Baghdad will save local consumers over one-half million dinars (a dinar is equal to one pound sterling) per year. The refinery gets its supplies from the Kirkuk field of the Iraq Petroleum Company which delivers crude oil to Baiji.

The Development Program is increasing the consumption of crude oil products in Iraq. There has been an increase of about 10 per cent within the past five years. Plans are being made to supply higher quality petroleum products to meet the country's needs. A list of these products would include a higher octane gasoline, high-quality lube oils, aviation gasoline, LP gas, fertilizers, insecticides, synthetic rubber, carbon black, naphtha, ammonia, explosives, plastics, synthetic fiber, and cloth.

C. Livestock, Wild Game and Fisheries
Animal husbandry is an important industry in Iraq. Livestock are raised without improved methods of feeding or breeding. They are allowed to forage for themselves except that in the areas surrounding the cities some effort is made to feed them. Sheep and goats predominate because they thrive best on the poor natural pastureage. These, along with some camels, are kept by wandering tribes probably numbering over 200,000 animals. The farmers engaged in agriculture keep cattle and water buffalo if they have any livestock at all. Often their only livestock are a few draft animals used in the cultivation of crops. Horses and mules are used for ploughing except in the rough terrain of the north where oxen are preferred. The water buffalo, which is kept for its milk, is very sensitive to its environment and will thrive only in perfectly suitable places. Although livestock yield throughout Iraq is low because of improper feeding, poor breeding and disease, livestock and their products comprised about 13 per cent of Iraq's exports, exclusive of oil, in 1948-1950.5

One type of livestock bred in Iraq, the Arab horse, may be singled out for special mention. Until early in the twentieth century tribal life made it possible for Iraq to be the largest breeder of Arab horses in the world. Even today horses are seen more frequently than in most other countries. Horse racing is promoted by the Royal Family as a means of encouraging and protecting breeders of Arab horses. There are 75 days of racing in Baghdad each year with about 800 horses in constant training. Many ordinary families pool their funds and

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purchase a race horse for entry in the races. Horses are also widely used to pull carriages in the towns and as mounts for the policemen and the cavalry. The lack of secondary roads into the deserts and hills makes the horse indispensable to cavalrymen and sportsmen alike. Purchases of Iraqi horses have been made in recent years by the armies of Turkey, Iran, China, and other countries. Race horses are exported to India and Egypt.

The Iraqi diet is supplemented by fish from the rivers and game from the mountains and plains. The fish are mostly the carp and barbel varieties and attain a good size. Partridge, duck, teal, sandgrouse and geese are found in those areas that constitute their natural habitats. The gazelle is hunted over the plains both for the sport he provides and for his delicious meat. Brown hare are also found in the plains, and ibex are found beneath the snow-line in the mountains.

D. Other industries

The oil companies, the Iraqi State Railways, and the Port of Basrah are the largest industrial employers. Actually, apart from oil, there is still little industry in Iraq. In 1954 there were about 22,460 industrial enterprises employing some 90,000 people. These businesses are fulfilling the consumption needs of the Iraqi populace. Cotton is spun in several ginneries near Baghdad, and the Iraq Spinning and Weaving Company looms about 18 million square yards of cloth a year. There are also several spinning, weaving, dyeing and finishing

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factories for wool, the largest of which produced 750,000 square meters of cloth during 1951 and furnished in addition 90,000 kilos of yarn for the local market. There are also an undetermined number of hand looms producing woolen cloth throughout the country.

Flour is milled throughout the country, there being but five modern flour mills, one in Basrah with a maximum output of 50 tons a day. There are four oil pressing and extracting factories of note, and about 15 soap factories, one of which is a large, modern plant producing good quality toilet and washing soap. Other industries include a modern brewery, a number of distilleries producing the national drink, araq, from dates or grapes, bottling plants for cola drinks, about ten cigarette factories in Baghdad, a large modern cement producing plant capable of producing 600 tons a day, small but widespread brick manufacturing plants, about 15 tile factories, 4 tanneries, and 11 shoe factories.

IV. SUMMARY

Despite a fertile land and abundance of natural resources, the people of Iraq have remained in dire poverty over the past several centuries because of the lack of capital and efficient guidance. However, the recent expansion in revenues from oil and the desire for advancement provide the means for rapid development of the country's resources. These changes should eventually result in raising the standard of living to a much higher level.

Since the bulk of Iraq's population is dependent on agriculture, considerable emphasis must be placed on this aspect of its economy. Consequently, storage of water, flood control, irrigation,
drainage, expanding and improving the land under cultivation, and providing better working conditions for the fellah, are the main problems requiring immediate attention. Nor should industrial development be neglected since it is an effective supplement to agricultural development. Industrial development should be so directed to produce adequate consumer and construction goods, the demand for which would inevitably increase by virtue of the development program itself. But the development of agriculture and industry could be achieved more quickly and effectively if the human factor and other existing conditions were not such a deterrent to progress in Iraq. To promote development, serious attention should be focused on the improvement of transportation, health, education, and housing conditions. Most important, the essential ingredient of successful development is sincere cooperation between the government and the people.
CHAPTER THREE

IRAQ - THE PEOPLE

I. POLITICAL BACKGROUND

A. Persian, Moslem and Ottoman Rule

The land that is now Iraq first lost its independence to a foreign conqueror in the 7th century B.C., when the Persian dynasty extended its empire westward. The Persian rule was not brought to an end until the 7th century A.D., when the Moslems moved northeastward in an effort to spread their religious ideology throughout the world. The armies settled in the lands they conquered, and Baghdad became the capital of an empire that stretched from China to Spain. Iraq reached the apex of its civilization then, under the Abbassids of Baghdad, and the following five centuries were known as the Golden Age. During the 13th century, however, the country was overrun by the Mongols and the empire was destroyed. From that time until the 20th century the people knew nothing but poverty and maladministration.

The Ottoman Empire ruled Iraq for four centuries. During the early years of the 19th century high objectives were assumed by the government, but they were largely unsuccessful due to inept administration. One of the great difficulties resulted from the independence and mobility of the tribes. Being loyal to their tribal leaders, they found it impossible to accept the rule of governors. Most of these governors, poorly backed by their governments and unable to punish the tribes in their desert wastes, supported the great sheiks and let the sheiks keep order. The Iraqi populace did not support the government or take any part in it.
B. World War I, the British Mandate and the Reign of Faisal

With the first World War came the collapse of the Turkish Empire. Iraq, in addition to being a vital trade route, was strategically situated from an aerial viewpoint and economically important because of its oil supplies. Military occupation took place in October, 1914 and a civil regime took over again in November, 1920.

By a ruling of the League of Nations, Iraq was mandated to Great Britain. The Iraqi nationalists hardly considered this to be an advance over Turkish domination. The British found it hard to decide whether Iraq should be treated as an Indian outpost or as a part of the Western world. In 1920 riots broke out over a period of months that cost the British so much in lives and money that the British populace began to agitate for abandonment of the mandate. At this point a British Middle East conference selected Faisal as King, marking the beginning of a new era in Iraq. Government was partly transferred to the Iraqis at once, but the British maintained key positions. Iraqi nationalists therefore agitated for a lessening of control by British and more of an alliance. A treaty with Britain was concluded on October 10, 1922 but this only had the effect of confirming British control.¹

The problems that had to be faced by King Faisal may be divided into two groups. The first group, which might be called

¹This treaty gave Britain the following rights: (1) to appoint advisers to the Iraqi government, (2) to assist the Iraqi army, (3) to protect foreigners, (4) to advise Iraq on fiscal matters, and (5) to advise Iraq on matters of foreign relations. See George Lenczowski, The Middle East in World Affairs (Ithica, N.Y.: Cornell University Press, 1953)
"inherited problems", included such difficulties as the prevailing illiteracy of the country, the prevalence of endemic diseases, the low productivity of the land, the heterogeneity of the people, the die-hard fanaticism and the task of establishing a constitutional democratic government. Due to their illiteracy the Iraqi people were ill-prepared to take part in democratic government. Political parties were unheard of until the war, and then they were formed around personalities rather than issues.

The second group of problems resulted from the British mandate and area of interest. During their occupation, the British had followed a plan allocating power to the tribal chieftans, thus exerting only an indirect control. This system of rule maintained the tribal society and established a certain amount of order, but at the same time it perpetuated feudalism and retarded progress. The tribal problem was inherited by King Faisal who made the mistake of trying to impose centralized government upon the tribes at once resulting in tribal opposition even until 1950.

Between 1924 and 1930 additional treaties were signed which relaxed British control. The treaty by which Iraq gained independence was signed on June 30, 1930. It provided for a 25 year alliance between Iraq and Great Britain and assured Iraq of Britain's support of its candidacy to the League of Nations. In 1932, after much persuasion by Great Britain and certain guarantees on the part of Iraq, the latter became the first Arab member of the League.

C. The Reign of Ghazi

Iraq lost able and experienced leadership when King Faisal
was taken ill and removed to Switzerland for treatment. In the interim his son, Ghazi, was invested with his father's powers. Ghazi, however, was young and rash. The massacre of the Assyrians in 1933, under Ghazi, was probably a contributing factor in the death of King Faisal in Switzerland in that year. Upon Faisal's death Ghazi became king.

In the ensuing years the political elements were divided into two groups: those who favored the alliance with Britain and those who opposed it. The latter were more numerous and dominated Iraqi politics until 1936. They called themselves the Ikha, or Brotherhood Party. Though anti-British, they were not nearly enough so to satisfy the populace, and as early as 1931 a small group of educated young men formed a more radical party known as the Ahli, or People's Group, which advocated wide economic reforms throughout the country.

The Ahli became a threat when the Ikha party split and Hikmat Suleiman assumed leadership. It required only a liaison between the Ahli and the army, spurred by Suleiman's friendship with General Bekr Sidki and growing dissatisfaction in the army, to overthrow the Ikha government in October, 1936. General Bekr Sidki assumed a virtual military dictatorship, but his death by assassination in 1937 introduced a more conservative element into Iraqi politics. Eventually, in 1938, Britain's old friend, Nuri-es-Said was made premier. In April, 1939 King Ghazi was killed in an automobile accident, and a regency was established for his son, Faisal II, under Prince Abdul Ilah.

D. World War II

The outbreak of World War II brought a severance of diplomatic relations between Iraq and Germany in accordance with Iraq's
treaty of alliance with Britain. Iraqi politics from that time on
were anti-British or pro-British according to Britain’s strength in the
war. When in 1941, an anti-British premier assumed the leadership of
the country through a coup d’état with the assistance of Germany, the
British landed their troops in May in accordance with the treaty.
Faisal II and the Regent fled to Damascus and returned a month later
after the British had crushed the rebellion and restored order. British
troops remained in Iraq during the rest of the war, and in 1943 Iraq
declared war on the Axis powers.

During the latter part of the war internal politics were quiet. Emphasis was upon collaboration with other Arab countries in the
formation of an Arab League. The only disturbance was an uprising of
the Kurds who were encouraged by the Russians to seek independence.
The uprising was quelled and the Kurdish leaders escaped to Iran.

E. The Post-War Period

In 1946 agitation was begun for a revision of the 1930
treaty of alliance with Britain which had become increasingly irksome
to Iraqi nationalists. However, while the treaty revision was pending,
widespread Communist activity was discovered in Iraq culminating in
the trial and conviction of leading Communists in 1947. This danger
from the Russian area may have influenced the final form of the new
treaty between Britain and Iraq which was concluded on January 16,
1948 because it was not significantly different from the one it
replaced. Nevertheless, it would probably have been approved if the
Palestinian problem had not emerged suddenly at that moment.

It was then that the United Nations General Assembly
recommended the partition of Palestine. This incited the Arab world and stirred up anti-British and American sentiment throughout the Near East. The Liberal and National Democratic Parties would accept no treaty signed by the government in power. \(^2\) The Regent therefore proclaimed that the new treaty could not be ratified, and Premier Saleh Jabr and his cabinet resigned upon their return to Iraq.

The Palestinian war disturbed Iraq considerably. An angry intolerance flared against the Jews in Iraq. Active Zionism was made a crime punishable by death. A bill was passed permitting Jews to renounce their nationality and emigrate to Israel. The flow of oil through the Kirkuk-Haifa pipeline was stopped despite severe financial losses.

The new cabinet, strongly anti-British, found after calmer reflection that the rejection of the 1948 treaty left Iraq bound by the less favorable treaty of 1930. Through 1951 the problem of a renewal of the old treaty was therefore carefully avoided. Meanwhile, members of the anti-British government faded out of the political picture one by one and a number of the old pro-British leaders were restored including Nuri, who became premier again in 1949.\(^3\) In 1951

\(^2\)Upon publication of the treaty in the press, the students rioted in Baghdad. The Communist elements of the populace naturally added their opposition to any extension of a Western alliance.

\(^3\)The fact was that Iraq needed Britain’s help. She needed Britain’s protection against aggression by Russia, her economic help in the form of oil royalties and managerial assistance in the key points of her economy, and the stability that British help gave her in managing internal affairs. It should be emphasized, however, that the pro-British tendencies of Iraqi politics do not reflect the feelings, by and large, of the populace. In spite of the fact that Iraqi politicians have been able to disregard the feelings and demands of the
Nuri started negotiations for a revision of the treaty of 1930, and the British government stated that it was amenable to revisions of the admittedly outdated treaty.

The position of Iraq in world affairs following the war was the same as that of the other Arab countries, namely, a desire to keep out of any East-West conflict while reaping as many advantages from Western friendship as possible. On the record, however, Iraq has voted consistently with the West, which has upset Egypt considerably. In 1952, when the Anglo-Egyptian crisis was at its peak, Nuri-es-Said offered to mediate the problem and was criticized by the other Arab countries for what appeared to be his "neutrality". Nuri and his cabinet also looked with favor upon Western proposals for a Middle Eastern Defense Command in November, 1951 which were spurned by Egypt. Near the end of 1954 an Iraqi-Turkish defense alliance was concluded -- the now famous Baghdad Pact. Egypt promptly attempted to persuade the other members of the Arab League to join her in denouncing Iraq for making an alliance outside the Arab collective-security pact, but was unsuccessful. On February 24, 1955, Iraq and Turkey signed an arms pact which linked them up with Western power defenses against Communist aggression.

F. Development of the Oil Industry

The importance of Iraq in world political affairs results in the Iraqi people having any greater tolerance of foreigners than the Iranians or Egyptians. Public opinion in Iraq is always mindful of the 30 years of British control, of the unwise handling of Syria by the French and of the pro-Zionist actions of the United States' government. Strong nationalist feelings have not been quieted by Iraq's need of Western friends.
largely from the existence of extensive oil deposits there. Consequently, no survey of the political history of Iraq would be complete without some indication of the significance of oil in its political development as well as some indication of how the present relations between the Iraqi government, foreign firms and governments, and the the Iraqi oil industry emerged.

Under the Turkish Empire reports of oil from the Baghdad and Mosul areas caused Sultan Abdul Hamid to take notice. Before 1900 he called German and French experts to investigate. Title to the oil fields was transferred to the Ministry of Finance in 1906 following the Young Turk revolt. During the next few years a number of individuals and governments sought concessions in the oil fields, and in 1914 an agreement was reached between representatives of the British and German governments, the Turkish National Bank, a Dutch oil company and an English concessionaire named D'Arcy which united the interests of these groups in a joint stock company, the Turkish Petroleum Company with England having absolute control. This company was in the process of seeking a concession in the Mosul and Baghdad areas when World War I broke out.

At the San Remo Conference, in 1920, Britain agreed to the assignment of Germany's 25 per cent interest in the Turkish Petroleum Company to France, although Britain retained absolute control.  

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4 At the turn of the century these fields were a government monopoly in the Sultan's Civil Lists.

5 This agreement was protested by the United States Government which maintained that the "open door policy" should apply to oil concessions in mandated territories.
The whole situation was complicated at this time, however, by the fact that the boundary between Iraq and Syria and Turkey was indefinite. Turkey claimed the Mosul area; Britain claimed it for Iraq. In the meantime, an American, Rear Admiral Chester, received a grant from the Turkish Parliament which gave his company the right to construct railway and telegraph lines in provinces including Mosul and exclusive rights to exploit all natural resources within a limited area on either side of the railway line. This did not please Great Britain who proceeded to make the problem of Mosul the main issue of the 1923 Lausanne Conference. The conference ended with the stipulation that the boundary between Turkey and Iraq was to be determined in friendly agreement between Great Britain and Turkey within nine months. If no such agreement was reached, it was to be referred to the Council of the League of Nations.

More than a year later, the Council determined that Mosul be included in Iraq. The final boundaries were set in a treaty in 1926 between Iraq, Turkey and Great Britain. In the meantime, Iraq had signed an agreement granting the Turkish Petroleum Company a concession for 75 years. In a further agreement signed in early 1931, Iraq granted the Turkish Petroleum Company (now called the Iraq Petroleum Company) the sole right to exploit 32,000 square miles of land east of the Tigris.

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6 This treaty included an agreement under which Turkey was to receive 10 per cent of the oil royalties from the Mosul area for a period of 25 years, or £500,000 in lieu of the royalties.

7 Royalties of four shillings per metric ton were to go to Iraq with a minimum required payment of £400,000 in gold for the first 20 years.
In April, 1932 the British Oil Development Company obtained a 75 year concession in the area of Mosul and Baghdad amounting to about 46,000 square miles. Ten years later this concession was turned over to a subsidiary of the Iraq Petroleum Company. Another subsidiary obtained a 75 year concession in 1938 which covered all remaining lands.

During World War II two American oil companies, Standard of New Jersey and Socony Vacuum, bought shares in the Arabian-American Oil Company. This disturbed the French who were afraid of American participation in the oil industry in Iraq from which came their major oil supplies. At the same time, the government of Iraq was becoming dissatisfied with British control of the Iraq Petroleum Company. Some Iraqis thought the British were more interested in expanding production in Iran than in Iraq. There was general dissatisfaction with the royalties received, with the valuation of the gold shilling received in payment and with the lack of facilities for refining oil in Iraq. It was further felt that too few Iraqis were being employed in the higher positions and that facilities for training Iraqis in the oil business were insufficient.

In 1950 the government succeeded in obtaining a two shilling increase per metric ton of oil, but events followed that necessitated a complete revision of the Iraq oil agreements. In 1951 Arabian-

\footnote{Until oil was found in commercial quantities, the company was to pay £100,000 per year starting in 1933 and to increase this by £25,000 per year up to £200,000. The government was to take up to 20 per cent of the oil for local consumption and re-sale if it so desired. Royalties were to be four shillings per metric ton.}
American Oil Company (Aramco) gave Saudi Arabia a 50-50 share in its earnings, and this was followed by nationalization of the oil industry in Iran. The Iraqi government informed the oil companies that Iraq wanted similar royalties or it might withdraw its concession. On February 3, 1952 a new oil agreement was signed which was much more favorable from the point of view of Iraq.

Under this agreement the Iraq government shares in the profits of the oil produced in Iraq on a 50-50 basis. The Iraq Petroleum Company and the Mosul Petroleum Company agreed to increase production to a minimum of 22,000,000 metric tons of crude oil per annum beginning in 1955, and the Basrah Petroleum Company agreed to increase production to a minimum of 8,000,000 tons annually beginning in 1956.

The companies further agreed: (1) to supply the government refinery with all the crude oil necessary for local consumption at 5.5 shillings per metric ton, (2) to grant increases in royalties if similar increases are granted to neighboring countries in the Near East, (3) to send 50 Iraqi students annually to British universities for specialized study in the oil industry, and (4) to pay the government a minimum of 15 million per year for two years if production should be halted because of force majeure or "an act of God".

II. POPULATION

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9 This is before deduction of foreign taxes and was made retroactive to the beginning of 1951. The Iraq government was further guaranteed a share of profits of not less than L20 million in 1953 and 1954, and not less than L25 million in 1955 and each year thereafter.

10 The Iraq Petroleum Company agreed to establish a school in Kirkuk to train Iraqi workers.

A. Size, Distribution and Density

The most recent census of population in Iraq, in 1947, indicated a population of 4,800,000. Up to that time it had been increasing at the rate of about one and one-half per cent per year, or had about doubled since 1900 in spite of a high rate of infant and child mortality.

The numerical distribution of population among towns, villages, tribal districts and nomads has not altered significantly since the last war. About one-fourth of the population are town dwellers, one-fifteenth are nomads and the remainder are farmers. There has, however, been a tendency for country dwellers to move to the larger cities. Since this movement has been largely limited to those most able to travel, the farming population evidences some excess of children under 10, adults over 50, and women.

In 1947 the average density of the population in Iraq was 11 persons per square kilometer, or 18 persons if the desert provinces are omitted. The liwa (province) of Baghdad has the greatest population (850,000), or a density of 64 persons per square kilometer.

B. The Labor Force

The outstanding characteristic of the Iraqi labor force is the fact that it is overwhelmingly agricultural. Two-thirds of the population live in rural villages and almost all of these live directly off the land. It is estimated that 70 per cent of all Iraqis

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receive their income from agricultural employment. Even those in small towns and some in the large cities practice farming of one kind or another.

The non-agricultural labor force is estimated at between 400,000 and 450,000 men and about 30,000 women. Table 3 indicates the distribution of this part of the labor force. The largest number is employed in commerce.

TABLE 3

<table>
<thead>
<tr>
<th>Distribution of Non-Agricultural Labor Force in Iraq, 1951 (Thousand Persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerce</td>
</tr>
<tr>
<td>Personal &amp; Public Service</td>
</tr>
<tr>
<td>Manufacturing &amp; Handicraft</td>
</tr>
<tr>
<td>Transport</td>
</tr>
<tr>
<td>Government (including Police)</td>
</tr>
<tr>
<td>Other Categories</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>


C. Racial Groups

The population of Iraq is predominantly Arab. The Iraqi Arab is descended from the Bedouin of Central Arabia, his ancestors having migrated to the Iraqi territory from that area.

There are also a number of racial minority groups in Iraq, some of which have created difficult problems. The most important of these racial minorities is the Kurds who inhabit the northeastern mountain ranges. This is an Aryan race which is descended from the populations of Central Europe. The Kurdish homeland lies in three nations -- Iraq, Iran and Turkey, and this unfortunate division of a
homogenous group of four and one-half million people has caused them to strive continually for a nation of their own. Large scale rebellions occurred in 1922-1924, 1930-1931 and 1932. Throughout World War II the Kurds caused trouble for the government by unpredictable uprisings. Their longing for a nation of their own and their antipathy towards Arab domination will continue to present a problem in the unification of Iraq as it moves toward a state of independence and advanced governmental and economic development.

Other minority groups in Iraq include Persians, Turks, Subba (Mandeans), Armenians, Assyrians and Jews. As mentioned above, the Assyrians created considerable trouble during the early 1930's when they attempted to cross the Syrian border. Most of the Jewish population left Iraq during 1948 and 1949 after the establishment of Israel. There are still several thousand Jews remaining—predominantly rich and eminent families. But with their loss of opportunity in government and of equal rights in business, they have only the dimmest future.

D. Consumer Groups

Divided into consumer groups, the Iraqi population evidences an overwhelming preponderance of persons who either enter the market for consumer goods only occasionally, or not at all. The large number of small farmers and agricultural workers affect the money economy very little because they receive most of their income in kind. A considerable group of small landowners and low income urban workers do make purchases of essentials, but these are so limited that they do not significantly affect the market.
The growing group of moneyed landowners, white collar workers and business men are the small but important consumer groups in Iraq at present. Table 4 presents estimates of the population divided into consumer groups based upon the estimated 1954 population. It indicates that, of a total estimated population of 5,068,000, only about 80,000 persons play an active part in the money economy.

**TABLE 4**

Consumer Groups in Iraq, 1954
(Thousand Persons)

<table>
<thead>
<tr>
<th>Rural Consumer Group</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenant Farmers, Agricultural Workers, Rural Wage Earners, Tribesmen</td>
<td>2,880</td>
<td>57</td>
</tr>
<tr>
<td>Small Landowners</td>
<td>550</td>
<td>11</td>
</tr>
<tr>
<td>Medium Landowners</td>
<td>60</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>3,490</td>
<td>69</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Urban Consumer Groups</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Income Wage Earners</td>
<td>1,233</td>
<td>24</td>
</tr>
<tr>
<td>White Collar, Middle Income, etc.</td>
<td>325</td>
<td>6</td>
</tr>
<tr>
<td>Wealthy Landowners, Merchants, etc.</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>1,578</td>
<td>31</td>
</tr>
</tbody>
</table>

Grand Total | 5,068 | 100 |


**E. Special Characteristics**

Certain special characteristics of the Iraqi population have made themselves apparent to observers and have tended to complicate the problems of the country. Among these is a spirit of dependence in the people bred by the land tenure and tribal systems, which leads them to look to others for assistance rather than take independent action themselves. Thus there is a tendency among the people today to look to the
government for help. Furthermore, there is little cooperation among
the people in the solution of their problems except within families
or groups knit together by blood ties.

A second characteristic of the Iraqi population is the
general attitude that working with one's hands is menial. It is for this
reason that the Iraqis have shown little tendency to become artisans and
as a result there is a dearth of skilled workers and an overabundance
of white collar workers and even professional men in such lines as law.
Recent attempts have been made to draw more workers into the skilled
trades by setting up schools of vocational training and by trying to
dissipate the idea that manual labor is demeaning.

A third characteristic of the Iraqi population is the lack
of personal saving. The Iraqi generally does not prepare for the future
through saving. He lives from day to day, frequently spending a
disproportionate amount of his income on the pleasures of the coffee
houses which is the only social activity of the majority of the people.
Furthermore, such savings as are accumulated ordinarily take the form
of commodities rather than money. This results both from the scarcity
of commodities relative to money in circulation and from the tradition
that a man's savings are counted in terms of his wife's golden anklets
and other jewelry.

Fourthly, the Iraqi population are generally poor workers,
probably as a result of malnutrition, unhygienic habits which breed
disease, low income and climate.

Finally, the Iraqis are extremists in all facets of behavior.
This results in part from the fact that they are essentially desert
stock, and all behavior and all codes go back to the desert codes. The sharp practices of the desert, the extreme laws, penalties and retaliatory behavior are part of the desert culture not to be quickly relinquished.

III. SOCIAL STRUCTURE

A. The Tribal System

The tribes, holding nine-tenths of the cultivated land, surround the Iraqi cities and towns on all sides. For many centuries prior to the 20th century the life and social structure of these tribes remained virtually unchanged. A multitude of customs, loyalties, unwritten laws and social observances which are unknown even to the urban Iraqis still exist among the tribes. As a whole they are about as impoverished and destitute as they ever were.

Nevertheless, some change is in progress. Some sheiks possess motor cars, frequent towns, and send their sons away to college. There is also a tendency for some tribesmen to settle on the fringes of civilization and become cultivators. Moreover, government armies, now mechanized, can more effectively extend their jurisdiction into the tribal areas. Courts have been set up that cannot be ignored. With the inception of government control of irrigation and assistance in agriculture, there has come a little more security of livelihood. The tribesmen are thus a little less dependent upon the sheiks. Into the small towns have come modernizing influences from the outside world in the form of radios, automobiles, fabrics, tools, and telegraph lines which can be seen if not put to actual use. Thus the seclusion of the tribal mind is gradually being invaded. The sheiks are still
followed and the old social structures remain unchanged, but extension of the cultivable land and the government's development plans may well widen the cracks already beginning to appear in the tribal structure.

B. The Fellaheen

The settled tribesmen, called fellaheen, are the most numerous of any class in Iraq. The system under which they live is truly a feudal system. One aristocratic family may have hundreds of such fellaheen who are virtually serfs. A certain proportion of their crops is retained for their own use, but this is determined by the overlord and not as yet by law. On the average it is 40 per cent, but in some cases is as little as 20 or 30 percent.\(^1\) The result is that most fellaheen live on a bare subsistence level.

The fellah is generally a poor worker--improvident and lazy. His inadequate food and the resulting malnutrition are thought to be the cause of his poor working ability, but he also lacks incentive. The date packers are typical of the fellaheen everywhere: during their two or three months of steady labor they earn enough to keep themselves alive for the rest of the year without additional labor.

C. The Towns

In the towns a new society is growing up in Iraq. This is the society of the well-to-do merchant. In the past the merchants have been primarily Jews and Christians, but in recent years, especially after the departure of the Jews, there has been a noticeable tendency for other groups to enter the trade sector of the economy.

\(^1\) *Middle Eastern Affairs, op.cit.*, p. 388.
Western ways are beginning to take hold in the towns. More and more well-to-do urbanites are sending their children to school abroad or travelling abroad themselves. Cabarets and movie houses of the Western type are frequent diversions as well as professional and sporting clubs of various kinds. Social life as between men and women, however, is still considerably limited.

D. Status of Women

The Iraqi woman is slowly being granted some independence. The Moslem veil has been discarded by many, and a few go on to higher education and become doctors, lawyers and teachers. Women's societies have been formed that engage in social work projects, although on a rather small scale. Certain circles have demanded the right to vote, but this has not been granted as yet. Actually the position of the women is still far inferior to that of the men, both in and out of the household. But a start has been made toward their eventual emancipation from the rigid Eastern customs.

E. Role of the Family

The family still exercises a powerful influence upon the young at all levels of Iraqi society. It is a patriarchal society in which the whole family confers with the oldest male relative on any decisions affecting the life of one member. Thus a son or daughter is limited in any decision—whether it be marriage, taking a job or leaving home—by the opinions of the eldest male and the other members of the family whose decision must be followed in all questions. This works a hardship upon the young people whose chances of marriage may be extremely limited or whose future may be sacrificed to the family will if they
are not permitted to accept jobs away from home. Even the adult male members of the family suffer from this tyranny with very little chance of independent action throughout their lives. This frequently results in rebellious attitudes that color the whole society.

IV. LAND OWNERSHIP

A. Concentration of Land Ownership

During the 19th century there was a tendency to end the feudal system in the Arab countries by establishing the property rights of the actual occupants of the land. Under the Ottoman Land Code of 1858, land might be registered at the land registry office by cultivators after ten years occupancy. Although fairly successful in other Arab countries, this measure failed in Iraq for two reasons. One was the fact that lack of drainage in southern Iraq quickly exhausts the soil and necessitates the abandonment of a cultivated site in favor of another before the expiration of a ten year period. The second reason was the strong hold that the tribal system had in Iraq, which meant perpetual migration. Lands for which no claim was registered remain State domain. Today, two-thirds of the land in Iraq belongs to the State.

During the 20th century, several developments hastened the claims of many large landowners, tribal sheiks and urban merchants upon large tracts of land. One of these factors was the increasing importance of cereal crops as exports. Cereals thus began to be grown as a cash crop, and the position of the sheik in the tribe enabled him to acquire title to the cereal producing lands. The second factor was the increased use of pumps for irrigation. The cultivators became
more and more dependent upon the pumps which were installed by the sheiks, and they more often than not lost their property to the sheiks through indebtedness for use of the pumps. Thus the tribesmen became mere tenants employed on the lands of the sheiks and the land became concentrated in the hands of a relatively small number of landowners.

The land in Iraq continues to be concentrated in the hands of a few large landowners. This is evidenced by the fact that 87.7 per cent of the landowners hold only 6.5 per cent of the total privately held farm land, whereas 1.5 per cent of the landowners hold 80 per cent of this land. The big landowners work most of the State lands also which are leased to them under leases renewable every five years. Upon the death of one of the sheiks, the leases that he holds are taken over by one of his sons.

B. Land Reform

Land distribution schemes in Iraq date back to 1937 when the Dujaila Project for irrigation in east central Iraq made vast areas of State lands cultivable. The irrigated lands were ready for distribution among landless farmers by 1944. Needy families were granted 1262 units of from 60 to 125 acres. Each farmer was entitled to full ownership after 10 years if he demonstrated some success in his farming.

This plan has proved to be highly successful. The average income of the participating farmers is about ten times that of the average farmer in Iraq. They have established a cooperative which owns ten tractors, two trucks, a flour mill and a club house. They have

\[\text{Ibid., p. 386.}\]
schools for their children during the day and for themselves at night. They have a hospital, clinics, agricultural advisers and homes that were built with health and sanitary conditions in mind.\textsuperscript{16}

A land reform plan of this kind is difficult to execute in Iraq because of the power of the sheiks. When the Dujaila land was ready to be distributed, 50,000 fellahaen applied for the 1262 units. To pacify the neighboring sheiks whose labor supply was thus endangered, the government gave them title to 127,680 donums earmarked for the project. This left only 147,840 donums to carry out the original purpose. Thus the government created small holdings only at the expense of creating still larger ones.\textsuperscript{17}

V. LIVING CONDITIONS

Living conditions in Iraq differ widely among the low, middle and upper income classes. In the rural areas, homes are poorly constructed of reed mats and mud, and consist of one room only with no ventilation. No satisfactory method of disposing of human waste is available. The rural people have no concept of proper hygiene, child care or home management. Animal dung and kerosene are used as fuel, with no electricity even in many of the town areas.

In the towns the poorest classes are little better off. The housing is similar and the older sections of the towns still do not have sanitary facilities or piped water. A recent problem has been the immigration of country people to the towns and cities seeking a better


\textsuperscript{17} Middle Eastern Affairs, \textit{op.cit.}, p. 390.
livelihood. Unable to find work, they put up their reed huts in any public spot and become squatters. Along the banks of the rivers in the larger towns, the poor have always built their mud huts which are regularly washed away each year by the spring floods and then rebuilt again. Low income groups such as government employees, laborers, etc., live in improved tenement buildings or houses averaging three rooms.

The urban middle income group includes merchants, professional people, and white collar workers such as middle grade government employees, teachers, clerks, etc.

The "wealthy" in Iraq number about 50,000 persons with minimum annual incomes of 4,000 dinars per family of five. They include landowners, merchants, bankers, contractors, top government officials and professional people. They live and entertain lavishly, buying most of their furnishings and clothing from abroad.

Today the main streets and new sections of the larger towns present a much improved appearance as compared with fifty years ago. The streets have been widened and paved and are well-lighted. There are well-tended boulevards and public gardens. Good sewage systems run through the improved parts of the towns. Public buildings are modern and functional. The old pontoon bridges have in many places been replaced by concrete and steel structures. The building of private homes has been stimulated by private enterprise seeking means of investing war profits. The Development Board has allocated 59,800,000 dinars for hospitals, health institutions, schools, public buildings and

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18 Department of Commerce, op.cit., p. 2.
housing for government officials and the working poor for the period 1955-1959.

VI. HEALTH

A. Health Conditions

One of Iraq's greatest problems is the poor state of health of the majority of its workers. In the 1940's the infant mortality rate in the three largest cities was 110 per 1,000 live births. But in the rural areas the death rate estimates have been as high as 500 per 1,000 live births.\(^{19}\) Infant mortality is an indication of the health standards of any country, and Iraq has one of the highest infant mortality rates in the world. The reasons for the poor health of the Iraqi populace have already been discussed—poverty, malnutrition and lack of understanding of the most basic rules of hygiene.

The most common diseases are malaria, trachoma, intestinal diseases and tuberculosis. Malaria is particularly severe among the rural people where it is estimated to cause 50,000 deaths per year. The irrigation projects, stagnant water supplies and poor drainage are conducive to the breeding of mosquitoes in spite of the dry climate which would otherwise rule out a disease like malaria.

Eye diseases, mainly conjunctivitis and trachoma, are widespread in Iraq. One-fifth of the total population has visited a clinic for eye treatment in recent years. There are approximately 40,000 totally blind persons in Iraq.\(^{20}\)

\(^{20}\)Ibid.
The intestinal disorders, particularly hookworm, schistosomiasis and ascaris, cause anemia and debility. Treatment of such disorders ordinarily consumes a considerable period of time. Among the causes have been listed the poor sanitary conditions, stagnant waters, use of cesspool contents as fertilizer for vegetables and the habit of children and adults of going barefoot in the streets and fields.

Tuberculosis, largely the result of crowded living quarters, is a problem of serious proportions. The government has applied to the World Health Organization for assistance in fighting the disease.

B. Hygienic and Medical Facilities

At present, facilities to remedy the serious health problems of Iraq are limited. There are approximately 400 village dispensaries. In 1950 there were 89 hospitals, one-third of which were in Baghdad. In most of these hospitals the diagnostic facilities, equipment, staffs and hygienic conditions are all in need of substantial improvement. The doctors serve as hospital administrators without having had any preparation for administration. There is also a severe shortage of nurses resulting in part from the fact that nursing does not appeal to Moslem girls who are accustomed to living a sheltered life.

There are approximately 900 doctors in Iraq, or one for every 7,000 members of the population. However, about half of these are in Baghdad and it is difficult to persuade more of them to practice in the rural areas where they are so badly needed. The doctors object to the poor living conditions in the rural areas and to the fact that facilities there do not allow them to practice medicine as it was
taught to them.

VII. EDUCATION

At the present time, about 80 per cent of the men and 95 per cent of the women in Iraq are illiterate. Some progress in education has been made since 1900, but insofar as educating the present population is concerned it has hardly scratched the surface. As indicated in Table 5, however, there is a trend toward rapidly increasing student bodies.

TABLE 5

Student Enrollment and Number of Schools and Teachers
In Iraq, 1949-1953

<table>
<thead>
<tr>
<th>Year</th>
<th>Students</th>
<th>Schools</th>
<th>Teachers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>169,868</td>
<td>1,070</td>
<td>5,983</td>
</tr>
<tr>
<td></td>
<td>19,451</td>
<td>108</td>
<td>871</td>
</tr>
<tr>
<td>1950-51</td>
<td>180,779</td>
<td>1,101</td>
<td>6,367</td>
</tr>
<tr>
<td></td>
<td>22,706</td>
<td>121</td>
<td>999</td>
</tr>
<tr>
<td>1951-52</td>
<td>199,253</td>
<td>1,209</td>
<td>7,288</td>
</tr>
<tr>
<td></td>
<td>24,078</td>
<td>104</td>
<td>1,170</td>
</tr>
<tr>
<td>1952-53</td>
<td>225,828</td>
<td>1,329</td>
<td>8,235</td>
</tr>
<tr>
<td></td>
<td>29,941</td>
<td>125</td>
<td>1,457</td>
</tr>
</tbody>
</table>


Primary education in Iraq is in theory compulsory, but it is limited by a shortage of teachers and schools especially in the rural areas. Instruction is free with all having equal rights of attendance regardless of wealth or sex.

The primary schools in Iraq have six grades, the intermediate schools have three, and the secondary schools, two. In the past, over-emphasis has been placed on higher education with neglect for
primary instruction. Also, students have dropped out of the primary schools at an alarming rate, wasting the time and energy spent on them in the first few grades. Dr. Akrawl has presented figures showing that 50 per cent of those starting primary school in Baghdad in 1944-1945 dropped out before completing six grades.\textsuperscript{21} The wastage is much more serious in the less advanced areas.

Institutions of higher learning in Iraq include the Law College, Higher Teachers' Training College, Engineering College, College of Commerce and Economics, Queen Aliya College for Girls, College of Arts and Science, College of Medicine and Dentistry, College of Pharmacy and Chemistry, Police College, Military College, Theological College, and the Institute of Fine Arts. Student enrollment in these institutions numbers about 5,000. There are also about 3,000 students studying abroad either on government grants or paying their own expenses.

Only about 750 students were enrolled in 1952 in technical schools teaching domestic science, agriculture, public health and police duties. These schools have failed to break down the antipathy that exists toward manual labor in Iraq and have failed, moreover, to turn out graduates with enough know-how to open their own shops or even find employment. The courses are not oriented towards workshop practice and experience, and the graduates of these schools are therefore not fulfilling Iraq's need for skilled workmen. Rather they are swelling that group of workers who wish to take government jobs as

\textsuperscript{21}\textit{Ibid.}, p. 388.
VIII. RELIGION

About 99 per cent of the population of Iraq are Moslems. Since the Jewish population has almost entirely departed, practically all of the small remainder are Christians.

The Moslems are divided into two major sects: the Shi'i and the Sunni. The Shi'is are in the majority although the Sunnis are still the rulers. The original differences between these two groups were at one time purely doctrinal and insignificant, but they have become much more fundamental. The Shi'is are mostly anti-progressive, and have refused to accept secular education. Therefore, in spite of their majority, they have fewer educated members and fewer men capable of taking public office. Until recent years, Iraqi cabinets have consequently contained only one Shi'i minister to keep up the appearance of proportional representation. During the last decade, however, the Shi'is have gained almost equal representation.

IX. FORM OF GOVERNMENT

Iraq is a constitutional, hereditary monarchy with a parliamentary form of government. Parliament consists of a directly elected Chamber of Deputies and a Senate appointed by the King. It is meant to be a parliamentary democracy, but in operation it is a cabinet government. The Chamber of Deputies feels no responsibility toward the electorate who are illiterate, incapable of making decisions in governmental affairs, and incapable of controlling the officials who are elected to office.

Ideally, a parliamentary democracy needs rival political
parties of integrity. These are lacking in Iraq. The parties existing there represent special interests, and local rather than country-wide groups.

Democratic government being comparatively new in Iraq, the country suffers from a scarcity of experienced officials. It also suffers from discontinuity of ministries. Furthermore, the army and police forces are distinctly lacking in loyalty, and any group which can successfully draw one or the other into its camp is in a good position to accomplish a coup d'etat.

X. RECENT DEVELOPMENTS

A. Distribution of State Lands

In 1951 a new law called "Law of Development and Settlement of the State Lands" was enacted in Iraq to distribute the vast potentially cultivable state lands among landless farmers. As of March, 1951, 6,514 persons had been resettled on about one million acres of public lands. The land was distributed in units of 35-45 acres per settler in the irrigation zones, and 200-300 acres in rain-fed zone. Primary schools were built for the children and one project, the Latifiya Project, was modeled after the Dujaila Project with houses built in the form of a modern village. Additional projects of this type are continually being studied.22

B. Agriculture

Another new social advance is the low-cost loans that are being made to farmers by the Agricultural Bank of Iraq. The main

22Embassy of Iraq, op.cit., pp. 4-5.
purpose of these is to eliminate the farmers' obligations to sell their crops in advance at extremely low prices or resort to lenders who charge exorbitant rates of interest.

In 1952 the Agricultural Bank was authorized to accept machinery as guarantee for loans up to 50 per cent of the price of the machinery. This has had the effect of stimulating machinery purchases by farmers. The Bank also grants long-term loans of 20-30 years duration at low interest rates in order to encourage small land holdings, and is considering a scheme for agricultural insurance to safeguard the farmers against crop failures.

C. Education

In September, 1955, the Education Ministry and the Local Administration authorities completed a plan to expand kindergarten and primary education facilities nearly fourfold. They made plans also to train secondary school graduates to teach in primary schools. This latter will be necessary before the compulsory primary school program now under consideration can be put into effect. These two projects are estimated to cost 8,000,000 dinars.

Efforts are also being made to extend agricultural education in the country. The Agricultural School gives a three year course to intermediate school graduates. The Agricultural Institute, which was started on the basis of a two year graduate course, has increased this to a four year course and has been elevated to full college status.

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23 Ibid.
24 The Iraq Times (Baghdad: August, 1955).
embracing all the branches of agricultural science and technique. There is also a system of scholarship grants by means of which outstanding students are sent abroad to specialize in some branch of agriculture. Finally, the government is using the technical assistance program of the United Nations and the Point Four Program to provide its technical staff with additional training. Officials of the Ministry of Agriculture are given scholarship grants for training under these programs.

In 1951 the government of Iraq and UNESCO reached an agreement for the organization of a tentative program of fundamental education in "Dujaila", where the first land scheme was put into effect. The purposes of this fundamental education scheme are: (1) to instruct the families in health measures, home and child care, (2) to instruct them in the operation of consumers' cooperative societies to enable them to get their household requirements for the most reasonable prices, and (3) to instruct them in modern agricultural practices as a means of bettering their economic conditions. The attempt is being made to encourage them to solve their own problems without resorting to government assistance. The UNESCO team is accomplishing these purposes through home visits of a nursing specialist and a rural home economics specialist, farm visits by instructors who discuss agricultural problems with the farmers, and through a model farm which is used for demonstration purposes.

D. Social Welfare

The government of Iraq has begun to pay more attention to the social welfare of the citizens of Iraq in recent years. Centers have been established with a library, an assembly hall, a maternity ward
and an out-patient clinic with a small dispensary. An institution for
the education of the blind has been established as well as about ten
infirmaries for the care of crippled and handicapped persons. With the
help of the World Health Organization and the Foreign Operations Adminis­
tration, the government has established and operates two maternity
centers and child care clinics. A reformatory has been put into opera­
tion for juvenile delinquents in which rehabilitation is the chief
purpose. Other proposed works include a college to train social
workers, a new orphanage, and new infirmaries and reformatories.

E. Labor

Labor has also benefited from recent developments in Iraq.
A special department for housing and social security is now a part of
the government. Safety codes and the number of working hours are
decided by law. A system of workman's compensation is in effect. A
rest period must now be provided each day, and after six days of work
there must be a 24 hour rest period. Other benefits include pro­
visions for annual and sick leave, restriction of child labor, and
limitation of night work to certain industries.

F. Housing

In very recent years, there appears to be more awareness in
Iraq of the necessity of assisting the lower-income segment of the
population through housing projects. Under Iraq's new five year
Development Board program of 1955, it is planned to spend the equivalent
of $26,460,000 for housing projects. Of this total, $16.8 million is
to be spent for general housing and slum clearance, $4.2 million for
workers' housing, $3.5 million for government employees' housing, and
$1.96 million for housing for specific industrial projects.\textsuperscript{25}

The Ministry of Social Affairs is planning a $1.4 million program of housing for industrial workers in Baghdad outside the program of the Development Board. It has acquired a plot of land in Baghdad large enough for 500 homes.

The Basrah community is planning for the construction of 2,000 houses in 1956 for lower income groups. The new houses are expected to be sold on the hire-purchase plan under long-term mortgages at rates within the means of unskilled laborers.

G. Industry and Transportation

In 1955, manufacturing output in Iraq increased 25 per cent over the previous year. The largest increases included a 150 per cent increase in the vegetable oils industry, a 60 per cent increase in the cement industry, a 40 per cent increase in rayon textiles and bricks, a 35 per cent increase in the milling, baking and distilling industries, and a 32 per cent increase in electric power output.\textsuperscript{26}

An agreement was reached in 1954 between the Iraqi government and the Texas Gulf Sulphur Company to exploit the potentially large sulphur resources of Iraq. Production in commercial quantities was not expected for about three years, but it is expected that shortly thereafter Iraq will become a major source of supply.

There was an estimated 25 per cent increase in traffic in 1955 which emphasized the need for prompt attention to road, railway


and port improvements. Three measures are planned to improve transporta-
tion facilities: (1) improvement of navigation on the Tigris river, (2) construction of all-weather roads connecting Baghdad with Basrah and Mosul, and (3) construction of a new railway of standard gauge between the new port of Um Qasr and Baghdad.

H. Technical Assistance

A United States technical program is aiding the development program of Iraq. A budget of $2,800,000 was set up in 1955, and 110 technicians assisted in the planning, training and organizing programs. Agriculture received the largest share of attention. The Food and Agriculture Organization provided experts in forestry, rice cultivation, animal husbandry, and hides and skins. Iraqi extension workers, under the guidance of United States technicians, were assigned to different regions throughout the country. The workers were assisted through research in plant breeding, animal husbandry, seed production and pest control.

Assistance was also received in the administration of water-power facilities, management processes, preparation of statistics, public health and industrial surveys. The World Health Organization continued its projects in malaria control, bilharzia, tuberculosis, and mother and child health. A rural health program is also planned by this organization for 1956.

The recent development outlined above indicates that sincere efforts are being made by the government of Iraq and various outside

27 Ibid.
organizations to improve the economic and social conditions in this backward and economically underdeveloped nation. It should be evident, however, that much remains to be done. Chapter Seven is devoted specifically to an examination of the problems of economic development in Iraq.
CHAPTER FOUR

ANALYSIS OF THE BALANCE OF PAYMENTS OF IRAQ

I. INTRODUCTION

In recent years several significant changes occurred in Iraq's international economic relations. In this chapter an analysis of the Iraqi balance of payments during the post World War II period is undertaken. A summary of the balance of payments as a whole will be followed by an analysis of current transactions and capital movements. These balances for the years 1947-1954, presented in Table Six, clearly indicate a turning point in 1951—a change from a chronic current-account deficit to a subsequent period of current-account surplus. Consequently, in the following summary of the whole period, these two phases are treated separately.

The period between 1947 and 1950 was typical of almost the entire history of Iraq. Merchandise trade resulted in an import surplus which was generally large and the extent of which depended primarily on agricultural conditions in the country. This import surplus, creating a demand for foreign exchange, was further augmented by foreign oil companies' transfer of their profits. This demand was only to a small extent offset by expenditures of religious pilgrims and disbursements by foreign vessels in the port of Basrah. The remaining demand was covered, wholly or partially, by royalties and contributions by the oil companies including construction investments, which in the latter forties amounted to relatively substantial sums. Another source of foreign exchange was Iraq's sterling balances held in London and/or liquidation of foreign portfolio securities held by the National Bank.
(Iraq Currency Board prior to 1949) and commercial banks.

During the first period, there were import surpluses amounting to 8,700,000, 24,900,000 and 12,300,000 dinars in 1947, 1948 and 1949, respectively; and an export surplus of 11,400,000 dinars in 1950; or a total net import surplus of 34,500,000 dinars. This merchandise trade deficit was further augmented by transfers of income on investments of foreign companies (net of other relatively negligible current transaction items). These amounted to 6,900,000, 700,000, 2,600,000 and 12,900,000 dinars during the same four-year period which, combined with the merchandise trade deficit, produced a total current-account deficit for the four years of 57,600,000 dinars.

The financing of this huge deficit was accomplished by the capital investments of the oil companies for construction purposes in Iraq totaling 34,300,000 dinars (net), by drawing on Iraq's accumulated sterling balances to the extent of 5,300,000 dinars, and by liquidation of the National Bank's and commercial banks' foreign portfolio securities to the amount of 11,600,000 dinars. The unbalanced deficit of 6,400,000 dinars was accounted for by errors and omissions in the statistical data.

Iraq's foreign exchange balances on December 31, 1950 amounted to 49,435,000 dinars in British pounds, and 706,000 dinars in other foreign currencies--chiefly American dollars; Indian, Pakistani, and Ceylon rupees; and Egyptian pounds. After a slight decline in 1951, these balances continued a notable increase.

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Following 1950, the Iraqi balance of payments underwent a complete change from a chronic deficit to a continuously increasing surplus in its current-account. This striking change was almost entirely the result of favorable changes in the oil industry.

Until August, 1950, Iraq's receipts from the oil companies were in the form of royalties of four shillings in gold per metric ton of oil exported. In August, an agreement was reached whereby this royalty rate was increased to six shillings in gold. In the next year negotiations were started that led to the new agreement which was subsequently ratified by the Iraqi Parliament in February, 1952, as outlined in Chapter Three. This agreement, retroactive to January, 1951, improved the advantages that Iraq gained from oil production. A form of equal profit-sharing (before deduction of foreign taxes), and provisions for increased production, were the two main stipulations of the agreement.

The completion of pipelines and the expansion of oil production and exports resulted in a favorable balance of trade despite the sharply increasing trend in imports. Consequently, over the four years, 1951-1954, Iraq had a surplus in its trade account of 235,300,000 dinars. However, because of other current transactions, the total current-account reflected a net surplus for these four years of only 66,100,000 dinars. These transactions which appear to be definite offsetting factors to the trade surplus, will be considered as they appear in the following balance of payments table.
TABLE 6
Iraq's Balance of Payments, 1947-1954
(Million Dinars)

<table>
<thead>
<tr>
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<tr>
<td>Cr.</td>
<td>Dr.</td>
<td>Net.</td>
<td>Cr.</td>
<td>Dr.</td>
<td>Net.</td>
<td>Cr.</td>
<td>Dr.</td>
<td>Net.</td>
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<td></td>
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<td>31.4</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>1.1</td>
<td>1.8</td>
<td>-0.7</td>
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<td>2.9</td>
<td>0.2</td>
<td>3.1</td>
<td>2.9</td>
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<td>-0.6</td>
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<td>-0.8</td>
<td>-0.6</td>
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<tr>
<td>Total Goods &amp; Services</td>
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<td>3.2</td>
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<td>II. Capital &amp; Gold Movements</td>
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<td>10.2. Short Term Capital</td>
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<tr>
<td>11. Official &amp; Banks</td>
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<td>8.5</td>
<td>0.3</td>
<td>8.8</td>
<td>8.5</td>
<td>0.3</td>
<td>8.8</td>
<td>8.5</td>
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<tr>
<td>11.1. Long Term Capital</td>
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<tr>
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<td>8.5</td>
<td>0.3</td>
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<td>8.5</td>
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<tr>
<td>11.3. Monetary Gold</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Total Capital &amp; Gold Movements</td>
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<td>13.9</td>
<td>13.5</td>
<td>0.4</td>
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<td>13.5</td>
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<tr>
<td>Errors &amp; Omissions</td>
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<td>0.9</td>
<td>2.1</td>
<td>1.2</td>
</tr>
</tbody>
</table>

* Estimated.
1 Exports are valued on F.O.B. and imports on C.I.F. basis.
2 Residue between current accounts and capital accounts, both of which have been estimated separately. The residual figures (errors and omissions) indicate that given data are inadequate.


Note: According to information released by the International Monetary Fund and the Statistical Department of the National Bank of Iraq, the differences found between figures in the Balance of Payments and those of trade balance appearing in Table 11 are explained partially by the use of different average prices, particularly prices of crude oil exported. To a lesser degree, the differences are attributed to various adjustments made for balance of payments purposes, namely, allowances made for under-valuation of exports and over-valuation of imports and contraband.
II. MERCHANDISE TRADE

In Iraq, as in most underdeveloped countries, exports consist almost entirely of primary or raw materials while imports consist mainly of manufactured goods.

A. Exports

1. Oil

Iraq's export trade, throughout its recent history, has been dominated by its oil exports. Between 1945 and 1954, oil exports amounted to 74.5 per cent of total exports, and between 1951 and 1954, after the new oil agreements, they amounted to 82.1 per cent of total exports. As indicated in the following table, the increase in the value of oil exported was steady through 1947. In 1948 the closing of the Haifa pipeline, immediately after the Palestinian War, curtailed oil exports. However, the upward trend started again in 1949, and since then it has been increasing rapidly because of increased production and the completion of the 16-inch pipeline to Tripoli (Lebanon) in 1949, the 12-inch pipeline from Zubair to the Persian Gulf in 1951, the 30-inch pipeline to Banias (Syria) in 1952, and the recently completed 24-inch pipeline to the Persian Gulf. The construction of these pipelines, the development of transportation facilities and oil fields, and the revised agreements with the oil companies combined to bring about a sharp increase in Iraq's production and exportation of oil in mid-1951 and thereafter.

Oil-royalty income has contributed immensely to the national budget of Iraq throughout the recent history of the nation. But it was not until 1950 that Parliament created an independent Development
Board to use much of this income for general improvements. Seventy percent of the total income from oil royalties was allocated to the Board for development purposes. On April 3, 1951, Nuri-es-Said made it public that the Board had set up a five year construction program for which a sum of 91,000,000 dinars was appropriated.

TABLE 7

Value of Iraqi Exports, 1945-1954

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<tr>
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</thead>
<tbody>
<tr>
<td>Petroleum</td>
<td>10.7</td>
<td>10.8</td>
<td>14.0</td>
<td>11.4</td>
<td>14.1</td>
<td>28.7</td>
<td>37.1</td>
<td>83.0</td>
<td>124.0</td>
<td>156.0</td>
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<tr>
<td>Barley</td>
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<td>5.3</td>
<td>8.7</td>
<td>12.5</td>
<td>9.0</td>
<td>8.6</td>
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<td>6.2</td>
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<tr>
<td>Dates</td>
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<td>13.2</td>
<td>14.7</td>
<td>4.7</td>
<td>3.3</td>
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<td>5.6</td>
<td>4.7</td>
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<td>3.5</td>
</tr>
<tr>
<td>Other Items</td>
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<td>3.8</td>
<td>8.6</td>
<td>10.9</td>
<td>6.2</td>
<td>7.1</td>
<td>6.2</td>
<td>6.2</td>
<td>6.2</td>
<td>6.2</td>
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<tr>
<td>Tot. Exp. Excl. Oil</td>
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<td>13.2</td>
<td>14.7</td>
<td>8.6</td>
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<td>29.0</td>
<td>19.9</td>
<td>19.9</td>
<td>18.5</td>
</tr>
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<td>Total Exports</td>
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<td>24.0</td>
<td>28.7</td>
<td>20.1</td>
<td>26.5</td>
<td>50.3</td>
<td>66.1</td>
<td>102.9</td>
<td>143.9</td>
<td>174.5</td>
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</tbody>
</table>


Clearly, the production and exportation of oil are the key factors determining Iraq's economic position. If the expected production and exports continue at their present level, the potentialities for the development of the country are impressive. However, oil is an exhaustible resource, and its supply is limited. According to estimated supplies of crude petroleum in Iraq of 1,470,600,000 metric


\[\text{The program is discussed in Chapter Seven.}\]
tons, \(^4\) Iraq has a fifty-year supply based on 1954-production of about 30,000,000 metric tons. Of course, a higher rate of production will result in an earlier depletion of the reserve.

2. Other Exports

Iraq's main exports, other than oil, are barley and dates. Their importance in relation to the country's total exports is indicated in Table 7. During the period 1949-1954, the value of exported barley and dates amounted to about 14 per cent of the country's total exports (almost 64 per cent excluding oil). Because of the importance of these agricultural exports, the country's foreign trade tends to be vulnerable to local climatic conditions. This vulnerability was obvious throughout the post-war period. The very sharp decline in non-oil exports from 14,700,000 dinars in 1947 to 8,600,000 in 1948 was the result of two successive crop failures, particularly with reference to barley. In the next few years weather conditions for crops improved and agricultural exports increased.

External factors augmenting these increases should not be underestimated. The continual rise in the prices of raw materials during the three years ending with 1951 was partially responsible for the increased exports. Also, the devaluation of the Iraqi dinar on September 22, 1949 from $4.03 to $2.80 contributed to export expansion in subsequent years. The devaluation cheapened Iraqi produce relative to markets in countries not engaging in any devaluation, such as the United States and Canada. One result of the increase in world prices

and demand for raw materials, which brought about an increase in Iraqi export receipts, was an intensification of the national efforts to expand domestic production through greater mechanization of agriculture, better irrigation, and wider exploitation of cultivable lands. During 1951, for instance, date exports amounted to 340,000 tons, or a 61 per cent increase over 1950, and exports of grains amounted to 62,600 tons, or a 57 per cent increase over the previous year.

After 1951, agricultural exports began to decline. This was due in part to a decrease in export demand and prices following the truce in Korea and the relaxation of the stockpiling programs. The largest declines were for seeds, wool, and hides and skins; the relative prices of which in 1952 declined by about 6½ per cent, 70 per cent, and 77 per cent respectively, as compared with 1951. Barley export prices after 1951 followed a declining trend. The sharpest decline was in 1952 when prices fell by 8 per cent as compared with 1951. Although the export prices of dates during the same year increased by 16 per cent, this was offset by a 29 per cent contraction in quantity exported.

In part, the decline in agricultural exports was again the result of unfavorable climatic conditions. Poor harvests in 1952 and 1953 were due to adverse occurrence of rainfall, floods and locusts. The decline in production, combined with increases in the domestic price level of foodstuffs, necessitated the imposition of export restrictions on essential goods, and relaxation or complete abandonment of import restrictions on foodstuffs. Increases in domestic prices were influenced by the expenditures of the government on development
and the like. These produced greater employment and expansion in income. As a result, domestic demand and consumption increased; and consequently, to keep a healthy economy in line with the planned developments, the authorities were faced with the problem of maintaining a stable price level. This could be achieved under the prevailing circumstances only by making available sufficient consumer goods. Thus, the government limited exports to the excess quantities available after satisfying domestic demand, and encouraged increased imports to the point necessary to maintain this objective.

### TABLE 8

| Volume and Prices of Iraqi Barley and Dates Exported, 1950-1954 (1953 = 100) |
|-----------------------------|--------|--------|--------|--------|--------|
|                             | 1950   | 1951   | 1952   | 1953   | 1954   |
| Volume Exported             |        |        |        |        |        |
| Barley                      | 94     | 90     | 69     | 100    | 100    |
| Dates                       | 84     | 135    | 96     | 100    | 88     |
| Export Price                |        |        |        |        |        |
| Barley                      | 108    | 164    | 151    | 100    | 103    |
| Dates                       | 121    | 98     | 114    | 100    | 95     |


3. Distribution of Exports

Iraq's exports, other than oil, are mainly agricultural products, and the direction of this trade varies considerably from year to year. However, the United Kingdom, India, Japan, the Netherlands, the United States, and some of the neighboring Arab countries are Iraq's chief customers. The destination of oil exports is analyzed separately after consideration of the distribution of other exports.

a. United Kingdom

Available data indicate that throughout the history of Iraq
the United Kingdom has accounted for the largest share of Iraqi agricultural exports. As shown in the following table, about one-third of such exports moved into British markets, except for the period 1948-1950. This resulted from the close political relationship between the two countries, the large number of established British trading companies in Iraq's national markets, and the financial ties of the sterling area of which Iraq has been a prominent member.

It was not until 1951 that Britain was able to regain her prime pre-war position among the principal countries importing Iraq's goods. During the war years and up to 1949, India replaced the United Kingdom primarily for the reason that the United Kingdom lacked means of transportation. Usually, Britain's most important agricultural imports from Iraq consist of seeds and grains, chiefly barley, and to a lesser degree, raw cotton and wool.

b. India

India's portion of Iraqi exports underwent considerable fluctuations during the period under consideration. It reached the highest point during 1948 and 1949 when India headed the list of importers from Iraq. About one-fifth of the total value of Iraq's exports during these two years went to India. Grains and dates were the principal export items.

Exports of dates to India amounted to 2,624,000 dinars in 1951 as compared to an average of 1,863,000 dinars in the previous three years. They declined to 1,212,000 dinars in 1952, and increased slightly in 1953. The sharp increase in such exports to India in 1951 was primarily the result of a "most favorable treatment" agreement.
concluded that year between Iraq and India. However, the increase was temporary and in 1953, the Iraqi authorities attempted to correct the situation with a new agreement. Its success is not yet apparent.

C. Netherlands

The Netherlands is a comparatively new market for Iraqi exports. Prior to World War II, exports to this country were almost negligible. But as is indicated in Table 9, during 1950-1951 it replaced India's prominent position and in 1954 it became the largest purchaser of Iraqi exports. The main export item was barley. Later, barley exports to the Netherlands declined and those to Japan and Italy increased. Despite the sharp decline, the Netherlands has remained an important market for Iraqi exports, accounting for about 10 per cent of total exports of the country.

d. Japan

Japan's relatively prominent position as an importer of Iraq's products completely disappeared during the war years and for a few years thereafter. However, Japan was able to regain her importance as a sharer of Iraqi exports in 1949. In the following years Japan took about 10 per cent of Iraq's total exports, except in 1953 when a trade agreement diverted barley exports from Japan to Italy.

Iraq's trade relations with Japan during the pre-war years were characterized by an increasing deficit in Iraq's trade balance, especially during the period between 1936-1941. It was this situation that induced Iraq to adopt some discriminatory measures against Japanese goods which flowed into Iraq because of low competitive prices. Aiming to achieve equilibrium between the value of imports from Japan
and exports to Japan, Iraq's authorities adopted a scheme whereby exports to Japan were encouraged through subsidization, the cost of which was offset by a tax collected on goods imported from Japan. However, this plan brought only a minor change, and ultimately failed because of continuous competitive reduction in the prices of Japanese goods, and the complexity and cost of administering the plan.

During the pre-war years, Iraqi exports to Japan encountered keen competition from other Far Eastern countries with regard to raw material, especially China and Manchuria. In the post-war period, the unfavorable political development in China, and the increase in the production of goods suitable for Japanese purchase in Iraq altered the competitive situation. Thus, Japan became a larger buyer of Iraq's products—particularly, barley and raw cotton.

e. The United States

As indicated in Table 9, Iraq was unable to improve its pre-war dollar-export position in the post-war years. Even in 1948, when 14 per cent of Iraq's exports were shipped to American markets, the absolute value of these exports remained almost unchanged. The percentage increase was due to the sharp contraction in exports of grain to other countries during 1948 as noted earlier in this chapter. Despite some fluctuations in the United States' share of Iraqi exports, an average of about 4 per cent of total exports was maintained during the 1949-1953 period.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dinar</td>
<td>%</td>
<td>Dinar</td>
<td>%</td>
<td>Dinar</td>
<td>%</td>
<td>Dinar</td>
<td>%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>.9</td>
<td>25</td>
<td>1.4</td>
<td>17</td>
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<td>16</td>
<td>3.5</td>
<td>16</td>
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<td>India</td>
<td>.3</td>
<td>8</td>
<td>1.7</td>
<td>20</td>
<td>2.6</td>
<td>21</td>
<td>1.9</td>
<td>9</td>
</tr>
<tr>
<td>Jordan, Syria, and Lebanon</td>
<td>.5</td>
<td>12</td>
<td>1.2</td>
<td>14</td>
<td>1.2</td>
<td>10</td>
<td>1.9</td>
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<tr>
<td>Japan</td>
<td>.4</td>
<td>10</td>
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<td>-</td>
<td>1.6</td>
<td>13</td>
<td>1.9</td>
<td>9</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>.6</td>
<td>16</td>
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<td>14</td>
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<td>4</td>
<td>.7</td>
<td>3</td>
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<td>8</td>
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<td>19</td>
<td>4.1</td>
<td>14</td>
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<td>5</td>
<td>.5</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>.7</td>
<td>3</td>
</tr>
<tr>
<td>France</td>
<td>.1</td>
<td>4</td>
<td>.4</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>.2</td>
<td>1</td>
</tr>
<tr>
<td>Other Countries</td>
<td>.7</td>
<td>20</td>
<td>2.2</td>
<td>25</td>
<td>3.5</td>
<td>28</td>
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<tr>
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<td>3.7</td>
<td>100</td>
<td>8.6</td>
<td>100</td>
<td>12.4</td>
<td>100</td>
<td>21.6</td>
<td>100</td>
</tr>
</tbody>
</table>

*Figures for Jordan, Syria and Lebanon, as well as those for Japan, U.S.A. and France, were not segregated; if there were any, they are included under "Other Countries".

The items exported to the United States consist primarily of raw wool, Arabi, and to a lesser extent, casings and hides and skins, the total value of which averaged about 200,000 dinars in recent years. However, Iraq's exports of these items to the United States is far greater than indicated by the official data. In order to evade surrendering U.S. dollars to the foreign exchange authorities, large quantities of these items, chiefly wool, were exported to Syria and Lebanon, where they were re-exported to the United States. The extent of this evasion can only be roughly estimated. For example, total exported wool in 1950 amounted to 5,850,000 bales having a total value of 1,372,000 dinars, of which only 315 bales were directly exported to the United States and 4,469,000 bales were exported to Lebanon and Syria. Of this latter amount, the largest part was undoubtedly re-exported to the United States.

f. Other Countries

During 1948-1953 an average of about 12 per cent of Iraq's total exports was shared among Syria, Lebanon and Jordan. These exports consisted chiefly of foodstuffs, and, to a lesser degree, animal products for re-export purposes. The increase in foodstuff exports to these countries was due partly to their growing number of Palestine Arab refugees.

The recent sharp expansion in the percentage of exports directed to other countries, especially during 1953 and 1954, was the result of new markets, the most important of which was Kuwait.

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Kuwait alone during these two years took about 12 per cent of the total value of Iraq's exports. This unusual Kuwaitian demand for Iraqi goods was the result of large oil royalties which increased its purchasing power. Its own agricultural production being limited, Kuwait turned to Iraq for purchase of barley and livestock. These increased in recent years from 220,000 dinars in 1951 to a high of 1,430,000 dinars in 1953. Another new market for Iraqi products of lesser importance is Italy. Iraq concluded a trade agreement with this country in 1952 aiming to encourage exports in order to offset the new increased imports from Italy. About 5 per cent of total Iraqi exports went to Italy in 1953.

The general pattern of Iraq's export trade to various countries is substantially changed when oil exports are included, as indicated in Table 10. France was the major country of destination for oil exports, and consequently for total exports. The United Kingdom, Germany and the Netherlands were also important importers of Iraq's oil which made their respective shares of total imports rank next to that of France.

Although the following table shows the major importing countries of Iraq's oil in its crude form, it is not possible to determine the countries in which this product is finally consumed. Consequently, conclusions cannot be reached as to the foreign exchange receipts of the oil companies from the sale of such oil. Iraq, however, received its portion of payments for oil in British pounds.
### TABLE 10

**Distribution of Iraqi Exports (Including Oil) Among Principal Countries, 1948-1954**

(Million Dinars)

<table>
<thead>
<tr>
<th>Year</th>
<th>United Kingdom</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>U.S.A.</th>
<th>Other Countries</th>
<th>Total</th>
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<tr>
<td>1948</td>
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<td>2.0</td>
<td>4.0</td>
<td>2.3</td>
<td>6.0</td>
<td>11.9</td>
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<tr>
<td>1949</td>
<td>3.6</td>
<td>4.2</td>
<td>6.8</td>
<td>7.2</td>
<td>14.9</td>
<td>14.6</td>
<td>17.4</td>
</tr>
<tr>
<td>1950</td>
<td></td>
<td></td>
<td>1.0</td>
<td>1.0</td>
<td>4.0</td>
<td>4.5</td>
<td>5.6</td>
</tr>
<tr>
<td>1951</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.6</td>
<td>6.6</td>
<td>17.4</td>
</tr>
<tr>
<td>1952</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.6</td>
<td>6.6</td>
<td>17.4</td>
</tr>
<tr>
<td>1953</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.6</td>
<td>6.6</td>
<td>17.4</td>
</tr>
<tr>
<td>1954</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.6</td>
<td>6.6</td>
<td>17.4</td>
</tr>
</tbody>
</table>

**Percentage of Total Exports**

<table>
<thead>
<tr>
<th>Year</th>
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<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>U.S.A.</th>
<th>Other Countries</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td></td>
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<td>21</td>
<td>14</td>
<td>15</td>
<td>8</td>
<td>12</td>
<td>18</td>
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<tr>
<td>1950</td>
<td>32</td>
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<td>48</td>
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<td>4</td>
<td>2</td>
<td>8</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>1953</td>
<td>4</td>
<td>8</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1954</td>
<td>36</td>
<td>46</td>
<td>22</td>
<td>44</td>
<td>24</td>
<td>40</td>
<td>31</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Year</th>
<th>United Kingdom</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>U.S.A.</th>
<th>Other Countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*aIncludes all O.E.E.C. countries.*

B. Imports

Some domestic industries are developing in Iraq, but it depends on a wide range of imports, and will probably continue to do so for many years. The main items imported are machinery, iron, steel, textiles, sugar, and tea.

1. Trends in Imports

The total value of imports during the period 1945-1954, excluding those of oil companies, amounted to 386,400,000 dinars as compared with total non-oil exports of 167,900,000 dinars. On this basis there was a deficit in merchandise trade of 218,400,000 dinars for the ten years. As shown in Table 11, Iraq had a continuous adverse trade balance of this kind with an increasing trend in recent years. However, if exports and imports of oil companies are taken into consideration, the picture appears much more favorable. The total value of all imports during the 10 year period amounted to 466,300,000 dinars which was more than offset by the value of all exports of 657,700,000 dinars. A surplus of 191,400,000 dinars was realized in the trade balance for the period.

Even with the inclusion of oil, Iraq had a deficit in its trade balance for 1946-1949. This was the result of multiple factors, such as the depletion of domestic stocks during the war years, the abnormal accumulation of purchasing power, the partial release of Iraqi sterling balances held in London, and the construction projects by the national government and the oil companies. Aside from these factors, the poor harvests during 1947 and 1948, and the Palestinian War helped to account for the soaring imports and the expanded deficit. In 1949
imports began to decline and exports began to increase so that by 1950 Iraq had achieved a favorable trade balance. Thereafter, it was maintained; imports increased, but less than exports.

### TABLE 11

**Iraq's Trade Balance, 1945-1954**

(Million Dinars)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Excluding Oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Exports</td>
<td>10.1</td>
<td>13.2</td>
<td>14.7</td>
<td>8.6</td>
<td>12.4</td>
<td>21.6</td>
<td>29.0</td>
<td>19.9</td>
<td>19.9</td>
<td>18.5</td>
</tr>
<tr>
<td>Imports</td>
<td>18.3</td>
<td>25.7</td>
<td>34.9</td>
<td>36.2</td>
<td>30.2</td>
<td>28.9</td>
<td>42.3</td>
<td>47.4</td>
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<td>67.0</td>
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<tr>
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<td>-12.5</td>
<td>-20.2</td>
<td>-27.6</td>
<td>-17.8</td>
<td>-7.3</td>
<td>-13.3</td>
<td>-27.5</td>
<td>-35.6</td>
<td>-48.5</td>
</tr>
<tr>
<td>Including Oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Exports</td>
<td>20.8</td>
<td>24.0</td>
<td>28.7</td>
<td>20.0</td>
<td>26.5</td>
<td>50.3</td>
<td>66.1</td>
<td>102.9</td>
<td>145.9</td>
<td>174.5</td>
</tr>
<tr>
<td>Imports</td>
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<td>45.8</td>
<td>40.5</td>
<td>37.3</td>
<td>51.0</td>
<td>61.8</td>
<td>70.1</td>
<td>72.8</td>
</tr>
<tr>
<td>Balance</td>
<td>1.9</td>
<td>-4.1</td>
<td>-11.3</td>
<td>-25.8</td>
<td>-14.0</td>
<td>13.0</td>
<td>15.1</td>
<td>41.1</td>
<td>73.8</td>
<td>101.7</td>
</tr>
</tbody>
</table>


The decline in imports during 1949 and 1950 was the result of several changes in economic conditions primarily. The encouragement of national industries and production lessened the need for some imports such as vegetable oil, soap, matches, beer, and cement. Moreover, certain imports were restricted by the foreign exchange control authorities, and by higher import duties. Also, the devaluation of the British pound and the Iraqi dinar in 1949 brought about a substantial dinar reduction in Iraq's imports from the United States in 1950.

As indicated in Table 11, the value of imports increased sharply after 1950. This was due in part to the marked increase in prices of imports in their respective countries of origin which

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6 M.B.I., op.cit., p. 15.
affected almost all of Iraq's imports--particularly, textiles, sugar, paper, iron and steel. Also, an increase in the sterling area's foreign exchange balances and gold holdings encouraged the Iraqi government to request some favorable amendments to its 1947-sterling-balances agreement with Britain. As a consequence of Anglo-Iraqi negotiations in 1950, the working sterling balances of the National Bank of Iraq were increased from L2,000,000 to L4,000,000. In addition, L2,143,000 in accumulated accrued interest on investments was released, and free convertible sterling was to be maintained at a minimum working balance of L6,000,000. Moreover, Britain agreed to supply Iraq during a one-year period ending October 31, 1951 with all the "scarce currency" deemed necessary for essential imports, primarily capital goods that could not be obtained from a "soft currency" area. These changes and the increasing receipts from oil exports enabled Iraq to relax import restrictions.

These changes probably would not have caused much expansion in imports if Iraq had not undertaken a large economic development program. The government did adopt measures which increased some imports in order to maintain an adequate supply of consumers' goods, and thereby to curb inflationary pressures. But the need for capital goods in its development and construction projects was a major impetus in the expansion of imports. The importation of construction material, machinery, and automotive equipment was encouraged in line with the development projects. Consequently, in recent years, their value has

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increased relative to total imports while those of consumer goods has declined, as shown in Table 12.

TABLE 12
Iraq's Principal Imports, 1938, 1948-1953
(Million Dinars)

<table>
<thead>
<tr>
<th></th>
<th>1938</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
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<tbody>
<tr>
<td>I. Consumer Goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Textiles</td>
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<td>9.4</td>
<td>12.5</td>
<td>10.0</td>
<td>9.8</td>
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<tr>
<td>Sugar</td>
<td>.5</td>
<td>3.7</td>
<td>2.2</td>
<td>4.8</td>
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<td>6.3</td>
<td>5.1</td>
</tr>
<tr>
<td>Tea</td>
<td>.4</td>
<td>2.1</td>
<td>2.8</td>
<td>2.9</td>
<td>4.0</td>
<td>3.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Cereal, Flour &amp; Other Items</td>
<td>.4</td>
<td>3.7</td>
<td>2.6</td>
<td>.9</td>
<td>.6</td>
<td>.4</td>
<td>.5</td>
</tr>
<tr>
<td>Soap &amp; Matches</td>
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<td>1.0</td>
<td>1.0</td>
<td>.7</td>
<td>.7</td>
<td>.8</td>
<td>.7</td>
</tr>
<tr>
<td>Total</td>
<td>3.6</td>
<td>21.6</td>
<td>17.7</td>
<td>18.7</td>
<td>23.5</td>
<td>21.0</td>
<td>20.9</td>
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<td>II. Capital Goods</td>
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<tr>
<td>Machinery &amp; Vehicles</td>
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<td>9.7</td>
<td>8.1</td>
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<td>14.5</td>
<td>19.8</td>
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<td>Iron &amp; Steel</td>
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<td>6.3</td>
<td>8.7</td>
<td>11.3</td>
</tr>
<tr>
<td>Cement &amp; Timber</td>
<td>.5</td>
<td>1.6</td>
<td>1.0</td>
<td>.3</td>
<td>.8</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>.3</td>
<td>1.6</td>
<td>1.3</td>
<td>1.6</td>
<td>.6</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.1</td>
<td>17.5</td>
<td>16.9</td>
<td>13.7</td>
<td>16.5</td>
<td>24.6</td>
<td>33.1</td>
</tr>
<tr>
<td>III. Miscellaneous</td>
<td>1.7</td>
<td>6.4</td>
<td>5.9</td>
<td>5.2</td>
<td>11.0</td>
<td>16.2</td>
<td>14.7</td>
</tr>
<tr>
<td>Grand Total</td>
<td>9.4</td>
<td>45.5</td>
<td>40.5</td>
<td>37.6</td>
<td>51.0</td>
<td>61.8</td>
<td>68.7</td>
</tr>
<tr>
<td>Imports by Oil Companies*</td>
<td>1.0</td>
<td>9.5</td>
<td>10.3</td>
<td>8.4</td>
<td>8.7</td>
<td>14.4</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Percentage Distribution of Total Imports
On Consumer and Capital Goods

<table>
<thead>
<tr>
<th></th>
<th>1938</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Goods</td>
<td>38</td>
<td>47</td>
<td>44</td>
<td>45</td>
<td>46</td>
<td>34</td>
<td>30</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>44</td>
<td>39</td>
<td>42</td>
<td>36</td>
<td>32</td>
<td>40</td>
<td>48</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>18</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>22</td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Imports by Oil Companies*</td>
<td>11</td>
<td>21</td>
<td>25</td>
<td>22</td>
<td>17</td>
<td>23</td>
<td>19</td>
</tr>
</tbody>
</table>

*Imports by the oil companies were for the companies' own use; only a negligible part of which was consumer goods, the major part being capital goods.


2. Types of Imports

The above table indicates that consumer goods accounted for a greater share of imports than capital goods until 1952 when the reverse became true as more capital goods were imported in connection with the
development program. It also reveals that Iraqi consumer imports are
dominated by a rather small number of commodities. During 1948-1953,
the value of textiles, sugar and tea imported amounted to 37 per cent
of total imports.

Imports of sugar and tea expanded rapidly in the period under
consideration. From an average of 40,000 tons of sugar and 3,000 tons
of tea imported during the thirties, an average of 90,000 tons and
8,000 tons respectively have been imported in recent years. Aside
from the fact that these commodities are essential elements of the
Iraqi diet in general, the increased consumption was partially due to
their low prices relative to other food prices. On the basis of 1939
prices, tea prices in 1953 had increased by 197 per cent and sugar by
215 per cent, while all other foodstuffs had increased by about 527
per cent. 8

On the other hand, imports of textiles declined, especially
since 1951. This was due to the increased domestic output of textiles,
augmented by import restrictions imposed on these commodities in order
to encourage domestic production and industrialization. This was also
true for imports of soaps and matches.

Imports of cereals, flour and other foodstuffs were negligible
in recent years. It was only in the case of harvest failures or floods,
such as occurred in 1947, 1948 and 1954 that their volume was
significant.

8Iversen, Carl. A Report on the Monetary Policy in Iraq. (Copenhagen:
Nordlundes Bogtrykkeri, 1954), p. 84.
The great expansion in the importation of capital goods was mainly due to the expanded construction and industrialization schemes. These required imports of machinery and construction material. The most prominent items were machinery and vehicles, and iron and steel for construction purposes. Imports of cement and timber increased only slightly, indicating that requirements had outgrown the domestic supply. Petroleum products ceased to be imported in 1953 because of the increased supply of refined oil within Iraq.

3. Distribution of Imports

Prior to World War II, Iraq's principal source of imports was the United Kingdom which supplied about one-fourth of the total imports (Table 13). Japan supplied about one-sixth of the imports; India, Germany, the United States and Iran supplied smaller amounts. During the war, supplies were limited and could be obtained only from specific areas. The share of the United Kingdom declined, and India became Iraq's principal source of imports. However, after the war, the United Kingdom was able to regain her position, supplying an even larger proportion of Iraq's total imports than before the war. Since 1950, her share declined, but continued to be the largest.

Throughout the post-war period, the United States was the second largest supplier of imports—about 12 per cent of total Iraqi imports between 1948-1953. Japan's share increased from a low of 1 per cent in 1949 to an average of almost 6 per cent during the 1951-1953 period which exceeded India's position slightly. Ceylon's share was almost unchanged, amounting to about 6 per cent of imports throughout the period.
**TABLE 13**

Distribution of Iraqi Imports Among Principal Countries of Origin, 1938, 1948-1953

(Million Dinars)

<table>
<thead>
<tr>
<th></th>
<th>1938</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value</strong></td>
<td>$2.8</td>
<td>$19.8</td>
<td>$17.5</td>
<td>$18.4</td>
<td>$17.3</td>
<td>$23.1</td>
<td>$25.9</td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>30</td>
<td>43</td>
<td>49</td>
<td>49</td>
<td>34</td>
<td>37</td>
<td>38</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>$8.9</td>
<td>$3.6</td>
<td>$4.6</td>
<td>$1.1</td>
<td>$3.1</td>
<td>$7.1</td>
<td>$11.3</td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>9</td>
<td>8</td>
<td>11</td>
<td>8</td>
<td>8</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td><strong>U.S.A.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>$1.4</td>
<td>$15</td>
<td>$0.2</td>
<td>$1</td>
<td>$7</td>
<td>$2</td>
<td>$3.1</td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>15</td>
<td></td>
<td>2</td>
<td>7</td>
<td>2</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>$43</td>
<td>$2.2</td>
<td>$3.1</td>
<td>$2.4</td>
<td>$2.3</td>
<td>$2.8</td>
<td>$3.3</td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td><strong>Ceylon</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>$3.6</td>
<td>$3.1</td>
<td>$2.2</td>
<td>$3.1</td>
<td>$2.3</td>
<td>$2.8</td>
<td>$3.3</td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>3.6</td>
<td>3.1</td>
<td>2.2</td>
<td>3.1</td>
<td>2.3</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>$3.6</td>
<td>$3.1</td>
<td>$2.2</td>
<td>$3.1</td>
<td>$2.3</td>
<td>$2.8</td>
<td>$3.3</td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>3.6</td>
<td>3.1</td>
<td>2.2</td>
<td>3.1</td>
<td>2.3</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>$3.6</td>
<td>$3.1</td>
<td>$2.2</td>
<td>$3.1</td>
<td>$2.3</td>
<td>$2.8</td>
<td>$3.3</td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>3.6</td>
<td>3.1</td>
<td>2.2</td>
<td>3.1</td>
<td>2.3</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Other Countries</strong></td>
<td>$3.6</td>
<td>$3.1</td>
<td>$2.2</td>
<td>$3.1</td>
<td>$2.3</td>
<td>$2.8</td>
<td>$3.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$9.4</td>
<td>$45.5</td>
<td>$40.5</td>
<td>$37.6</td>
<td>$51.0</td>
<td>$61.8</td>
<td>$68.7</td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The most pronounced change in the distribution of Iraq's imports took place during 1951. Imports from the United Kingdom and India declined and imports from the United States, Japan, and Italy increased. The decline in imports from the first two countries amounted to 1,900,000 dinars in 1951, while the increase in imports from the second group of countries amounted to 8,100,000 dinars.

These developments were the result of several factors. The first of these was the exceptional increase in imports of steel and iron from the United States for the construction of pipelines. The value of such imports increased from 148,000 in 1950 to 2,701,000 dinars in 1951. The second factor was the industrial rejuvenation in Japan, Italy, and Western Germany which brought about increasing competition in international markets, particularly in textiles and piece goods. Consequently, the value of these items imported from the United Kingdom declined by about 750,000 dinars between 1950 and 1951 which was replaced by a similar value of imports of these goods from Japan, Italy, and Western Germany. A third factor was the expansion of domestic production of textiles, cement, soap, leather, and beer which had been mainly supplied by the United Kingdom. The imports of these items declined from a high of 1,051,000 dinars in 1949 to a low of 263,000 dinars in 1951.9

III. OTHER CURRENT TRANSACTIONS

A. Foreign Travel

In Iraq's balance of payments, credits for foreign travel

indicate expenditures in Iraq by foreign tourists, pilgrims, educational missions, as well as diplomatic, consular, and official delegations. Debits indicate Iraq's expenditures abroad (public and private) for similar purposes. During the period 1951-1953 receipts from foreign travel amounted to 20,200,000 dinars; and payments, to 20,100,000 dinars—an almost perfect balance. The expenses of Iraq's nationals abroad during the four years ending with 1954 averaged about 6,700,000 dinars per year, reflecting a rather sharp increase over the preceding four years, when they averaged about 2,900,000 dinars. The main reasons for this expansion were the increase in incomes and purchasing power of certain sectors of the population, favorable arrangements in Lebanon to attract tourists, and some relaxation by the foreign exchange control authorities on payments in certain countries. However, the increase in the expenditures of Iraqis abroad was more than offset by an increase in Iraq's receipts from foreign travel, particularly from Pakistani and Iranian visitors to Iraq's sacred places.

B. Transportation and Insurance

Since the merchandise accounts are reported on a C.I.F. basis (cost, insurance and freight), most of the transportation and insurance charges are included in the merchandise account under imports. Hence, the transportation and insurance accounts include mainly passengers' fares, transit trade, port receipts from foreign vessels, and port expenditures on Iraq's dredges maintained abroad. During the three years ending with 1953, these accounts showed a net surplus of 2,600,000 dinars; receipts amounted to 4,800,000 dinars, and payments
amounted to 2,200,000 dinars. However, as indicated in the balance of payments table, the insurance account always showed a deficit, and the transportation accounts always showed a surplus. The latter was due largely to the receipts of the port of Basrah.10

C. Investment Income

The debit account under "Investment Income" for direct investment (Table 6) indicates the portion of oil profits that is retained by the oil companies. Their profits amounted to about 101,000,000 dinars during 1951-1953 (Table 14) which was transferred to their account in London.

TABLE 14

Investment Income of Foreign Owned Companies in Iraq, 1951-1953
(Million Dinars)

<table>
<thead>
<tr>
<th></th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Companies Producing for Export</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of Oil Exported</td>
<td>37.20</td>
<td>79.60</td>
<td>120.10</td>
</tr>
<tr>
<td>Cost of Production(^1)</td>
<td>-9.10</td>
<td>-14.14</td>
<td>-17.39</td>
</tr>
<tr>
<td>Royalties Earned by Iraqi Government</td>
<td>-14.05</td>
<td>-32.73</td>
<td>-51.34</td>
</tr>
<tr>
<td>Profits</td>
<td>14.05</td>
<td>32.73</td>
<td>51.34</td>
</tr>
<tr>
<td>Other Foreign Companies Profit</td>
<td>.47</td>
<td>1.52</td>
<td>.82</td>
</tr>
<tr>
<td></td>
<td>14.52</td>
<td>34.25</td>
<td>52.16</td>
</tr>
</tbody>
</table>

\(^1\)Depreciation, operating expenses and overhead in Iraq.


This debit account was partially offset by profits of Iraqi companies operating abroad which amounted to 800,000 dinars, and other investment income (interest on National Bank's and commercial banks' deposits abroad) of 3,800,000 dinars. The net deficit in the investment account was 96,400,000 dinars for the three year period ending with

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D. Government Transactions Not Included Elsewhere and Miscellaneous

The credit entries in this account include diplomatic and consular expenditures of foreign governments, and military expenditures by Britain on its forces stationed in Iraq. Debit entries include Iraq's expenditures on its diplomatic, consular, educational, and military representatives and missions abroad.

These accounts showed a deficit over the period that totalled 5,900,000 dinars. The sharp rise in government expenditures abroad was due to the increased number of students abroad, as well as increased military missions sent abroad for training purposes. Also, the increasing cost of living in Western Europe and the U.S.A. contributed to some extent to the expansion of expenditures. A final factor, which particularly augmented the increase in the deficit in 1953, was the cost of foreign technical advisors who were brought to Iraq to assist in its development program.

E. Donations

The credit side of this account includes mainly private remittances by Iraqis residing abroad to their relatives in Iraq; and the debit side, mainly oil-companies remittances abroad of a similar nature. Official grants, aside from Iraqi contributions to the refugees of Palestine, were largely economic and technical assistance grants (i.e., ECA and FOA). This account (donations) during the three years ending with 1953 showed a deficit of 900,000 dinars.

The net balance of the current transactions account for the
period 1951-1953 was a net surplus of 33,800,000 dinars. This was due to the relatively sharp increase in exports, chiefly of oil, over and above a continued increase in imports. The surplus in the merchandise account of 134,300,000 dinars was augmented by a net surplus in foreign travel and transportation and insurance accounts of 2,700,000 dinars. These surpluses were partially offset by deficits in the investment income account of 96,400,000 dinars, in the government account of 5,900,000 dinars, and in the donations account of 900,000 dinars.

IV. CAPITAL MOVEMENTS

The long-term capital account reflects largely the substantial amounts of capital which were brought in by oil companies for investment in their plants. In recent years, the over-all surplus in the capital accounts (a debit item) represented a considerable capital outflow in excess of the capital inflow. This is revealed in the official and banks account, especially short-term, which shows a steady increase in balances abroad of official government organizations, the National Bank of Iraq, and commercial banks to the equivalent of 29,700,000 dinars in the three years ending with 1954. This was further augmented by an increase in long-term capital, namely, foreign portfolio securities held by Iraqi banking institutions to the equivalent of 4,700,000 dinars for the same period. The total outflow of long and short-term capital from official and banking institutions was the equivalent of 34,700,000 dinars. However, because of the net capital inflow by private companies and individuals of 20,800,000 dinars, the net increase in Iraq's foreign exchange amounted to the difference between total outflow and total inflow, namely, 13,600,000 dinars.
The difference between the surplus in current transaction of 33,800,000 dinars and the net capital outflow of 13,600,000 dinars amounted to 20,200,000 dinars. This resulted from errors and omissions in the statistical data.

The figures under errors and omissions are calculated as a balancing item between total "current transaction", and total "capital movement", each of which was calculated independently of the other. Therefore, this balancing item indicates that the underlying data were grossly inadequate and/or inaccurate. It is impossible to determine whether errors originated mainly in the estimates of "current transaction" or in the estimates of "capital movement". However, because of the existence of "black market" transactions, it is generally believed that there has been substantial exports of capital, primarily through under-valuation of exports, which are not recorded in the balance of payments.

Because of the substantial improvement in its financial position, Iraq was able to liquidate all of its foreign debts during this period. The agreement under which the Turkish government received a share of the Iraqi oil royalties expired on July 17, 1951. This share, in 1951, amounted to 490,000 dinars, which, after certain adjustments, was paid during 1953. During the same year, drawings on foreign loans dwindled, and consequently Iraq's total obligations declined very sharply. Drawings on the Tharthar Loan contracted with the International Bank for Reconstruction and Development in 1951 for $12,800,000 fell from $2,172,800 in 1952 to $358,400 in 1953, and later this was completely liquidated. In addition, drawings on the
L3,000,000 loan which was contracted in 1951 for the development of Iraq's State Railways, was redeemed in full by paying the amount outstanding of L1,970,000 in 1953. By so doing, Iraq has cleared all its foreign debts and liabilities.

V. FOREIGN CURRENCY BALANCES

The bulk of British military expenditures in Iraq during World War II was held on Iraq's account in London and amounted to about L70,000,000 in June 1945. These balances were the main source of finance for the trade deficit, and for service of the remainder of the foreign-held debt. By the end of 1947, the balances stood at about L57,000,000. An agreement was concluded between the United Kingdom and Iraq (July 1947) for the purpose of finalizing the settlement of these sterling balances. This agreement provided for the following:

1. Blocking all sterling assets held by Iraq as of July 14, 1947, in a special account called No. II Account;
2. Release from said Account to a free account called No. I Account of certain amounts--
   a. L15,000,000 over a five-year period,
   b. L5,000,000 immediate release to facilitate and help the Iraqi authorities through the period of economic transition,
   c. L2,000,000 as a working balance to meet temporary deficits in the balance of payments,
   d. Interest earned on sterling assets, and

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11 The Economist. (London: August, 1948)
f. Other sums to meet other obligations of Iraq primarily to
   British interest;

3. All sterling received subsequent to the date of this agreement to be
   credited to the No. I Account;

4. Balances in No. I Account to be available for Iraq's use to meet any
   international payments (in any currency) in its current transactions
   account; and

5. The agreement to be effective for a five-year period ending
   July 1st, 1952, prior to which the two governments were to consult with
   a view to replacing it by another agreement.

Shortly after the announcement of the agreement a fundamental
change took place. Britain's suspension of free convertibility on
August 20, 1947 involved certain restrictions on the convertibility
of both Iraq's No. I Account and receipts of "scarce currencies" as
specified by the British Exchange Control Board. Another agreement
was concluded (November 1947) for the purpose of regulating payments
and of formalizing the abolition of free convertibility. Subsequently,
the British and Iraqi governments agreed upon the amounts in the No.
I Account that were to be available for conversion into "scarce
currencies".

Because of the sharp increase in Iraq's trade deficit in
1948 (as noted previously) and the betterment of the Sterling Area's
position as to gold and dollar reserves, the Iraqi government asked
for an amendment of the Sterling Balances Agreement and the provision
allocating "scarce currencies". Negotiations in October, 1950
resulted in an accord which provided the following:
1. £2,000,000 was released for the purpose of increasing the reserves of the National Bank of Iraq to £4,000,000;

2. Earned interest on sterling assets amounting to £2,143,000, which had been blocked, was released to the No. 1 Account;

3. A minimum balance of £6,000,000 was to be maintained in the No. 1 Account; and

4. Iraq was to be provided with all "scarce currencies" to cover its essential imports and other essential payments for a period of one year ending October 1, 1951.

Another financial accord was reached (August 1952) between the United Kingdom and Iraq whereby £23,170,000 which was still blocked, was released immediately. Thus, all of Iraq's foreign balances, totalling 62,010,000 dinars at the end of 1952, became free. The following table indicates the composition of foreign balances held by Iraq, and the changes in them since 1947.

TABLE 15

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pounds Sterling</td>
<td>57.19</td>
<td>44.29</td>
<td>43.16</td>
<td>49.43</td>
<td>48.78</td>
<td>59.28</td>
<td>60.15</td>
<td>99.97</td>
</tr>
<tr>
<td>U.S. Dollars</td>
<td>.11</td>
<td>.08</td>
<td>.07</td>
<td>.12</td>
<td>.21</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian, Pakistani &amp; Ceylon Rupees</td>
<td>.26</td>
<td>.26</td>
<td>.20</td>
<td>.35</td>
<td>.43</td>
<td>2.73</td>
<td>3.08</td>
<td>2.70</td>
</tr>
<tr>
<td>Egyptian Pounds</td>
<td>.03</td>
<td>.07</td>
<td>.04</td>
<td>.03</td>
<td>.02</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Currencies</td>
<td>.03</td>
<td>.02</td>
<td>.04</td>
<td>.21</td>
<td>.36</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>57.82</td>
<td>44.72</td>
<td>43.51</td>
<td>50.14</td>
<td>49.80</td>
<td>62.01</td>
<td>63.23</td>
<td>102.67</td>
</tr>
</tbody>
</table>


Like the other members of the Sterling Area, Iraq is under obligation to surrender its earned gold and dollars and other "scarce currencies" to the common pool, from which in turn it may draw
According to its need. Consequently, about 98 per cent of Iraq's foreign exchange balances are held in the form of pounds sterling and related currencies. It was not until recently that Iraq obtained the permission of the United Kingdom to maintain a small working balance in U.S. dollars of not more than $5,600,000.

The decline in these balances (Table 15) between 1947-1949 was due, as noted previously, to the poor harvests in 1947-1948, and to the resultant deficit in the current account. However, since 1950 these balances increased substantially because of expansion in oil production and exports. Despite an increase in imports, foreign exchange balances rose to 83,229,000 dinars at the end of 1953, and to 107,000,000 dinars at the end of 1954.13

VI. BALANCE OF PAYMENTS ADJUSTMENTS

Changes in Iraq's balance of payments until recently were not free-market adjustments, but were largely regulated and forced adjustments. The sterling balances, accumulated during the war mainly from the sale of goods and services to the Allied Armies in Iraq, could not be spent for imports, and hence represented short-term lending. At the end of the war Iraq had an accumulated demand for imports, and the deficit in the trade account of 53,300,000 dinars between 1945-1949 would have been much greater if it had not been for the scarcity of goods, shipping facilities, and the blocking of sterling balances in 1947. The latter may be considered as forced short-term

12 The Sterling Area will be discussed in Chapter Five.
lending.

After 1950, the sharp and steady increase in exports, particularly of oil, contributed to an expansion of Iraq's national income and to a rise in domestic prices. Export receipts made possible an increase in imports. They did increase, but not sufficiently to offset inflationary pressures. Iraq's import restrictions, and the shortages created by the Korean War were obstacles in the way of imports.

Faced with this serious inflationary situation, the Iraqi authorities undertook various measures to increase imports in order to stabilize the price level and to prevent the cost of living from undergoing a substantial increase. Foreign exchange was made available to the greatest extent possible, and import tariffs were reduced on all essential goods, raw materials, and industrial and agricultural equipment.¹ At the same time, exports were limited to surpluses in excess of national requirements. Export receipts, not needed for the above purposes, became an export of short-term capital in the form of accumulating foreign exchange in London.

VII. SUMMARY

In the post-war period, Iraq did not achieve a favorable balance in its merchandise account and in its current-account until 1950. The current-account deficits in these years were financed mainly by drawings on sterling balances accumulated during World War II. However, with the expansion of oil production and exportation

¹Department of Commerce, op.cit.,(February, 1956, Vol. 55)
in 1950, and the improvements in the 1952-oil agreement, Iraq enjoyed a substantial increase in its royalties from oil. These changes enabled Iraq to increase appreciably its imports, and at the same time to raise its foreign exchange balances to record levels.

Iraq's agricultural exports fluctuated rather widely over the ten-year period ending with 1954. These fluctuations were chiefly due to Iraq's poor harvests in some years, and to changes in foreign demand for such products, particularly those generated by the Korean War. On the other hand, Iraq's imports followed an increasing trend. Some imports declined because of domestic consumption of new, nationally produced goods. However, the sharp increase in the value of imports resulting from higher prices of machinery and construction material, and the larger volume of such imports needed in the development program maintained the increasing trend of imports.
CHAPTER FIVE

MONETARY AND FOREIGN EXCHANGE POLICIES

I. THE BANKING SYSTEM

In modern times Iraq has had several monetary units. Prior to the end of World War I, Iraq was a part of the Ottoman Empire and the Ottoman gold pound was its monetary unit. With the British occupation in 1918, Iraq became a part of the Indian Monetary Block. The Indian rupee became Iraq's domestic monetary unit and the means of settlement of its international obligations.

The inauguration of King Faisal I in 1921, which started the struggle for independence, produced a strong sentiment in Iraq against monetary ties with India. Consequently, starting in 1922, a search was begun to find a fundamental basis upon which a new currency could be established. Two major problems had to be solved: the international monetary situation was disrupted as a result of the war, and the form and location of a body that would undertake the issue and administration of the new currency had to be determined.

The idea of establishing a national currency based on the British pound, issued and administered by a Board stationed in London, was suggested in 1926. However, this idea was opposed by the merchants who had complete confidence in the Indian rupee insofar as international dealings were concerned. In addition, there was national opposition to trusting the responsibility of issue and administration of the currency to a board stationed outside of the country. To solve this latter problem, it was suggested in 1927 that a National Bank be established to undertake the issue and administration of currency.
In 1930, with domestic political conditions undergoing drastic changes and the end of the British Mandate approaching, greater efforts were made to create this independent currency so that a greater degree of sovereignty would be achieved. The idea of establishing a National Currency Board was revived and in March a conclusion was reached by the Council of Ministers to issue an Iraqi currency with the dinar as a monetary unit, equal in value to the British pound. In 1931 the Iraqi Currency Law No. 44 was passed whereby a new monetary system was inaugurated. This law created the Iraqi Currency Board, which had its seat in London and was represented locally by a currency officer. One of the commercial banks acted as its agent in Iraq. The Board consisted of five members, two nominated by the three commercial banks functioning in Iraq, two by the Iraqi government, and one by the governor of the Bank of England. In April 1932, the Iraqi Currency Board started to issue and administer the new currency.

The main duty of the Board was "to provide for and control the currency of Iraq and to maintain the standard condition and value of the currency." Consequently, the Board's main function was to issue dinars against prepayments in sterling, and to sell sterling against payment in dinars. All acquired sterling was to be held as a reserve called the "Currency Reserve Fund". In addition, interest earned on securities held by the Board was to be added to this fund. In view of this policy of exchange, all issued currency was covered 100 per cent by sterling, and thus the Iraqi dinar was readily convertible into any other

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currency—via sterling—in making any international payments. The Board's role from a policy-setting point of view was passive. It had no power over the quantity of money in circulation and therefore Iraq had no monetary policy. The quantity of money in circulation was directly influenced by the country's balance of payments.

The establishment of the Iraqi Currency Board was considered to be only a first step towards the organization of a more elaborate system. Article No. 24 of the Currency Law No. 44 of 1931 indicated that the operation of the Board was to be terminated "upon formation by statute of a National Bank of Iraq or another bank with an exclusive right of note issue in Iraq." However, it was not until 1947 that Law No. 43 provided for the establishment of a National Bank to take over the issue of currency, and not until July 1949 that the National Bank (a central bank) was actually in operation.

A. The National Bank

The National Bank of Iraq from a legal point of view is a full-fledged central bank similar to those existing in other countries. However, its operation has so far been somewhat narrow because of the

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2Law No. 44 of 1947 summarizes the Bank's objectives as follows: "to manage the currency and insure its stability, to serve the state finances, to facilitate internal and external payments, and generally to promote and facilitate credits for trade, industry, and agriculture...." The same law provides that in order to attain these goals the Bank shall undertake the following duties: 1) To issue and administer the currency and undertake duties arising therefrom, 2) To undertake duties arising from International Agreements, 3) To undertake duties relating to control of banking and coordination of the banking system, 4) To undertake duties arising from the control of foreign exchange, 5) To keep the accounts of the government, including semi-government departments, 6) To undertake transactions relating to government and semi-government loans of all kinds, 7) To undertake such other operations as it may from
limited number of capable and experienced personnel, and the prevailing
economic conditions in the country. The two main departments of the Bank
are the Issue Department and the Banking Department. A combination of the
balance sheets of these departments in Table 16 reveals the narrow activi­
ties of the Bank.

TABLE 16

Combined Balance Sheets of the Issue and Banking Departments
of the National Bank of Iraq, 1949-1954
(Million Dinars)

<table>
<thead>
<tr>
<th>Year end 12/31</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Foreign Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. British Securities</td>
<td>32.3</td>
<td>32.7</td>
<td>32.8</td>
<td>32.6</td>
<td>36.5</td>
<td>41.5</td>
</tr>
<tr>
<td>2. &quot; Treasury Bills</td>
<td>.4</td>
<td>6.4</td>
<td>6.0</td>
<td>11.5</td>
<td>19.3</td>
<td>28.6</td>
</tr>
<tr>
<td>3. Current A/C in L and Other Foreign Currencies</td>
<td>2.4</td>
<td>2.8</td>
<td>1.8</td>
<td>2.1</td>
<td>8.8</td>
<td>13.3</td>
</tr>
<tr>
<td>Total Foreign Assets</td>
<td>35.1</td>
<td>41.9</td>
<td>40.6</td>
<td>46.2</td>
<td>64.6</td>
<td>83.4</td>
</tr>
<tr>
<td>b. Silver Coin in Stock</td>
<td>.2</td>
<td>.2</td>
<td>.1</td>
<td>.1</td>
<td>.1</td>
<td>.1</td>
</tr>
<tr>
<td>c. Iraq Government Bonds(^1)</td>
<td>5.6</td>
<td>6.2</td>
<td>6.6</td>
<td>5.3</td>
<td>7.8</td>
<td>10.3</td>
</tr>
<tr>
<td>d. Loans and Advances</td>
<td>.1</td>
<td>.9</td>
<td>.6</td>
<td>.5</td>
<td>.2</td>
<td>.2</td>
</tr>
<tr>
<td>e. Other Assets</td>
<td>.1</td>
<td>.1</td>
<td>.7</td>
<td>1.1</td>
<td>.5</td>
<td>.6</td>
</tr>
<tr>
<td>Total Assets</td>
<td>41.1</td>
<td>49.2</td>
<td>48.7</td>
<td>53.2</td>
<td>73.2</td>
<td>94.6</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Currency in Circulation</td>
<td>36.4</td>
<td>39.1</td>
<td>37.1</td>
<td>34.0</td>
<td>38.6</td>
<td>45.4</td>
</tr>
<tr>
<td>b. Current A/C's due Private Banks and Others</td>
<td>.3</td>
<td>4.9</td>
<td>7.4</td>
<td>14.9</td>
<td>29.5</td>
<td>43.7</td>
</tr>
<tr>
<td>c. Other A/C</td>
<td>1.9</td>
<td>2.7</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>d. Paid-up Capital and Reserves</td>
<td>2.5</td>
<td>2.5</td>
<td>2.9</td>
<td>3.2</td>
<td>3.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>41.1</td>
<td>49.2</td>
<td>48.7</td>
<td>53.3</td>
<td>73.2</td>
<td>94.6</td>
</tr>
</tbody>
</table>

\(^1\)Excluding securities of 679,000 dinars deposited with the Bank in accordance with the Iraq Banking Control Law.


The most important function of the Bank has been issuance and administration of the national currency. Currency in circulation over

time to time be required to carry on. The above Law was supplemented by Law No. 42 of 1947 which provided for the transfer of the powers of the Iraqi Currency Board to the National Bank of Iraq when the latter was formed by statute.
the six-year period ending 1954 amounted to almost 64 per cent of total liabilities. On the assets side, the Bank's foreign assets amounted to about 87 per cent of total assets.

The National Bank Law (Article 5A) made the issue of notes more flexible than the 100 per cent coverage requirements under the Currency Board's regulations. According to this article, "The Currency Reserve shall be maintained at a ratio of not less than the nominal value of the notes and coins in circulation, provided that this Reserve shall be composed of gold and foreign currencies at a ratio not less than 70 per cent, and of Iraq government currencies at a ratio not exceeding 30 per cent." Despite this stipulation, the National Bank's issue policy followed that of the Currency Board, maintaining approximately 100 per cent coverage in foreign currencies (or their equivalent) as indicated in the foregoing table. The maintenance of such a coverage, at least during the early years of the Bank's operation, was deemed necessary to preserve popular confidence in the Iraqi dinar.

The recent sharp increase in foreign exchange reserves was due to the increase in oil production and exports, and the consequent increase in Iraqi oil royalties which are received in sterling. But under the prevailing circumstances, the National Bank plays only a passive role. Of the total oil royalties received by the government, 70 per cent is credited in sterling to the Development Board, which sells it to the National Bank for dinars. However, since the Board has had no opportunity to utilize fully its balances, a substantial sterling reserve has been accumulating in the Bank's foreign sterling account. This development is the main cause of the sharp build-up in the Bank's
current accounts, which was due to such balances of the government, commercial banks, and the Development Board.

Total money in circulation in Iraq appears relatively large compared to other countries. In 1949 money in circulation amounted to 36,400,000 dinars, or about one-fourth of national income which was estimated at about 150,000,000 dinars.³ In many other countries this ratio is far smaller, about one-fifteenth or even lower. The high ratio in Iraq reflects several factors, the most prominent of which are hoarding and lack of familiarity with the use of checks.

The National Bank was authorized (Law No. 44 of 1947) to keep the accounts of the government, including semi-government departments, and handle transactions relating to government and semi-government loans of all kinds. The National Bank has not taken over the former of these as yet. The Rafidain Bank (a semi-government institution to be discussed below) has been handling the government accounts and in so doing it has been holding the government's share of oil royalties (i.e., the 30 per cent not allocated to the Development Board). As a result, its foreign exchange reserves have been steadily increasing. Although credit policy followed by this bank has been somewhat conservative, it might use these accumulated balances to expand credit. This possibility may create offsetting or supporting pressures relative to domestic monetary policy as advocated by the National Bank. In other words, substantial reserves at the disposal of the Rafidain Bank may limit the effectiveness of a monetary policy designed by the National Bank to counteract unfavorable

trends in the national economy.

The second duty of the National Bank was designed primarily to close any temporary gaps in government and semi-government budgets arising under abnormal circumstances. The term "temporary" was strongly emphasized. However, although there are no indications of government need for financial support in the near future, this provision may limit the ability of the government to undertake a deficit fiscal policy in an attempt to counteract a declining trend in the national economy.

Regarding the duty of administering and controlling other (commercial and state) banks, a Law for the Control of Banking was enacted in 1950. This Law required that all banks (and sarrafs)\(^4\) in Iraq should obtain an operating license from the National Bank (Article 3.1), and that each private bank established in Iraq must have a paid-up capital of 250,000 dinars (Article 4.1 and 2). It also provided that each sarraf must have a paid-up capital of 12,000 dinars, if the latter were operating in Baghdad, Basrah, or Mosul, and less if operating in other Iraqi cities, the minimum being set at 3,000 dinars.

The banking institutions that are currently functioning in Iraq could be classified as commercial banks, sarrafs, and state banks. Most of these institutions have their main offices in Baghdad, with branches located in several of the country's large cities, primarily in Basrah and Mosul, with the exception of the Rafidain Bank, which maintains branch offices in most of Iraq's major liwas.

\(^4\)A sarraf is a person or a company that is licensed to operate a banking house.
B. Commercial Banks and Sarrafs

Among the commercial banks, the Rafidain Bank, which in 1941 was organized by the government as its banker to compete aggressively with foreign banks, is the most important. The others could be classified as branches of British banks, i.e., the British Bank of the Middle East, the Ottoman Bank, and the Eastern Bank; and branches of banks with head offices in other Arab countries, i.e., the Arab Bank, and the Federal Bank of the Lebanon. In addition, five new banks with capital subscribed by Iraqis have been in the process of organization, three of which are already established.

The sarrafs can be traced back for centuries and throughout history operated as the main financiers of trade. Recently, especially after the emigration of the Jewish populace, this group of bankers has diminished and its importance has become negligible.

Local branches of British banks have been active since the turn of the present century. The oldest among them is the Ottoman Bank, which has been in operation for about 65 years. Because of the economic backwardness of Iraq and the risk involved, these foreign banks were never active in long-term financing and have never shown much interest in the establishment of industry which requires long-term amortization. Short-term financing for imports and exports covered almost the entirety of their operations.

There can be no doubt that these foreign banks can exert a strong unfavorable influence on national monetary policy unless their individual policies coincide with that of the National Bank. They may not coincide for several reasons. First, their policies are determined
by their main offices which could not be expected to be liberal and flexible in view of the facts indicated above. Even if their local managements are in accord with certain changes, they could not act accordingly unless an approval was obtained from their head office, and under certain circumstances the time element could become quite disturbing. Second, even though their local credit policies are somewhat controlled by the National Bank (through reserve ratios), the relatively large reserves maintained with their main offices can be sold to the National Bank and used to expand credits—possibly contradictory to the national monetary policy. A third and apparent reason to consider is that these foreign banks may understandably be interested in maximum profit rather than in Iraqi national welfare.

As indicated earlier, the Rafidain Bank was established by the government to act as its banker and it has achieved a supreme position in the domestic trade. The Rafidain Bank was given prime priority in handling all government imports as well as those of the Development Board. The substantial growth and development of this bank has been due to the preference of local traders to deal with a national bank, the exodus of the Jews, the sharp decline in the number of sarrafs, and to the economic expansion programs which necessitated the sharp increase in trade.

So far this bank has been operating on a purely commercial basis, a policy that can be severely criticized since the Rafidain is a state bank. Operation of this bank should be closely in accord with that of the National Bank in order to assist in elevating the economic conditions in the country. In an underdeveloped country such as Iraq,
the element of risk in investment is quite obvious and great. However, under the prevailing circumstances, the Rafidain Bank should incorporate the possibilities of risks in its policies and undertake projects wherein less profits or even losses may be expected if these projects appear to be necessary as supports for the development of the country's economy. For example, the Rafidain Bank should endeavor to expand the number of its branches in Iraq even though they might be operated in the short run on a break-even basis or at a loss. The benefits of these branches, from a national viewpoint, are immeasurable in the sense of educating the people concerning the services of banking, and consequently, contributing to the elimination of hoarding. At the same time, such branches could be closer to certain areas where financing facilities are of great importance in assisting sectional economic developments within the national framework.

The Rafidain Bank, with its operations aimed at maximizing net return and with the relatively large reserves at its disposal, is in a position to pursue a credit policy which could be harmful to a national monetary policy determined by the National Bank. In view of this, an accord between this bank and the National Bank with regard to monetary policy is deemed of great importance to achieve the desired ends.

As indicated above, the National Bank was entrusted with the control of banks and sarrafs operating in Iraq for the purpose of maintaining solvency and liquidity. The high degree of liquidity has

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5Carl Iversen, in his A Report on the Monetary Policy in Iraq, emphasizes this point, "The Rafidain Bank should consider the establishment of more branch offices throughout the country, even where in the first few years they may not be able to cover the expenses involved." p. 19.
contributed remarkably towards creating confidence of the people in their banking system. Nevertheless, with the speedy expansion in government investment and with the expected increase in the number of commercial banks to take care of expanding private investment, there is a possibility of less conservative practices on the part of the old banks. This might weaken the confidence that has been established, and emphasizes the necessity of further strengthening of the National Bank by giving it effective means for controlling the policies of the commercial banks.

To retain solvency, the law stipulates that a bank should not accept deposits more than sixteen times (sarraf's, seven times) the capital plus reserves which the bank holds in Iraq, excluding government deposits. The law further states that excess deposits must either be turned over to the National Bank or the respective bank must increase its paid-up capital and/or reserves in proportion.

As a further means of insuring solvency, the law states that a cover against current and fixed deposits (time deposits which require 6 months notice prior withdrawals) must be maintained by the individual bank. Not less than fifty per cent of the cover must be maintained in Iraq in the form of shares, bonds, treasury bills, etc. The remainder, but not exceeding fifty per cent, can be invested abroad in the form of foreign bonds, bills, deposits, and government and commercial debts. The latter, it was stated, must be convertible into Iraqi dinars.

Of the coverage maintained in Iraq, the law stipulates that,

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6It was left to the National Bank's discretion to alter this portion of coverage between a high of 70 per cent and a low of 30 per cent.
excluding government deposits, the banks must deposit not less than fifteen per cent (reducible to ten per cent at the discretion of the National Bank) of their total deposits with the National Bank, one-third of which can be in the form of government bonds and bills. The same rule applies to the sarrafs, except that half of the fifteen per cent required deposits can be in government bonds and bills.

Individual advances made by these institutions are limited by law to twenty per cent of the individual bank's or sarraf's total capital including reserves and undivided profits. The idea behind this limitation is to diversify loans.

Also for the purpose of maintaining solvency, the law requires that ten per cent of the institutions' annual profits be retained in their reserve accounts until such reserve amounts to fifty per cent of the individual institution's paid-up capital.

The following consolidated statement of the commercial banks in Iraq reflects the highlights of their banking policies over the period 1951-1953, the people's acceptance of banking services, and the degree of economic development that these banks have incorporated into their operations. On the asset side of the consolidated statement the most pronounced characteristic is the high degree of liquidity maintained. On December 31, 1953, 7.6 per cent of total assets were held in the form of cash and 15.4 per cent of total assets were held in the form of demand deposits with the National Bank. About 39 per cent of total assets were held in the form of sterling deposits and investments payable abroad, primarily those of the Rafidain Bank for the account of the Treasury. Consequently, about 61 per cent of total assets were held
in liquid form, a characteristic which was true in previous years as well.

**TABLE 17**

Consolidated Statement of Commercial Banks in Iraq, 1951-1953
(Thousand Dinars)

<table>
<thead>
<tr>
<th>Assets</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and Coins in Cash</td>
<td>4,961</td>
<td>4,073</td>
<td>4,249</td>
</tr>
<tr>
<td>Balances with Branches and Banks in Iraq</td>
<td>2,796</td>
<td>2,633</td>
<td>3,256</td>
</tr>
<tr>
<td>Deposits with the National Bank of Iraq</td>
<td>4,044</td>
<td>6,167</td>
<td>8,589</td>
</tr>
<tr>
<td>Government Loans, Bonds and Bills</td>
<td>2,600</td>
<td>1,571</td>
<td>1,298</td>
</tr>
<tr>
<td>Deposits and Investments Payable Abroad</td>
<td>13,667</td>
<td>19,021</td>
<td>22,265</td>
</tr>
<tr>
<td>Bills Discounted</td>
<td>1,588</td>
<td>1,780</td>
<td>3,366</td>
</tr>
<tr>
<td>Advances to Other than Government</td>
<td>9,715</td>
<td>9,022</td>
<td>12,161</td>
</tr>
<tr>
<td>Other Assets</td>
<td>1,237</td>
<td>1,361</td>
<td>1,728</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>50,608</td>
<td>55,628</td>
<td>55,910</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid-up Capital and Reserves</td>
<td>2,412</td>
<td>2,689</td>
<td>3,884</td>
</tr>
<tr>
<td>Provision for Income Tax and Others</td>
<td>156</td>
<td>313</td>
<td>153</td>
</tr>
<tr>
<td>Balance of Profit and Loss Accounts</td>
<td>272</td>
<td>396</td>
<td>672</td>
</tr>
<tr>
<td>Debit Balances with Banks in Iraq</td>
<td>2,925</td>
<td>2,873</td>
<td>2,695</td>
</tr>
<tr>
<td>Debit Balances Abroad</td>
<td>349</td>
<td>108</td>
<td>65</td>
</tr>
<tr>
<td>Government and Semi-government Deposits</td>
<td>10,496</td>
<td>15,648</td>
<td>19,891</td>
</tr>
<tr>
<td>Deposits against Guarantees and Credits</td>
<td>7,069</td>
<td>6,313</td>
<td>6,005</td>
</tr>
<tr>
<td>Current and Saving Accounts</td>
<td>14,814</td>
<td>14,883</td>
<td>18,293</td>
</tr>
<tr>
<td>Fixed Deposits</td>
<td>854</td>
<td>801</td>
<td>1,582</td>
</tr>
<tr>
<td>Other Deposits</td>
<td>632</td>
<td>796</td>
<td>859</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>629</td>
<td>803</td>
<td>1,811</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>40,608</td>
<td>45,628</td>
<td>55,910</td>
</tr>
</tbody>
</table>


This unusually high liquidity is primarily due to the lack of demand for credit. To a lesser degree, the unwillingness of the banking institutions, particularly the Rafidain Bank, to take a reasonable degree of risk is another contributory factor to this highly liquid position of the commercial banks. The highly liquid condition indicates that these banks maintain a considerable degree of independence from the National Bank in their credit policies, and that the National Bank is limited in the degree of control that it can impose upon them. In fact, these
banks would have to expand credit substantially before the National Bank could impose an effective direct control on them. As Table 17 indicates, loans, bills discounted, and advances to other than government, although reflecting some increase in recent years, remained only about 29 per cent of total assets, indicating tremendous expansion potential.

On the liability side of this statement, current and saving accounts of $18,293,000 dinars compared to total money in circulation of $38,600,000 dinars at December 31, 1953, reflects the unfamiliarity of the people with the utilization of checking accounts. The meager amount of fixed and other deposits of $2,441,000 dinars confirms a high degree of hoarding.

The increase in total balances on the liability side from $40,608,000 dinars at the end of 1951 to $55,910,000 dinars at the end of 1955 was chiefly due to the $9,395,000 dinar increase in government and semi-government deposits and the increase of $4,434,000 dinars in private current and savings deposits account. On the asset side of the statement, the increase was mainly due to the $7,598,000 dinar increase in deposits and investments payable abroad, the $4,434,000 dinar increase in deposits with the National Bank, and the increase of $2,446,000 dinars in advances to private concerns. On the other hand, government loans dwindled to $1,298,000 dinars on December 31, 1953, compared to $2,600,000 dinars at the end of 1951.

The rate of interest on loans by commercial banks is limited to seven per cent by a law passed in 1936. However, near the end of 1953, the leading commercial banks reached a "gentlemen's agreement" whereby they agreed on minimum rates for the different types of loans as
follows:

- 5 per cent interest on overdrafts and straight note loans;
- 4 per cent interest on overdrafts and secured loans;
- 4\(\frac{1}{2}\) per cent interest on discounted bills of 30-90 day maturity.

The banks pay no interest on demand deposits; on savings deposits 1.75 to 2 per cent interest is normally paid. The normal rate paid on fixed deposits, which can be withdrawn after a six-month notice, is 1.5 to 2 per cent interest. On postal savings (limited to 500 dinars per individual account), the interest rate is 3 per cent.

C. The Other Non-Commercial State Banks

There are three non-commercial state banks in Iraq; the Agricultural Bank, the Industrial Bank, and the Mortgage Bank. Unlike the commercial banks whose primary objectives are those of financing short-term credits for commercial purposes, the state banks were organized to extend long-term credit and to assist in the development of agriculture, industry, and housing.

1. The Agricultural Bank

The Industrial and Agricultural Bank, organized in 1937, was divided into an Agricultural Bank and an Industrial Bank in 1940. It was not until 1946, however, that these two banks began to function separately.

The 1940-law set the objectives of the Agricultural Bank as follows: 1) assisting in the development of agriculture through extension of long-term credit, 2) selling of agricultural equipment on long-term installment maturities, 3) renting agricultural equipment, 4) encouraging and assisting in the organization of cooperative societies among agriculturalists, and 5) seeing that agricultural produce is sold on a
competitive and profitable basis. Although some progress in the accomplishment of these objectives has been made over the past ten years, it has not been very great. One of the main reasons for the limited accomplishments, aside from insufficient resources, has been the lack of realization on the part of the agriculturists of their responsibilities towards the bank, and their failure to allow the bank to perform its functions. Another important reason has been the incomprehensive study of its projects prior to taking action. An example of this was its "fishing scheme" which failed, and ended with a loss of about 13,000 dinars, and final abandonment of the project.

Probably the main reason for the lack of accomplishment of the Agricultural Bank is its inadequate resources. Its paid-up capital, amounting to 550,000 dinars in 1951, was increased to 2,000,000 dinars in 1953 in order to enable it to expand its long-term loans to cultivators. In addition, to cope with the increased demand for loans, the bank obtained loans from the National Bank, and was permitted to receive deposits on current account. But so far these deposits have been negligible.

Moreover, the Agricultural Bank has limited its credit expansion to medium-term loans up to ten year maturities (Table 18). Also, the majority of these loans (67 per cent) were made on the basis of three to six year maturities. As to the amount advanced, the majority (66 per cent) were between 101 and 1,500 dinars. Although recently


\[8\] Ibid, p. 10.
the maximum credit that the bank can extend to one applicant has been
ingcreased to 3,000 dinars, the individual loans have averaged about
500 dinars per applicant. Consequently, on the basis of the bank's paid-
up capital (i.e., 2,000,000 dinars) there could be only 3,000 to 4,000
farmers who could borrow from the bank at any one time. This is an
obvious indication that the bank has not as yet been able to penetrate
deeply enough to reach the majority of agriculturists who are badly in
need of financial aid.

TABLE 18
Transactions and Advances Made by the Agricultural Bank of Iraq
During the Fiscal Year 1954-1955

<table>
<thead>
<tr>
<th>Maturity-Years</th>
<th>Transactions</th>
<th>Dinars</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7</td>
<td>1,815</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>188</td>
<td>13,786</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>434</td>
<td>175,063</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>470</td>
<td>85,797</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>477</td>
<td>226,161</td>
<td>26</td>
</tr>
<tr>
<td>6</td>
<td>128</td>
<td>100,150</td>
<td>11</td>
</tr>
<tr>
<td>7</td>
<td>14</td>
<td>11,200</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>174</td>
<td>265,480</td>
<td>30</td>
</tr>
<tr>
<td>9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>3,500</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,894</strong></td>
<td><strong>882,952</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Range-Dinars</th>
<th>Transactions</th>
<th>Dinars</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 - 100</td>
<td>704</td>
<td>45,082</td>
<td>5</td>
</tr>
<tr>
<td>101 - 300</td>
<td>452</td>
<td>94,850</td>
<td>11</td>
</tr>
<tr>
<td>301 - 500</td>
<td>245</td>
<td>112,365</td>
<td>13</td>
</tr>
<tr>
<td>501 - 700</td>
<td>81</td>
<td>48,702</td>
<td>6</td>
</tr>
<tr>
<td>701 - 900</td>
<td>117</td>
<td>93,146</td>
<td>10</td>
</tr>
<tr>
<td>901 - 1100</td>
<td>112</td>
<td>121,321</td>
<td>14</td>
</tr>
<tr>
<td>1101 - 1300</td>
<td>32</td>
<td>31,124</td>
<td>3</td>
</tr>
<tr>
<td>1301 - 1500</td>
<td>52</td>
<td>78,100</td>
<td>9</td>
</tr>
<tr>
<td>1501 - 2000</td>
<td>45</td>
<td>100,562</td>
<td>11</td>
</tr>
<tr>
<td>2001 - 2500</td>
<td>12</td>
<td>23,650</td>
<td>3</td>
</tr>
<tr>
<td>2501 - 3000</td>
<td>42</td>
<td>134,050</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,894</strong></td>
<td><strong>882,952</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: The Agricultural Bank of Iraq. Annual Report for the
Another criticism that can be directed towards the Agricultural Bank is in regard to the duration of the individual loans. The Iraqi farmers are in desperate need of newly developed lands, housing, machinery, and small irrigation projects. All these require long-term financing, longer than the recent ten-year repayment limit stipulated by the bank, especially when the poverty of the farmers and their prevailing limited incomes are considered. Therefore, a longer period of maturity is of utmost importance if the bank is to cooperate more successfully.

The 1954-1955 annual report of the Agricultural Bank indicates that of 617,661 dinar repayments due that year, only 412,590 dinars, or 66 per cent were met. Hence, the bank was forced to extend dates of repayments. It is this situation that has been the main cause of lack of cooperation between borrowers and the bank. Although the bank is authorized to extend long-term credit maturing over a ten-year period, this period appears to be too short. Twenty-year maturity would be desirable.

In the future, the demands on the Agricultural Bank for larger amounts of credits will probably be increasing because of the projects of the Development Board. It is likely that many of the present sharecroppers will seek new farms in the newly developed areas. Unless they have the required money to pay off their current debts to their landlords, which in turn can be supplied by the bank, the new lands cannot be utilized. Therefore, it seems likely that unless sufficient funds are put at the bank's disposal, amortization of loans extended over a reasonably long period cannot be provided. Also, unless the bank's operations are expanded through establishment of adequate branches to bring them closer to the agricultural areas, the operations of the
Agricultural Bank will continue to fail in the realization of its objectives.

2. The Industrial Bank

The objective of the Industrial Bank is to develop new industries and assist the existing ones in Iraq. Although its capital has been increased to 3,000,000 dinars, its paid-up capital stands at 2,700,000 dinars at present. It is authorized to raise loans as well as to receive deposits on current account, although these activities have thus far been negligible. Although the bank's available funds were relatively small, since 1946 it has initiated and supported the establishment of certain industries which proved to be of great importance to Iraq's economy. The most important of these are the Spinning and Weaving Company, the Vegetable Extraction Company, the Cement Company, the Iraq Trading and Grain Milling Company, the Jute Industry Ltd., the River Dredging and Land Reclamation Company Ltd., and the National Tanning Company Ltd.

During the fiscal year ended March 31, 1954 the bank had a paid-up capital of 2,700,000 dinars and a net profit of about 25,000 dinars, or more than a 9 per cent return on its paid-up capital. These returns indicate the successful nature of the ventures undertaken by the bank, and that it has been promoting the industries whose products are in great demand locally. However, with its objective being to assist and develop the industries in Iraq, profits should not be the sole guide for its operations. Being a state bank, its object should be that of developing and assisting those industries which will contribute towards the long-run economic development of the whole country. Industries
(small handicrafts) that are operating on a break-even or loss basis, but which are considered important in supplementing and supporting the over-all industrial and agricultural development, should be included in the bank's program even though the immediate risk of loss is appreciable.

The International Bank for Reconstruction and Development Mission to Iraq has recommended in its report that "The Bank's capital should be used primarily as a revolving fund. The Bank should generally dispose of its industrial shares whenever an enterprise becomes profitable and, therefore, capable of attracting more private capital."9 The Industrial Bank has followed this recommendation wisely and successfully, and has been disposing of its shares whenever it felt that industries have achieved an independent and profitable position, and that their shares were in demand by the public. Such a policy will increase the familiarity of the populace with these securities, and thus will initiate more effective private investment—a step towards the creation of an official money market. Table 19 reveals the bank's policy in this realm.

**TABLE 19**

<table>
<thead>
<tr>
<th>Shares of Major Industries Held by the Industrial Bank of Iraq (Face Value in Thousand Dinars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
</tr>
<tr>
<td>Iraq Spinning and Weaving Co.</td>
</tr>
<tr>
<td>Iraq Cement Co.</td>
</tr>
<tr>
<td>National Leather Industry Co.</td>
</tr>
<tr>
<td>Vegetable Oil Extraction Co.</td>
</tr>
<tr>
<td>Iraq Trading and Grain Milling Co.</td>
</tr>
</tbody>
</table>


3. The Mortgage Bank

There always has been a grave housing shortage in Iraq, and in recent years this problem has been receiving greater attention. One of the most important causes of the shortage is the lack of adequate credit facilities. Because of this situation, the Mortgage Bank was established in 1948 to provide adequate credit on reasonable terms to increase the construction of houses. However, it was not until the beginning of 1950 that the bank started operations. Because of the increased demand for housing construction loans, the original law was amended in 1952 and again in 1953. At present, the bank has three important functions: 1) extending loans secured by mortgages on immovable properties to encourage private construction of new buildings; 2) converting, whenever possible, existing mortgage loans bearing high interest into new loans bearing a reasonable rate (5 per cent); and 3) engaging on its own account in the construction of modern houses which are sold or let to individuals of limited income. Among such individuals, priority is given to civil servants, and preference to those with many children.

In accordance with the first objective, the bank cannot extend more than 4,000 dinars to any one project at a rate of 5 per cent. The repayment schedule extends from four years to an eight-year period. Published data indicate that, during the fiscal year ending

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10In each case it is limited to 60 per cent of the estimated value of the property under consideration.

March 31, 1955, loans extended to achieve this objective varied between about 100 and 2,250 dinars, with total advances of 817,000 dinars spread over 800 projects, or an average of 1,020 dinars per project. During that year, the amortization schedule was spread over an eight-year period; thus the average annual maturities amounted to about 128 dinars. Based on this calculation, the figures indicate that almost all of these loans were made to members of the middle class, since the annual income of unskilled laborers amounted to about 125 dinars in 1956.\(^{12}\)

Regarding the second objective of converting existing loans bearing exorbitant interest rates, the limits and stipulations are similar to those indicated above. The converted loans averaged about 450 dinars each,\(^{13}\) indicating that borrowers had to be members of the middle and upper class.

Relative to the bank's third objective, the cost figures of the contemplated houses, which average about 2,250 dinars, indicate that only members of middle and upper classes would be able to benefit. Unless amortization is substantially extended and the required down-payment reduced, these houses are not for low-income groups.

The plan was to provide for sale of the new houses immediately after their completion although ownership will be retained by the bank until the cost (plus 1 or 2 per cent interest) is received in equal installments over a ten to twenty-year period. Installments will also include a premium on a life insurance policy taken on the purchaser's

\(^{12}\)Department of Commerce, op.cit., p. 2.

life so that in case of his death during the repayment period the unpaid balance will be settled by the insurance company.

In order to promote modern housing projects, the bank was permitted to organize engineering and architectural departments, to build factories to produce economically the required construction materials, and to purchase an interest in such existing factories through investment in their outstanding capital stock. In addition, the bank was authorized to establish "building and mortgage" institutions (private or public) functioning in the purchase, sale, and mortgage of immovable properties, primarily newly constructed ones. The administration of the bank is conducted through its main office located in Baghdad, and through limited branches established in various cities in the country.

The original authorized capital of the bank was 1,000,000 dinars, of which only 100,000 dinars was advanced interest free by the Ministry of Finance when it started operations at the end of 1950. In addition, the bank had received a 250,000-dinar loan from the National Bank and 330,000 dinars in the form of deposits from the Minor's Property Department. By the end of the fiscal year 1953, the bank's paid-up capital was increased to 1,000,000 dinars, and Minor's Property deposits increased to 455,000 dinars. During this year the loan from the National Bank was paid. By March 31, 1955, the bank had received its full authorized capital of 2,000,000 dinars. Recently, the bank received 500,000 dinars as an initial payment of a 2,000,000 dinar fund allocated to it to undertake the building of new housing.

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14 I.B.R.D., op.cit., p. 60.
projects. If further capital became necessary for the completion of this scheme, the bank could request loans from the Development Board, or use its legal power to float bonds (guaranteed by the government). Such action, however, requires an approval from the government in order to avoid conflict with the national monetary policy as sponsored by the National Bank. So far this authority has not been used.

Although the bank has been relatively successful in accomplishing its objectives, its accommodations have been mostly utilized by the middle and upper classes. In a country like Iraq, greater assistance should be directed towards the lower class, which is faced with the worst housing problems. As pointed out by the International Bank for Reconstruction and Development Mission's report,\textsuperscript{15} the majority of the population (i.e., the lower class) has been living in "clusters of mud houses where, in many cases, men and livestock are not segregated." In view of the size of this low-income class, and the labor supply that it could offer at a time when it is most needed, greater attention should be directed to its betterment. Thus, well-built, sanitary, and low-cost dwellings become one of the greatest necessities. The government is aware of this situation, but what has been done so far, namely, the 1,500 houses already built in Baghdad, appears to be far from adequate.

It is true that the central government shares the responsibility of seeing that this situation is remedied, but it cannot be expected to take the whole burden. The government should promote some

\textsuperscript{15}Ibid, pp. 55-62.
sense of responsibility among its people to better their housing, and then assist them in building better houses. It can furnish suitable lots and sanitary facilities, and assist in general improvements through direct aid in the form of building material, and the like.

The Mortgage Bank can also take certain steps toward accomplishing this goal. Greater publicity concerning the housing program should be carried out by adequate bank branches, their representatives, and by other means. In view of the low level of income of many people, a reduction of the required down-payment, and an increase in the limit of loans (say, 90 per cent of the cost) should be made. Also, the required 8 years, actually 4 years, appears to be relatively short compared to the expected life of the houses. Fifteen or even twenty years would be more realistic. This would reduce annual maturities and make it easier for the less well-to-do to meet such obligations.

Certainly, if such a program were initiated, it would affect the liquidity of the bank and slow down its money turnover, thus limiting the bank's ability to extend further loans as a result of less total repayments received. However, more funds could be acquired through loans from the Development Board or the National Bank, and through the flotation of bonds. In view of the circumstances, the National Bank should have no objections to the extent of these loans as long as they did not pose an inflationary threat to the economy.

II. THE STERLING AREA

Iraq is a member of the Sterling Area and this arrangement is important for its commercial and monetary policy. The membership provides a link to sterling as an international currency.
and the exchange rate and import policy usually followed by all member countries. During World War II and thereafter, exchange controls were used, but the result was the formation of the world's largest trade and monetary block within which payments flow almost unhampered. In view of this fact, the benefits derived by member countries are obvious, especially when post-war difficulties that they have been having in their individual balance of payments are considered. The ease of payments was further augmented when the United Kingdom (and indirectly the members of the Sterling Area) joined the European Payments Union whereby payments and transfers were facilitated among almost all countries outside the dollar area. A by-product of this membership is the use that member countries can make of the London money and capital market.

In 1941, a "Common Pool of Foreign Exchange" was created. Primarily because of the dollar shortages, member countries were not allowed to retain their dollar and gold earnings. Instead, they were required to surrender these earnings to the Bank of England in exchange for sterling, where they are maintained in the Pool. In recent years some member countries have been allowed to maintain normal working balances in dollars. Furthermore, dollars for imports, which cannot be supplied by a soft currency country, will be allocated by the Bank of England upon formal application. This procedure created trade.

According to the British Exchange Control Act of 1947, as amended, all member countries included under the "Scheduled Territories" form the Sterling Area. At present, Burma, Iceland, Iraq, Ireland, Jordan, and Libya constitute this area together with countries and protectorates under the British Commonwealth of Nations, with the exception of Canada.
restrictions between the members of the Area and the dollar countries, and facilitated trade among the member countries.

III. EXCHANGE CONTROL AND THE FOREIGN EXCHANGE MARKET

Exchange control was introduced in Iraq in 1941. It is administered by a special committee known as the "Foreign Exchange Committee". This became a part of the National Bank after the establishment of that organization. The law, as amended in 1950, treated all currencies, except the dinar, as foreign exchange, despite Iraq's membership in the Sterling Area. All visible receipts of foreign currencies acquired through trade or other transactions with foreign countries must be surrendered to the National Bank. All foreign transfers or remittances required special permission from the Directorate of Foreign Exchange. According to the Financial Agreement of 1947 between Iraq and the United Kingdom, foreign exchange at the disposal of the authorities for payments was limited by the balances in Iraq's No. I Account (free account). A part of the No. I Account was available for conversion into "scarce currencies" as determined by the annually renewable "Scarce-Currency Agreements" between Iraq and Britain, whereby a certain amount is allocated from the free account for such conversion.

There exists only one foreign exchange market in Iraq. The greatest volume of the country's trade is financed in sterling through the authorized banks using in their conversions the London exchange rates. In the case of trade involving dollar transactions, the National Bank determines the rate, and makes the required dollar amounts available to the licensed banks. However, the licensed banks are permitted to retain dollars that resulted from exports, and only upon
certain occasions when they need more than these dollar balances, do they buy them from the National Bank.

Aside from this official market, there exists an unofficial market for foreign exchange—the "Black Market". The source of foreign exchange in this market is from undervaluation of exports, overvaluation of imports, expenditures of foreign tourists who surrender their foreign exchange to unauthorized dealers, accumulated foreign exchange balances prior to 1947 which were not surrendered to the authorities, and smuggling. The authorities are aware of this unofficial market. In order to liquidate its foreign exchange balances, they issued licenses for traders to import certain goods, especially luxury items, without allocating foreign exchange to them. Thus, the required exchange was supplied through the unofficial market and its importance has been declining sharply. However, with the achievement of this result, and the abundance of foreign exchange, the policy of issuing licenses without exchange allocations should be completely abolished.

IV. MONETARY POLICY

The foregoing analysis presents the framework and operation of the banking system in Iraq including its foreign exchange system. As additional background for the study of the national monetary policy carried out by these institutions, a brief examination of the demand for money in Iraq and its supply by the existing banking institutions will be undertaken.

A. The Demand for and Supply of Money

Money includes coins, bank notes, and demand deposits. Because of unfamiliarity in the use of checks in Iraq, coins and bank notes are
the prime constituents of the money supply. The following table
indicates that about 43 per cent of total money in circulation is in
large denomination notes, i.e., 100 and 10 dinar notes. This large
ratio emphasizes the probability that a considerable amount of these
notes are not in actual circulation, but are hoarded. In remote
sections of the country some gold is hoarded.

TABLE 20

<table>
<thead>
<tr>
<th>Year End 12/31</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 Dinar Notes</td>
<td>4,996</td>
<td>4,076</td>
<td>3,522</td>
<td>3,360</td>
</tr>
<tr>
<td>10 Dinar Notes</td>
<td>8,340</td>
<td>9,066</td>
<td>11,565</td>
<td>13,174</td>
</tr>
<tr>
<td>5 Dinar Notes</td>
<td>8,866</td>
<td>8,123</td>
<td>9,548</td>
<td>10,791</td>
</tr>
<tr>
<td>Other Notes and Coins</td>
<td>9,962</td>
<td>8,768</td>
<td>9,704</td>
<td>10,677</td>
</tr>
<tr>
<td>Total Money in Circulation</td>
<td>32,164</td>
<td>30,033</td>
<td>34,340</td>
<td>38,002</td>
</tr>
</tbody>
</table>

1End of June.

April-June, 1954, p. 10.

There are several reasons for this practice. One is the
illiteracy of the majority of the people, and the lack of familiarity
with profitable ventures in which they could invest their money.
Another is the inadequate number of banks. There are about 50 banks
(both state and private) scattered over the country, but the majority
is located in Baghdad, Basrah, and Mosul. Even if the people wanted to
deposit their liquid holdings in a bank, they might have to travel
hundreds of miles to do so. And lastly, the lack of money and capital
markets limits the possibility of nominal investments in bonds and
stocks.

As noted above, the National Bank of Iraq is the supplier of
all coins and bank notes against purchases of foreign exchange. From a
bookkeeping point of view the coins and notes issued appear among the bank's liabilities, and are offset by an equivalent amount in foreign exchange purchased which appears as an asset. An increase on one side is offset by a similar increase on the other. However, the bank could offset an increase in coins and notes put into circulation by purchases of government, semi-government and private institution bonds. Similarly, the National Bank can extend loans to the government departments and commercial banks by discounting treasury bills, over-draft accommodations, or rediscounting commercial bills. Under these circumstances, the National Bank will enter the loans (deposit accounts or coins and notes) in its liabilities and offset it by newly purchased bills on the asset side. Consequently, through these offsetting entries, both sides of the bank's balance sheet are increased or decreased by the same amount of money expanded or retired.

Therefore, from a theoretical point of view, the National Bank has the last word as to the supply of money in circulation (including coins, notes, and demand deposits). However, from a practical point of view, as indicated earlier in the chapter, the National Bank's power has been relatively very weak. The exchange rate being fixed by the National Bank, the bank is obligated to sell or buy foreign exchange against local currency at that rate. Consequently, with huge foreign exchange reserves held by the Rafidain Bank, foreign banks, the government and the Development Board, it appears that these institutions maintain the actual controlling power over the quantity of money in circulation rather than the National Bank.

If the exchange rate was not fixed, the National Bank could
exercise some control. Changes in the exchange rate would produce changes in the supply of money via changes in the demand for and supply of foreign exchange. A decrease in the exchange rate will usually increase purchases of foreign exchange and consequently reduce the money supply, whereas an increase in the exchange rate will produce opposite results. Other results of these actions will be considered later.

Another possibility is that the National Bank might alter its discount rate in order to encourage or discourage borrowings by banks. Raising discount rates will curtail bank borrowings, thus reducing the supply of money, and vice versa. However, the commercial banks, especially with their foreign reserves, can operate independently from the National Bank in the sense that they can expand their credit operations through selling foreign reserves rather than relying on the National Bank for funds. Therefore, the bank is not in a strong position to alter the supply of money through changes in its discount rates.

A further limitation on the influence of the National Bank upon the money supply is the lack of a money and capital market in Iraq. If such a market existed, the National Bank, through "open market operations" could vary the supply of money.

The private banks can increase the supply of money through expansion of credit (either currency or demand deposits). Through experience, banks can almost exactly determine the quantity of currency they should hold as reserves. If they find themselves with currency in excess of this required customary reserve, they can expand or advance loans to that extent and, because their aim is that of maximum profit, they are likely to try to make some profits on their surplus cash
If the people of Iraq get more accustomed to the use of checks, this will give additional power to the private bank to extend credits while limiting the use of currency to a narrower section of the national economy. The use of checks results mainly in transfers within the bookkeeping systems of the banking institutions. Consequently, if such is successfully achieved, the banks in Iraq can create further means of payment and thus expand the supply of money accordingly.

B. The Goal of the Monetary Policy

In Iraq a broad economic goal that has gained strong popular support is one of raising the current low standard of living of the country's population as high and as fast as possible, while avoiding major inflation and fluctuation in the country's economic activities. More precisely, the goal is "the maximum rate of economic development and expansion compatible with the avoidance of general inflation and with the maintenance of an adequate foreign exchange reserve." To improve living conditions, a larger output and increased productivity are needed. These require in part a large increase in investment expenditures. Such expenditures expand the money income of the economy, and, if the income which people wish to spend on consumer goods increases more rapidly than their output, prices rise. Hence, monetary policy is important in facilitating an appropriate expansion in investment, and in encouraging savings in order to avoid serious inflation—rising prices which induce no increase in output because the economy

\[17 \text{ Iversen, Carl, op.cit., p. 177.} \]
is operating at full capacity. In the latter event, increased money income does not raise real income because of higher prices, and there is no improvement in living conditions.

Rising prices and some inflation may be necessary during the early expansion process, and should be permitted. Increases in wages, salaries, and prices, through the adjustment period are an integral part of any economic expansion program. But these increases should be kept under surveillance by the monetary authorities so that they do not develop into uncontrollable cumulative trends.

Economic expansion does not usually follow a smooth upward pattern. The possibility of cyclical fluctuations in employment, production, prices, and income, exists as a result of variations in the investment program (Development Program). Lags or curtailments in the program might initiate a down-turn of a cycle. In addition, fluctuation in internal economic activity could be initiated by general economic developments abroad, such as changes in Iraq's exports. Unless such fluctuations were counteracted, they might significantly affect the national economy. However, Iraq has at its disposal large foreign exchange reserves that could be used as a buffer to eliminate or counteract any such foreign disturbances.

At present the National Bank is in a weak position to achieve the above goal of monetary policy. The liquidity position of the commercial banks and that of the Treasury, as already noted, are the main factors that limit the effectiveness of the National Bank's monetary policy. It can exert some influence, at least on the commercial banks, through psychological measures. If the bank raises its rediscount rate,
the commercial banks might take such a change as indicating a need to contract credit, and hence it appears advisable for the National Bank to make its discount rates public. Also, the bank might strengthen its influence with the commercial banks by frequent conferences with their officials. This is especially true as far as the Rafidain Bank is concerned, where a coordination of policy is quite important. The management of this bank needs to be constantly reminded that because it is a state bank, its policy should be determined by the general interest of the national economy, rather than profit maximization.

But drastic changes are needed to give the bank the necessary powers to combat effectively a serious national inflation. First of all, the bank should be given more power to alter the reserve requirements against deposits of the commercial banks. It is empowered to alter these requirements between 10 and 15 per cent, but at present has utilized this power to its maximum.

Second, to limit the excess liquidity and thus the ability of the Rafidain Bank to extend credit which may be in conflict with the national monetary policy, the transfer of all government accounts to the National Bank is recommended. Such action would bring about a drastic reduction in the Rafidain Bank's working capital, but a loan equal to the transferred amount should be extended to the Rafidain Bank so that it can maintain the level of its operations. In doing so, the National Bank could impose a direct influence on the Rafidain Bank as determined by the terms (interest rate, and repayment schedules) of its loans. An indirect benefit would be a closer cooperation between
these two government banks.¹⁸

Third, the organization of a capital market, which would make "open market operations" possible, would further strengthen the ability of the National Bank to reduce or increase the excess cash reserves of the commercial banks. This market presupposes that the National Bank carries securities among its assets, and that there are investors, as well as the commercial banks, who are willing to hold securities in their various forms. The creation of such a market would require a considerable period of time, and it need not be as elaborate as those in Great Britain and the United States. As a beginning, the National Bank should make public that it is ready to act as an intermediary between buyers and sellers of securities. At the same time a periodical paper might be started to publish bids and offers, dividends declared, and interest paid on each security. The state banks and the Development Board should encourage the establishment of more industries and trade organizations with corporate structure, and the sale of their shares in the market. Also, the National Bank, the Development Board, and the government could issue some bonds for sale to the commercial banks and private investors. These activities in time would attract more private investors.

Unless the above changes are effected, the existing powers of the National Bank remain insufficient to combat an inflationary situation, or a recession. In addition, even if the laws were amended

¹⁸Recently these accounts have been transferred to the National Bank. However, no information is yet available as to whether the National Bank is considering the compensation of the Rafidain Bank for this withdrawal.
to embody these suggestions, there should not be complete dependence on monetary policy to counteract an inflationary expansion or a recession. There must be close coordination of the policies of the National Bank, the Treasury, and the Development Board, to maintain effectively a desirable rate of economic expansion.

V. FOREIGN EXCHANGE POLICY

The most outstanding characteristic of Iraq's balance of payments is the substantial foreign exchange surplus as reflected in its current account with other countries. This surplus is held primarily in sterling balances and to a much lesser degree in currencies of member countries of the Sterling Area. The problem of maintaining the purchasing power, liquidity, and partial investment of Iraq's foreign exchange reserves is an extremely difficult and complicated task.

One policy suggestion of diversifying Iraq's foreign exchange reserves among the widest possible variety of foreign currencies became stronger in recent years as the country's foreign reserves increased. It is contended that the wider diversification of reserves, the less is the risk of a decline in their value and of limitations regarding transferability. Such diversification, however, is cumbersome for a country having a small volume of international trade, and would necessitate a substantial expansion of Iraq's banking personnel at home and abroad. Moreover, this policy would require that Iraq terminate its membership in the Sterling Area, since members of the Area must maintain their foreign exchange holdings in pounds sterling.

Iraq would not achieve any worthwhile economic gain by terminating its membership in the Sterling Area under existing conditions.
Sterling can be used to meet payments to almost all countries other than those of the dollar area. Iraq can obtain for essential imports necessary dollars and other "scarce currencies" through the Bank of England in exchange for sterling. Only in the event that a large proportion of Iraq's exports was sold in the United States and other "scarce currency" countries would Iraq gain by withdrawing from the Sterling Area.

VI. SUMMARY

The economic goal of Iraq is a maximum rate of economic development and expansion which is compatible with the avoidance of general inflation and with the maintenance of adequate foreign exchange reserves. The achievement of this goal entails effective and successful monetary and foreign exchange policies to assure a smooth process of development. However, it was found that the current, relatively high liquidity position of the Rafidain Bank, the commercial banks, the Treasury, and the Development Board, sets a drastic limit to the effectiveness of any monetary policy that might be advocated by the National Bank to cope with an undesirable contingency.

A monetary authority cannot be successful in administering economic expansion in a country unless it has the implements necessary to assume direct control over the quantity of money in circulation. In Iraq, because of the current high liquidity position of the various commercial banking institutions, the traditional central banking tools, such as altering discount rates and reserve requirements, are very ineffective. Another deterrent to the National Bank in exercising monetary control is the lack of a money and capital market in Iraq. At present there is no adequate basis for "open market operations."
The Treasury, with a high liquidity position similar to the commercial banks, is also protected from any direct influence that might be imposed upon it by the National Bank. This is also true in the case of the Development Board.

Because of these circumstances, it was concluded that the National Bank was left with only passive measures. Some psychological steps, which might be indirectly effective, were recommended, such as the raising of the rediscount rate which may be used by the banks as a contractive measure. Also, frequent and constructive conferences among administrative and executive bodies of the different monetary authorities were recommended.

Aside from indirect measures, the National Bank should be strengthened if it is to carry on its policy effectively. A drastic change in its present structure should be considered. It should be given more authority with which it can strive to liquidate the abnormal liquidity position of the different institutions concerned, and to induce cooperation. Widening the limits of reserve requirements, the transfer of government deposits from the Rafidain Bank to the National Bank, and the organization of a capital and money market were recommended.

With regard to foreign exchange policy, existing conditions were found to be favorable to Iraq's continuation of membership in the Sterling Area.
CHAPTER SIX

PUBLIC FINANCE AND FISCAL POLICY

Throughout the previous chapter the present weakness in the ability of the National Bank to carry out an effective monetary policy was emphasized. Several proposals to strengthen the bank in this endeavor were considered. However, it was concluded that even if these suggestions and proposals were adopted, the bank's power to accelerate or retard the process of economic expansion in Iraq would be rather limited. Monetary policy needs to be supplemented by fiscal policy if the economic objectives of the country are to be realized. In this chapter the fiscal policy of the State will be thoroughly examined in an attempt to see to what extent it might influence the level of economic activity in such a way as to achieve the national economic goal.

I. THE FISCAL SYSTEM AND ITS TRENDS

Public revenues and expenditures in Iraq have steadily increased since the fiscal year (ending March 31st) 1939, primarily as a result of the general inflation which occurred during this period. However, in real terms, both expenditures and revenues during the post-war period remained below the pre-war level. Total government expenditures and revenues (excluding expenditures and revenues of the Development Board) have increased about six times from 1939 to 1954.

During the war period, revenues, following the increasing trend in the price level, increased at a rate faster than the increase in expenditures. As a result, surpluses totalling 6,400,000 dinars were accumulated during the period between 1941 and 1944. From that
year until 1949 expenditures exceeded revenues with total deficits amounting to 7,400,000 dinars. In 1950, however, government oil royalties increased, as a result of the oil agreements, and produced a sharp expansion in government receipts. Thus, despite increased expenditures, unprecedented surpluses were accumulated totalling 27,600,000 dinars for the five years ending March 31, 1954.

Government revenues during the war period increased in part because of a rising price level. But more precisely, it was due to the ad valorem tax system in Iraq. The most important of these taxes is the Istihlak which is a consumption duty on farm products that are brought to the market for sale. Under such a tax system, higher prices automatically produce increased government revenues. Revenues were further augmented by increasing tax rates, and by increasing the list of taxable commodities during this period. However, despite the monetary expansion of revenues, in real terms they were less than 50 per cent as based on 1938-1939 prices (Table 21).

On the other hand, expenditures reflected an even less parallel relationship with the price-level trend during the war period than did revenues. Based on 1938-1939 prices, expenditures in real terms declined to about 40 per cent of the pre-war year as compared with a 50 per cent decline in revenues. Since government expenditures in an underdeveloped country like Iraq consist mainly of salaries of civil servants, this situation indicates that compensation of civil servants was not expanded in line with the increasing level of prices and the cost of living during the war. As a result, the quality of services rendered by civil servants showed a noticeable deterioration.
## TABLE 21

Government Expenditures and Revenues and Indices of Wholesale Prices in Iraq, 1939-1954

(Million Dinars)

<table>
<thead>
<tr>
<th>Year Ended 3/31</th>
<th>Expenditures</th>
<th>Revenues</th>
<th>Surplus</th>
<th>Wholesale Prices&lt;sup&gt;1&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1938-1939 = 100</td>
<td>1938-1939 = 100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1939</td>
<td>8.1</td>
<td>7.8</td>
<td>-.3</td>
<td>100</td>
</tr>
<tr>
<td>1940</td>
<td>9.8</td>
<td>9.7</td>
<td>-.1</td>
<td>110</td>
</tr>
<tr>
<td>1941</td>
<td>8.7</td>
<td>10.2</td>
<td>1.5</td>
<td>148</td>
</tr>
<tr>
<td>1942</td>
<td>11.6</td>
<td>13.8</td>
<td>2.2</td>
<td>230</td>
</tr>
<tr>
<td>1943</td>
<td>15.4</td>
<td>18.1</td>
<td>2.7</td>
<td>434</td>
</tr>
<tr>
<td>1944</td>
<td>19.0</td>
<td>18.9</td>
<td>-.1</td>
<td>576</td>
</tr>
<tr>
<td>1945</td>
<td>21.3</td>
<td>20.2</td>
<td>-1.1</td>
<td>500</td>
</tr>
<tr>
<td>1946</td>
<td>25.5</td>
<td>25.1</td>
<td>-.4</td>
<td>523</td>
</tr>
<tr>
<td>1947</td>
<td>26.6</td>
<td>26.0</td>
<td>-.6</td>
<td>493</td>
</tr>
<tr>
<td>1948</td>
<td>29.6</td>
<td>25.7</td>
<td>-3.9</td>
<td>534</td>
</tr>
<tr>
<td>1949</td>
<td>28.5</td>
<td>27.2</td>
<td>-1.3</td>
<td>534</td>
</tr>
<tr>
<td>1950</td>
<td>28.3</td>
<td>32.2</td>
<td>3.9</td>
<td>466</td>
</tr>
<tr>
<td>1951</td>
<td>28.2</td>
<td>36.8</td>
<td>8.6</td>
<td>486</td>
</tr>
<tr>
<td>1952</td>
<td>40.2</td>
<td>48.8</td>
<td>8.6</td>
<td>525</td>
</tr>
<tr>
<td>1953</td>
<td>43.7</td>
<td>54.0</td>
<td>4.7</td>
<td>420</td>
</tr>
<tr>
<td>1954</td>
<td>47.8</td>
<td>50.4</td>
<td>2.8</td>
<td>431</td>
</tr>
</tbody>
</table>

<sup>1</sup>Adjusted to financial year (April 1st to March 31st).

In spite of deflationary measures taken by the budgetary authorities, price level increases were substantial. However, it should be emphasized that had the government not pursued its deflationary fiscal policy together with the establishment of price controls and rationing, especially on primary consumer goods, inflation might well have been disastrous.

During the post-war period the factors that contributed to the wartime inflation gradually disappeared and the price level declined slowly. It increased suddenly, however, during the years 1947-1949 as a consequence of crop failure, the war with Israel, and the devaluation of sterling in 1949.

The deflation was produced by the increase in imports, primarily of consumer goods, the decline in the volume of exports, and the contraction in private and government investment. The contraction in investment was mainly the result of the war with Israel. This deflationary trend would have been much greater had it not been offset by expenditures of oil companies during the same period. However, the result indicates that during the post-war period, as during the war years, government fiscal operations were not strong enough to counteract the trend. As a result, the deficit in the budget became prominent during the years 1944-1949 totalling 7,400,000 dinars.

These deficits were financed by advances from the oil companies, drawing on sterling balances, and local borrowing through sale of government bonds, as indicated in Tables 22 and 27.

The following table indicates the limited extent of the deficit financing undertaken by the government during this period. In
fact during the inter-war years there were no significant public debts outstanding with the exception of a few instances when treasury bills of short duration were issued. Had Iraq undertaken substantial deficit financing to promote economic activities during these years, it would have created drastic balance of payments difficulties. Thus, the traditional policy of balancing the budget pursued by the Treasury seems to have been a desirable one, at least from an economic point of view.

TABLE 22

<table>
<thead>
<tr>
<th>Year End 3/31</th>
<th>Foreign 1</th>
<th>Domestic 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>4.0</td>
<td>2.0</td>
<td>6.0</td>
</tr>
<tr>
<td>1946</td>
<td>4.4</td>
<td>2.0</td>
<td>6.4</td>
</tr>
<tr>
<td>1947</td>
<td>4.2</td>
<td>2.0</td>
<td>6.2</td>
</tr>
<tr>
<td>1948</td>
<td>4.1</td>
<td>3.0</td>
<td>7.1</td>
</tr>
<tr>
<td>1949</td>
<td>4.1</td>
<td>6.0</td>
<td>10.1</td>
</tr>
<tr>
<td>1950</td>
<td>6.4</td>
<td>6.0</td>
<td>12.4</td>
</tr>
<tr>
<td>1951</td>
<td>5.8</td>
<td>6.0</td>
<td>11.8</td>
</tr>
<tr>
<td>1952</td>
<td>5.0</td>
<td>6.0</td>
<td>11.0</td>
</tr>
<tr>
<td>1953</td>
<td>5.1</td>
<td>5.0</td>
<td>10.1</td>
</tr>
</tbody>
</table>

1Includes advances from oil companies bearing no interest, the drawn portion of the $12,800,000 loan from the International Bank for Reconstruction and Development made during 1951-1952 which was fully redeemed in 1955, and loans financing Iraq's imports from England extended by the Export Credits Guarantee Department, London.

2Includes government bonds with 3-20 years maturities at 3-4 per cent interest.


II. FINANCIAL STRUCTURE

There have been no recent figures to reflect the relative significance of expenditures and revenues of the central government,
municipalities, and other semi-government organizations. However, available figures for the fiscal year ended March 31, 1948 indicate that a substantial portion (74 per cent) of public expenditure was made by the central government, 21 per cent by semi-public undertakings (the Iraqi State Railways, the Port of Basrah, etc.) which have a separate budget, and only 5 per cent by local (liwas) governments.

The large proportion of the total public spending done by the central government emphasizes the future possibilities of undertaking an aggressive fiscal policy aimed at accelerating improvements in economic conditions. Such action could not be seriously counteracted by fiscal policies executed by the local governments.

TABLE 23

<table>
<thead>
<tr>
<th></th>
<th>Iraqi Dinars</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>27.6</td>
<td>74</td>
</tr>
<tr>
<td>Public Undertakings</td>
<td>8.0</td>
<td>21</td>
</tr>
<tr>
<td>Local Governments</td>
<td>2.0</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>37.6</td>
<td>100</td>
</tr>
</tbody>
</table>


Each of the liwas prepares a separate budget annually. Their revenues consist of a 50 per cent share of property taxes collected on properties located in their respective territories, and the same share of excise taxes on petroleum and other taxes and fees collected locally. Their expenditures are limited to judicial and administrative functions. All other expenses are born by the central government.

The Iraqi State Railways, and the Port of Basrah have separate budgets of their own and both enjoy a semi-independent administration. Their expenditures are chiefly derived from their revenues. In case of an anticipated expansion in their operations (fixed assets) the central government would extend loans to finance such projects.

III. CHARACTERISTICS OF GOVERNMENT EXPENDITURES AND REVENUES

A. Public Expenditures

The major characteristics of the government expenditures are reflected in Table 2. About 27 per cent (20 per cent before the war) of total government outlay has been spent on defense. Adding to this the 9 per cent spent on the police force, gives a total of about 36 per cent of total government outlay which has been determined by purely political consideration. The large portions allocated to military expenditures in recent years as compared to its pre-war level were made possible by a substantial decline in expenditures on economic and development projects from about 30 per cent of total government outlay to an average of about 6 per cent in recent years. Since 1952 the decline in expenditures on economic and development projects was the result of the transfer of this section of the budget to that of the Development Board.

Expenditures on education, public health, and other social welfare activities absorbed about 14 per cent of total expenditures in 1939. Since then the trend has been upward. It averaged about 18 per cent during the three years ended March 31, 1954.

The sharp expansion in "other ordinary expenditures" was due
to the inflationary pressures which necessitated the payment of allowances to compensate for the increasing cost of living of government and semi-government employees. For the three fiscal years ended March 31, 1950, these allowances amounted to 4,328,000, 6,068,000, and 5,753,000 dinars respectively. Since the end of the fiscal year 1950, the cost-of-living allowances have been distributed among the other main headings of expenditures.

The recent decline in the portion of total government outlay on economic and development projects was due to the transfer of a major part of this item of public expenditure to the Development Board. Although the government's outlay at present is small, there are some possibilities for increasing or contracting these expenditures which could be financed by expanding or reducing outlays on other items of the budget. Such variations in these expenditures have a direct influence on the level of economic expansion, and hence are important for fiscal policy. But since these expenditures have been transferred in a major way to the Development Board, it is this body rather than the government proper that can directly influence production and income levels. Therefore, to achieve the economic goal in Iraq, a great deal of cooperation between the government, the Development Board, and the National Bank is of utmost importance.
**TABLE 24**

Distribution of Government Expenditures in Iraq, 1939, 1948-1954

(Thousand Dinars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Min. of Defense</td>
<td>1,620</td>
<td>6,175</td>
<td>6,042</td>
<td>7,222</td>
<td>7,629</td>
<td>10,727</td>
<td>11,993</td>
<td>12,843</td>
</tr>
<tr>
<td>Police</td>
<td>675</td>
<td>2,648</td>
<td>2,510</td>
<td>2,140</td>
<td>3,001</td>
<td>3,302</td>
<td>3,757</td>
<td>4,348</td>
</tr>
<tr>
<td>Min. of Education</td>
<td>718</td>
<td>2,370</td>
<td>2,453</td>
<td>3,351</td>
<td>3,940</td>
<td>2,123</td>
<td>2,533</td>
<td>3,029</td>
</tr>
<tr>
<td>Min. of Social Affairs</td>
<td>422</td>
<td>1,756</td>
<td>1,618</td>
<td>2,132</td>
<td>2,393</td>
<td>3,100</td>
<td>688</td>
<td>854</td>
</tr>
</tbody>
</table>
| Min. of Communica
tions & Works | 581  | 1,564| 1,261| 1,853| 1,893| 2,164 | 2,308 | 2,211|
| Min. of Economics | 96   | 1,264| 1,125| 667  | 731  | 1,060 | 221  | 264  |
| Min. of Health2   | -    | -    | -    | -    | -    | -    | -    | 2,771| 3,192|
| Min. of Agriculture3 | -   | -    | -    | -    | -    | -    | -    | 1,496| 2,008|
| Economic & Develop-
ment Projects4 | 2,464| 3,255| 2,873| 3,005| 1,004| 4,257 | 3,595 | 1,865|
| Other Ordinary    |      |      |      |      |      |      |      |      |
| Expenditures      | 1,658| 10,033| 10,011| 7,420| 7,647| 13,492| 14,350| 16,912|
| Total             | 8,134| 28,623| 28,493| 28,291| 28,241| 46,205| 47,667| 47,826|

1 and 2 Expenditures under Ministry of Social Affairs apparently included expenditures under Ministry of Health between 1939 and 1952.

3 Ministry of Agriculture was organized during fiscal year 1953.

4 Excludes expenditures by the Development Board.

<table>
<thead>
<tr>
<th>Percentage Distribution of Expenditures</th>
<th>1939</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1952</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Defense</td>
<td>20</td>
<td>26</td>
<td>27</td>
<td>27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>9</td>
<td>13</td>
<td>5</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Social Affairs</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Communications &amp; Works</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Economics</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Health</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Ministry of Agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Economic &amp; Development Projects</td>
<td>30</td>
<td>11</td>
<td>11</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Ordinary Expenditures</td>
<td>20</td>
<td>26</td>
<td>33</td>
<td>36</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


**B. Public Revenues**

The major characteristics of the government revenues, as shown in the following table, are the overwhelming proportion of revenues...
derived from indirect taxes, and the relatively small taxation of agriculture. Indirect taxes accounted for over 75 per cent of total tax receipts during the four fiscal years ending March 31, 1954, and about 55 per cent of total government revenues during the same period. Among these indirect taxes, custom duties and excises accounted for about 40 per cent of total revenue.

Import duties are the most important source of custom receipts; export duties are insignificant. The major part of the duties are ad valorem (a fixed percentage of the value of goods imported), rather than specific duties (a fixed amount paid per unit of goods imported). The total revenues from duties are concentrated among a few commodities, such as sugar, textiles, tea, and automobiles and their parts. Revenues from duties on these goods ranged between 5 per cent and 25 per cent of total duties received.

Custom duties were imposed for both revenue and protective purposes. The critical financial condition of the Treasury that developed during the early post-war years, particularly 1948-1949, necessitated the reformation of the custom tariffs, aiming to achieve the above purposes as well as to correct the disequilibrium that had developed in Iraq's balance of trade. Accordingly, provisions were enacted whereby import duties were increased on a number of luxury items, and a 5 per cent ad valorem export tax was imposed on all Iraqi exports. Prior to the imposition of this export tax, duties on exports were very low, or non-existent, and covered only re-exported

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2Iraq Official Gazette. (Baghdad: Laws No. 3 of 1948, No. 19 of 1949, and No. 14 of 1950.)
goods payable at 3/10 of 1 per cent.

Excise duties are levied on such items as alcohol, gasoline, salt and tobacco. During the fiscal year 1952 total excise duties collected amounted to 3,478,000 dinars of which 42 per cent was accounted for by an excise duty on gasoline and 36 per cent by an excise duty on tobacco.

During 1939, a Tobacco Monopoly was established, although operations did not begin until 1941. This gave the government the right to purchase, store, and sell all the tobacco produced or imported. The main objective was to improve the quality of Iraqi produced tobacco. Seventy-five per cent of this organization’s profits goes to the state treasury. The only available figures indicate that profits of this monopoly averaged about 3,000,000 dinars between 1947 and 1951. The share of the government from these profits is in addition to the excise duties on tobacco. Hence, aggregate receipts on this commodity constitute an appreciable revenue to the treasury.

The largest proportion of the duties on animal and agricultural products was accounted for by the "Istihlak". This is a tax levied on animal and agricultural products at their market of sale. It is a by-product of the traditional tithe known as "Uschur" in Iraq. The Istihlak Tax was established in 1933. The reason for collecting

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6 Iraq Official Gazette, op.cit., Law No. 59 of 1933.
such a tax at the market was because agricultural products were mainly produced in scattered and remote areas where collection of this tax was very costly and almost impossible. The rate was originally determined by law at 10 per cent of the price; was increased to 11½ per cent during 1950; and finally, reduced to 10 per cent in 1951.

The Istihlak Tax is borne largely by the buyers. The sellers share its burden only to a limited extent when the prices are influenced by the export markets, or when local demand is too elastic for prices to be increased sufficiently to include the amount of the tax. Since the burden was being borne largely by consumers, and the need for reducing prices on necessities seemed imperative, the Istihlak taxes were abolished on domestically produced and consumed meats, vegetables, ghee, fruits, wool, hides, skins and other essential items. As a consequence, the yields from Istihlak taxes declined about 26 per cent between 1951 and 1954.

Of the direct taxes, the income tax is the most important. This tax averaged over 8 per cent of total government receipts during the seven year period ending March 31, 1954. The sharp increase in income tax revenue for the fiscal year 1952 was due to the inclusion of the large portion of government revenue from oil royalties as reflected in Table 25.

## TABLE 25

### Distribution of Government Revenues in Iraq, 1939, 1948-1954

*(Thousand Dinars)*

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Custom &amp; Excise Duties</strong></td>
<td>3,262</td>
<td>9,749</td>
<td>11,150</td>
<td>13,264</td>
<td>15,584</td>
<td>15,479</td>
<td>18,647</td>
<td>21,455</td>
</tr>
<tr>
<td><strong>Taxation on Agriculture &amp; Animal Products &amp; Rents of State Properties</strong></td>
<td>852</td>
<td>3,854</td>
<td>4,081</td>
<td>5,052</td>
<td>4,680</td>
<td>3,926</td>
<td>3,550</td>
<td>3,443</td>
</tr>
<tr>
<td><strong>Income Tax</strong></td>
<td>316</td>
<td>2,143</td>
<td>2,359</td>
<td>2,326</td>
<td>4,780</td>
<td>11,890</td>
<td>2,188</td>
<td>2,240</td>
</tr>
<tr>
<td><strong>Post &amp; Telegraph</strong></td>
<td>285</td>
<td>974</td>
<td>998</td>
<td>1,165</td>
<td>1,237</td>
<td>1,485</td>
<td>1,649</td>
<td>1,787</td>
</tr>
<tr>
<td><strong>Stamp Duties</strong></td>
<td>150</td>
<td>339</td>
<td>505</td>
<td>571</td>
<td>590</td>
<td>620</td>
<td>597</td>
<td>417</td>
</tr>
<tr>
<td><strong>Property Tax</strong></td>
<td>132</td>
<td>582</td>
<td>783</td>
<td>869</td>
<td>792</td>
<td>626</td>
<td>586</td>
<td>666</td>
</tr>
<tr>
<td><strong>Oil Revenues</strong></td>
<td>2,037</td>
<td>5,512</td>
<td>4,805</td>
<td>5,352</td>
<td>3,359</td>
<td>11,980</td>
<td>15,045</td>
<td>17,159</td>
</tr>
<tr>
<td><strong>Other Revenues</strong></td>
<td>814</td>
<td>2,515</td>
<td>2,514</td>
<td>3,620</td>
<td>5,764</td>
<td>2,786</td>
<td>5,111</td>
<td>2,891</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,736</td>
<td>25,670</td>
<td>27,195</td>
<td>32,219</td>
<td>36,754</td>
<td>48,792</td>
<td>50,355</td>
<td></td>
</tr>
</tbody>
</table>

1Includes a part of the government revenue from oil.

### Percentage Distribution of Government Revenues

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1950</th>
<th>1952</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Custom &amp; Excise Duties</strong></td>
<td>42</td>
<td>41</td>
<td>32</td>
<td>43</td>
</tr>
<tr>
<td><strong>Taxation on Agriculture &amp; Animal Products &amp; Rents of State Properties</strong></td>
<td>11</td>
<td>15</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td><strong>Income Tax</strong></td>
<td>4</td>
<td>7</td>
<td>24</td>
<td>4</td>
</tr>
<tr>
<td><strong>Post &amp; Telegraph</strong></td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Stamp Duties</strong></td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Property Tax</strong></td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Oil Revenues</strong></td>
<td>26</td>
<td>17</td>
<td>25</td>
<td>34</td>
</tr>
<tr>
<td><strong>Other Revenues</strong></td>
<td>10</td>
<td>11</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Income taxes, excluding income from agriculture and urban property, are collected on all income of individuals and companies. This includes foreign companies deriving their incomes in Iraq. The laws specifically exempt income derived from agriculture, which is taxed under the Istihlak Tax, and income from urban properties, which is taxed under a property tax.

The income taxes are levied at a progressive rate. After allowing for a minimum exemption (from 150 to 300 dinars—depending on the number of dependents), 6 per cent is charged on income up to 150 dinars, 9 per cent on 151-500 dinars, 12 per cent on more than 500 dinars. In addition to the income tax there is an income surtax with higher rates than the income tax. Up to 1,500 dinars income is free of surtax. However, there is a 5 per cent rate levied on each 1,000 dinars over the 1,500 exempted minimum, increasing to a maximum of 45 per cent on income of 9,500 dinars and over.

Available data for the fiscal years 1951-1953 indicate that about 27,500 individuals paid income tax and surtax, about one-third of the total being paid by government officials and employees. Also, about 150 companies paid such taxes, 90 of which were foreign companies. The latter paid about 21 per cent of the total income tax and surtax collected over the three years under consideration. However, the bulk of these taxes (65 per cent) were collected from individuals of which 79 per cent was paid by self-employed persons, 10 per cent by employees.

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8 Iraq Official Gazette, op.cit., Law No. 36 of 1939 as amended by Law No. 67 of 1943.
9 Law No. 11 of 1952 increased the basic exemption to 250-500 dinars.
of private firms, and 4 per cent by government officials and employees. These figures indicate the concentration of direct taxes among a relatively small group of individuals and companies operating in Iraq. A further sign of concentration is the fact that about 80 per cent of the individuals who paid direct taxes were residents of Baghdad and about 14 per cent were residents of Basrah.10

A property tax is levied on non-agriculture lands, dwelling houses and commercial buildings, after an exempted minimum return. The rate of exemption is 10 per cent of the property's annual, actual or estimated rent. The exemption was set at 150 dinars on residential dwellings occupied by their owners if such properties are located in Baghdad, Basrah or Mosul; and 75 dinars if located in other towns and municipalities.11 The highest revenues from property taxes amounted to 869,000 dinars in 1950. In recent years it averaged between 600,000 and 700,000 dinars annually.

"Other Revenues" consist chiefly of profits of the National Bank, the Tobacco Monopoly, and other receipts and fees collected by different government departments. The semi-government institutions such as the Iraqi State Railways, the port of Basrah, and the State banks have their own budgets and their earnings are usually retained or used separately by each institution.

11 Iraq Official Gazette, op.cit., Law No. 71 of 1948.
<table>
<thead>
<tr>
<th></th>
<th>For the Fiscal Years Ended March 31st</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Taxpayers</td>
<td>Income Tax Collected</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Self-Employed Individuals</td>
<td>18,190 17,190 15,213</td>
<td>1,037 1,092 1,035</td>
<td>53.3 56.9 43.1</td>
<td></td>
</tr>
<tr>
<td>Government Officials &amp; Employees</td>
<td>4,735 4,118 8,340</td>
<td>57 69 129</td>
<td>2.9 3.6 5.4</td>
<td></td>
</tr>
<tr>
<td>Employees of Private Firms &amp; Companies</td>
<td>5,198 5,999 3,558</td>
<td>208 148 251</td>
<td>10.7 7.7 10.4</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>28,123 27,307 27,111</td>
<td>1,302 1,309 1,415</td>
<td>66.9 68.2 58.9</td>
<td></td>
</tr>
<tr>
<td>Iraqi Companies</td>
<td>76 57 51</td>
<td>232 263 425</td>
<td>11.9 13.7 17.7</td>
<td></td>
</tr>
<tr>
<td>Foreign Companies</td>
<td>87 97 83</td>
<td>412 347 562</td>
<td>21.2 18.1 23.4</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>163 154 134</td>
<td>644 610 987</td>
<td>33.1 31.8 41.1</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>28,286 27,461 27,245</td>
<td>1,946 1,919 2,402</td>
<td>100.0 100.0 100.0</td>
<td></td>
</tr>
</tbody>
</table>

The sharp increases in government revenues during the recent years were due to the expansion in oil royalties. This followed the conclusion of more favorable agreements with the oil companies operating in Iraq. The royalties consist of the 30 per cent share of the Iraqi government from profit on oil exports, and amounted to almost 33 per cent of total revenues for the two years, 1953 and 1954.

IV. PUBLIC DEBT

As indicated earlier, the Iraqi public debt is relatively small. During the inter-war period the budgets of Iraq remained almost balanced with some insignificant deficits occurring in a few years which were covered by short-term treasury bills, augmented by advances from the oil companies. In 1939, there was only a £1,000,000 foreign loan outstanding bearing an interest rate of 1% per cent. This loan had been extended by the United Kingdom to finance the expansion of the Iraqi State Railways, and was fully redeemed in 1943. Aside from this loan, the government continued to receive advances from the oil companies. In 1939, a 1,000,000 dinar advance was made which was increased to 4,386,000 dinars in 1946, and has since been fully redeemed. In 1950, the Iraqi State Railways borrowed £3,000,000 which was not utilized in full, and in 1953 the National Bank paid up the outstanding balance of £1,970,000, and replaced it by a similar loan at a lower rate.

During 1950, Iraq obtained a $12,800,000 loan from the International Bank for Reconstruction and Development to be used for the development of the Wadi Tharthar, a flood control project. This loan was guaranteed by oil royalties at \(2\frac{3}{4}\) per cent interest, to be
redeemed over a 15 year period.\textsuperscript{12} Because of Iraq's favorable current account position and accumulation of foreign exchange reserves, the full amount of this loan was not used. The highest point of borrowings was $6,500,000 as of October 31, 1954,\textsuperscript{13} and it was fully redeemed in 1955.\textsuperscript{14} Since this last redemption, Iraq has had no foreign loans outstanding.

Domestic loans have been arranged by the government. Between 1944 and the end of 1948, the government borrowed 7,000,000 dinars through the sale of five bond issues. The bonds, issued in 1944 and 1948 in amounts of 1,000,000 and 3,000,000 dinars respectively, had maturities of twenty years with interest at 4 per cent. Two other issues, floated in 1944 and 1947, each in the amount of 1,000,000 dinars at 3 per cent interest had maturities of three and five years respectively. The final issue of 1,000,000 dinars in 1948 at 3.5 per cent interest was to be redeemed in 1958.

The short-term bonds were easily absorbed by the public. However, regarding the rest of these issues, which amounted to 5,000,000 dinars, the government faced many difficulties in their disposal. Consequently, the greatest portion of these long-term bonds was taken by the commercial banks.\textsuperscript{15} The main reason for these difficulties, aside from the instability of the political situation,

\textsuperscript{13}Private communication from Carl F. Kurtz, Vice President, Irving Trust Co., New York, December 21, 1954.
\textsuperscript{15}N.B.I., op.cit.
especially during 1947 and 1948, was the scarcity of money caused by the relatively great expansion in imports, which absorbed most of the excess cash in circulation.

The most interesting phase of the bond issues was the idea behind them. It was stated that the real motive was not that the government needed the money, although from 1947 through 1949 the government was on the verge of bankruptcy, but to liquidate the excess idle money in circulation. The mere conception of issuing bonds to reduce the quantity of money in circulation is an encouraging attitude on behalf of the government, which could be resorted to in the future as a monetary measure. 16

V. FISCAL POLICY

A national fiscal policy in its attempt to reach a general goal may be in conflict with specific goals, and a hindrance to certain sections of the economy. For example, in the attempt to augment an expansion while avoiding inflationary pressures, greater imports must be permitted to check the unavoidable increases in the price level. Import tariffs, therefore, must be relaxed if not abolished. In so doing, the objective of protecting the home industry will be encountered. Also, the opposition of a strong political group against a contemplated change in the tax structure that may bring unfavorable results to this group will be encountered.

16Carl Iversen, in A Report on the Monetary Policy in Iraq, emphasizes this point, "This (bond issue) is a hopeful sign that it may also be possible in the future to convince the deciding political authorities of the desirability of floating or redeeming government loans not merely according to the needs of the Treasury but in order to influence economic activity in general." p. 66.
TABLE 27

Domestic Loans in Iraq, 1945-1954

(Thousand Dinars)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Year Bond Loan of 1944 @ 3%</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>20 Year Lottery Bond Loan of 1944 @ 4 1/2%</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>5 Year Bond Loan of 1947 @ 3%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10 Year Bond Loan of 1948 @ 3 1/2%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>20 Year Bond Loan of 1948 @ 4%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Total</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>3,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

1 Half of the interest is disbursed by lottery once every six months.

Most important of all, a successful fiscal policy basically depends on the morale and efficiency of the civil servants as well as the understanding of the people in a country. In Iraq, a change in the structure of taxes may appear to be theoretically workable, but from a practical point of view, it might be a complete failure. This failure might occur primarily because of the low efficiency and morale of the employees engaged in the administration of taxes.

A. Variations in Government Expenditures and Revenues, and the Influence of Such Variations on Economic Activities

Economists have contributed numerous volumes on the subject of fiscal policy and the ways in which variations in public expenditures and revenues influence national income and demand. Theoretically, a process of contracting the level of disposable income and demand could be started by a contraction in government expenditures or an increase in government revenues. Conversely, a process of increasing the level of disposable income and demand could be started by increasing government expenditures or contracting government revenues. The amount of increase or decrease in the levels of disposable income and demand may be many times larger or smaller than the original increase or decrease in expenditures or revenues through the so-called "Multiplier Effect". It is under this general fiscal theory that the possibility of regulating the present economic activities in Iraq in the attempt to achieve its broad economic goal will be examined.

In order to reach this goal an adherence to the traditional fiscal theory of maintaining a "balanced current budget" will not be workable. The reasoning behind the traditional theory of an annual
balancing of the public budget was based on a primitive accounting analogy with the budget of an individual firm. The idea was that in-payments of the concern should be adequate to cover its out-payments. However, during a period of economic expansion, the government's aggregate receipts from taxes would be likely to increase, and, if its expenditures remained the same, the Treasury's budget will be likely to show some surpluses. Because of these surpluses the government might undertake a policy of reducing taxes or initiating new expenditures, if the Treasury is adhering to the principle of a balanced budget. However, it may appear to be desirable to check the degree of economic expansion, but, if accumulated surpluses are spent, following the balanced budget theory, inflationary tendencies may become very serious. During a declining trend, aggregate tax receipts might decrease at the very time the government is being compelled to increase its expenditures (relief and compensations). However, if the Treasury is adhering to a balanced budget, expenditures must be limited to receipts and thereby reduced. They could be maintained or increased by levying of higher taxes which would result in further deterioration.

Of course, they could be financed through borrowing from the National Bank, the public, or from abroad. However, in the past, Iraqi authorities have hesitated several times to follow a policy of deficit finance to accelerate economic development. The main reason was the already deteriorated position of the country's balance of payments which deficit financing would only have further aggravated.
B. Structure of Government Expenditures and Revenues in Iraq, and Fiscal Policy

1. Public Expenditures

The structure of Iraqi public expenditures is extremely inflexible which makes fiscal policy difficult to implement. The chief cause of this inflexibility is the recent transfer of the major part of expenditures on economic and development projects from the government budget to that of the Development Board. Thus, the latter has acquired a very important part of the country's fiscal-policy tools from the government.

Other current expenditures on defense and police protection have amounted to over one-third of the total outlay, but this item, for political and administrative reasons, is not likely to be reduced in an attempt to curb a rapidly developing economic expansion. Unlike the situation in industrial countries where expenditure on military equipment and construction has a total and direct bearing on the economy, in Iraq a large portion of these expenditures goes for the importation of armaments and construction materials. Thus, the total volume of these expenditures does not have as direct an influence on the domestic income and demand as would have been true if the total amount were expended domestically. Military salaries and wages probably make up the major part of these expenditures (no breakdown is available), and a reduction in these items could not be easily effected.

Although the structure of government expenditures seems too inflexible to be useful in retarding economic expansion, it has greater
possibilities as far as initiating an expansion or acceleration program is concerned. Increasing expenditures on current items of the budget is a fiscal means that could be used for this purpose. In view of the low social welfare standard in Iraq, more serious consideration should be given to the budget of the Ministry of Social Affairs. Only a small portion, or about 8 per cent, of total government outlay was allocated to this Ministry (Table 24). This proportion appears to be quite inadequate, especially when public health conditions and their relative importance in the overall economic development program are considered. With the recent increase in government revenues, because of increased yields in taxes as a result of soaring national income, there is likely to be a public demand for more social services. This is also likely to be true with regard to the Ministry of Education and the Ministry of Economics which are in need of considerable reforms to cope with the country’s general economic program.

Expenditures on social services, particularly in the form of relief, subsidies, and other forms of direct monetary assistance, tend to accelerate economic activities. Such expenditures are spent entirely for consumption goods and thus bring about an induced effect on national income. However, social relief expenditures, once started, often become as difficult as administrative salaries to reduce if such action becomes necessary during a dangerous inflationary trend.

Ultimately, public expenditures and investments should be determined, not by the condition of the budget, but by the availability of unemployed productive factors, particularly labor. If labor becomes fully employed, further public investments will result in inflation.
Such investment would generate excessive bidding for the limited labor supply, and would result in an upward spiral of wages and price levels.

2. Public Revenues

As indicated above, indirect taxes, amounting to over 75 per cent of total tax receipts and about 55 per cent of total government revenues, are the most important source of government revenues in Iraq. They consist mainly of custom duties and excise duties. Because of the ease with which these taxes can be varied (if parliamentary approval is not required), they could be a very effective instrument of fiscal policy.

Variations in the rate or the introduction of a new set of these taxes would ultimately influence production, employment, and income in those industries whose products would be so affected. For example, the raising or the introduction of a new excise tax on a locally produced commodity is likely to increase its price by the amount of the tax. Other things being equal, the higher price will curtail its consumption, and ultimately will reduce production, employment, and income in the industry concerned. The outcome would be a "contractive effect". Opposite changes in such taxes would produce an "expansive effect". On the other hand, the increase or introduction of a custom duty which restricts imports and results in a higher price for the protected commodity in the home market will induce such industries to expand. This is likely to increase employment and income, at least, temporarily. A reduction or an abolition of a protective duty will bring about a "contractive effect" when the industry involved is not developed sufficiently to endure foreign competition.
A further word is necessary in connection with protective
tariffs and export duties. Iraq's recent surpluses in its balance of
payments reduce substantially the necessity for the imposition of pro­
tective duties to maintain the country's foreign exchange reserves.
This is likely to be true for many years in view of the expected con­
tinued receipts of foreign exchange. In fact, the investment programs
are likely to create domestic inflationary pressure which should be
counteracted or reduced not only by reducing demand but by increasing
the supply of goods. Therefore, protective duties on imports should
be reduced or completely removed (except in cases of industries that
need temporary protection) to allow the importation of all kinds of
goods. In addition, even under conditions where acceleration of
economic expansion is sought to reach a full utilization of the
available labor power, it appears to be more advantageous to the
economy in the long run to expand economic activities without relying
on artificial protective measures.\(^{17}\)

\(^{17}\)There are other well-documented reasons that have been given for
the imposition of protective duties. However, in the case of Iraq,
Lord Salter, in his report on The Development of Iraq (pages 16-18),
argues that it is no longer true that an industrial economy denotes a
more advanced nation; more prosperous, powerful, and respected than
countries dependent on primary production. In the present world,
prosperity cannot depend alone on industries, but must have large
primary producing areas. Thus agricultural produce and raw materials
are of vital importance. Further, because of the natural structure of
her economy, Iraq can never be self-sufficient. But with her oil
exports, she can afford to import all the manufactured goods she needs
and cannot manufacture economically. Neither is industrial production
necessary in order to find employment for her people since Iraq is not
overpopulated. In fact, potential cultivable lands are far in excess
of the available labor force. And insofar as industrialization in
order to produce weapons for defense is involved, Iraq must depend for
security on her political alliances and on an army equipped with
It would be advantageous for Iraq, in view of its current economic expansion program, to consider a more effective use of export duties. Since Iraq's major exports are concentrated in a few items, and the number of firms engaged in export is small, export duties are easier to administer than other duties and taxes. An export duty exerts a direct contractive effect on the country's economic activity, although there are various factors that augment or reduce these effects. These factors depend upon the incidence of the duty which in turn is dependent upon the world price of exportable goods, their domestic prices, and the size of the duty levied. Generally speaking, with the exception of dates, where domestic prices may influence their price abroad, world prices of Iraqi exportable goods are independent of the domestic prices of these goods.

Of the direct taxes, the "Income Tax" is the most important. However, as indicated earlier in this chapter, the insignificance of total receipts from this tax relative to total revenues, and the small number of individuals that pay it, limit its effectiveness as a fiscal measure. In addition, its poor administration and the fact that it is collected at the end of the fiscal year further limits its effectiveness. The lag between the time that a change in the rate is made and the time when the tax is paid makes it a dull instrument of imported weapons. These can be purchased from highly industrialized nations without restricting other development by the establishment of industries with no natural advantage to her. However, this does not mean that Iraq should remain a primary producing country with no thought towards industrial development. Industrial expansion is both necessary and desirable, but the selection of industries to be established with public funds should be considered most carefully.
fiscal policy. Improvements in the structure and administration of the income tax would facilitate greatly the implementation of fiscal policy.

Agricultural land is not taxed in Iraq because of the difficulties encountered in the collection and administration of such a tax. However, with the expected development of means of transportation and communication, administering such a tax may become more feasible. Finally, since a substantial portion of the national income is earned from agriculture, imposition of a tax on agricultural land could have a considerable influence on total disposable income and purchasing power of the population. Therefore, such a tax might well prove to be an effective means of implementing fiscal policy.

VI. SUMMARY

In view of the foregoing analysis, the current structure of the Iraqi tax system has a very limited significance in terms of a flexible and effective fiscal policy. This is evident chiefly with reference to the retarding of economic expansion by upward variations in tax rates. Moreover, when probable forceful political opposition against the imposition of new taxes is considered, the situation is even less favorable. However, assuming such opposition is not of a serious nature, the introduction of taxes on agricultural income and land would augment the effectiveness of a fiscal policy aiming to curb inflationary tendencies.

Conversely, economic expansion could be achieved more easily with much less political opposition, by reductions in, or abolition of, certain current taxes, effectively augmented by increases in public expenditures. Such economic expansion would require coordination of monetary and fiscal policy, and cooperation of the Development Board.
Economic growth and development have been linked with capital accumulation. And it cannot be doubted that capital formation is an indispensable part of economic growth. This can be easily demonstrated by considering the advanced countries of the world where their growth has been dependent on their annual flow of savings.¹

Iraq, as an underdeveloped country, has certain advantages which rarely occur in similar areas. In most underdeveloped countries of the world the lack of capital or the inability to attract foreign capital has been the limiting factor in their economic development. However, Iraq, thanks to its oil resources, production, and royalties, can finance all of its necessary capital projects, and maintain a favorable balance of payments accompanied by a stable national currency. These are serious problems which must be considered by other underdeveloped countries seeking economic growth.

In addition to the availability of capital needed for investment on desired projects, Iraq is further endowed with fertile lands and an abundance of natural resources guaranteeing high productivity for these investments. By these capital expenditures on development, Iraq could reopen all the irrigation canals that have been destroyed over the past several centuries, and consequently, with the abundance of water and natural resources, could undoubtedly support a multiple number of its present population with a higher standard of living.

living.

However, with all these advantages there are many immediate offsetting situations to be overcome in order to support and accelerate the development program. The salination of its soil, the low level of health and literacy, the uncontrolled annual floods, and several other factors slow, at least at present, the realization of the expected benefits. To control the annual devastating floods of the Tigris and Euphrates rivers is undoubtedly a project of huge proportions, and requires substantial capital. A by-product of the floods and of very hot weather for most of the year is the creation of favorable conditions for endemic diseases which deteriorate the productivity of Iraq's working force.

Thus, the foremost obstacles restricting economic growth in Iraq are human rather than financial and/or material. Although there is no labor shortage at present (except for skilled labor), there is the possibility of such a shortage occurring at a higher stage of development. In addition, the productivity of the available labor force is low as are the standards of health and literacy. In view of this situation, an honest and efficient government administration is necessary, local as well as central, in order to establish protective measures for eliminating the causes of these present human handicaps. Moreover, political instability, the unjustifiable public finance system, weakly performed public services, and the like, have contributed and will contribute for some years in retarding the pace and extent of economic development. Therefore, progress in a country like Iraq, unlike countries that are reconstructing their economies from
war destruction, should start from the very bottom. The program must cover a wide area "comprising many specialized skills and duties, which under pain of serious disaster must be kept in step, the pace of the whole being set by the pace to which the slowest can accelerated, like a convoy of ships of varying speed in time of war." ²

However, the pace of development must definitely be related to Iraq's available resources (natural and human), and particularly to available financial resources. The latter, as mentioned previously, consists of the accumulated and future estimated revenues of the Development Board which are derived from the country's royalties from oil. According to the present law, 70 per cent of the annual oil royalties received by the government is put at the disposal of the Development Board to carry on its development projects. These revenues appear to be adequate for the Board's proposed expenditure program. Subsequent analysis assumes that the Board's proposed expenditures will be maintained within its expected revenues.

I. THE DEVELOPMENT BOARD

In the previous chapters the Development Board was mentioned several times, but at this juncture special consideration must be given to its origin, constitution, programs, functions and goal. The establishment of the Board was stimulated by the prospect of sharp expansion in the production of oil and thus increased revenues. In 1950 it was authorized by Law No. 23, which was later amended by Law

This legislation stipulated that the Prime Minister was to be President of the Board. Aside from the Minister of Finance, the Board was to include six full time executive members, among them an expert on finance and economics, an expert on irrigation and another in a field to be decided upon by the Council of Ministers. These members were to stay in office for a five year tenure, with option for re-appointment by the Council of Ministers, chiefly in order to attain a continuity in the Board's development policy during possible successive changes in the central government.

The following are the main duties entrusted to the Board:

1. prepare ... a general economic and financial plan for the development of the resources of Iraq and the raising of the standard of living of her people. This plan shall define a general programme of the projects to be undertaken by the Board and shall include in its scope, but shall not be limited, to projects in water conservancy, flood control, irrigation, drainage, industry, and mining as well as projects for the improvement of communication by river, land and air. The Board shall indicate in its programme the priority of such projects, their approximate cost and the period required for their execution.

2. ... shall for the purpose of presenting its general programme, undertake a general survey of the exploited and unexploited resources of Iraq and may employ specialists and advisers.

3. After the general programme has been approved by Parliament the Board shall proceed to carry out the projects mentioned in the programme and shall prepare the details, plans and specifications of these projects and proceed to execute them in accordance

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4Ibid, pp. 2-3 (Article 3).
with their decided priority.5

The same law further stipulated that,

... the Board shall have its own budget, and its revenues shall be derived from seventy per cent of the net revenues received by the Government from the oil companies whether such revenues are from the Income Tax or otherwise and such other sums as may, from time to time, be allotted to it by Parliament. The proceeds of any loans, domestic or foreign, contracted by the Board under this law by the Government on its behalf, shall be included in its budget, and the Board shall meet any interest, commissions or other charges and amortization of the principal of such loans from its budget.6

During the primary discussions, the Board was to receive the total oil royalties due to the Iraqi Government from oil companies. However, the above reduction in its endowment was decided on the principle that the central government is required to fulfill certain of its minor economic development projects and improvements without necessarily securing the direct approval of the Board. For these projects 30 per cent of the total oil royalties was to be retained by the government.

Sub-Article (2) of Article (2) explicitly empowers the Board7 with the capacity to float its own bonds to finance certain projects. However, the Board so far has not made any use of this right largely because of its currently strong financial condition which will undoubtedly hold true in the foreseeable years to come. This right may have to be used, not chiefly for financing purposes, but, as was

5Ibid.
6Ibid., p. 3 (Article 4).
7Ibid., p. 2 (Article 2).
indicated under monetary policy, more as an effective monetary measure
to curb a threat of an undesirable inflationary pressure in the economy.

During the summer of 1953 the present government realized
that the above arrangement curtailed the authority and ready information
of the Council of Ministers, especially with regards to enabling the
Council to answer numerous criticisms and inquiries directed to it by
the Parliament. It was primarily because of this that Law No. 27 was
passed in 1953 changing the framework and creating the Ministry of
Development. The new Minister of Development became a member of the
Board, bringing the Board under his direct control and thus establishing
a direct link among the Board, the Cabinet and the Parliament. 8

The 1953-amendment eliminated a very desirable feature,
namely, continuity of the Board's planning and execution of policy
despite possible changes in government. By placing the Board directly
under the control of the Minister of Development, it was made dependent
for positive action upon agreement with ministers changing with govern-
ment. 9 This position is unsatisfactory since it may produce "deadlock"
in making decisions with regard to policy and its execution on the
political level. Such possibilities produce delays in action and the
probability of uneconomic allocation of funds because of certain
political pressures.

According to Sub-Article (2) of Article (3) in the Law of
1950, the first development plan was submitted to Parliament where it
secured its statutory sanction (Law No. 22 of 1951). The expected

8Salter, Lord, op.cit., p. 97.
9Tbid.
TABLE 28

Estimated Expenditures and Revenues of the Development Board of Iraq, 1951-1956
(Thousand Dinars)

<table>
<thead>
<tr>
<th></th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
<th>1954</th>
<th>1955</th>
<th>1956</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration, Studies &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization Expenses</td>
<td>170</td>
<td>246</td>
<td>260</td>
<td>2650</td>
<td>2650</td>
<td>2650</td>
<td>3,180</td>
</tr>
<tr>
<td>Irrigation Projects</td>
<td>3,024</td>
<td>35</td>
<td>11,950</td>
<td>10,335</td>
<td>10,125</td>
<td>9,198</td>
<td>53,374</td>
</tr>
<tr>
<td>Main Roads &amp; Bridges</td>
<td>2,066</td>
<td>22</td>
<td>5,300</td>
<td>5,450</td>
<td>5,450</td>
<td>5,450</td>
<td>26,766</td>
</tr>
<tr>
<td>Buildings</td>
<td>2,368</td>
<td>25</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>18,018</td>
</tr>
<tr>
<td>Reclamation of Lands, etc.</td>
<td>1,686</td>
<td>18</td>
<td>4,450</td>
<td>4,500</td>
<td>4,600</td>
<td>4,700</td>
<td>22,986</td>
</tr>
<tr>
<td>Industries</td>
<td>50</td>
<td>1</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>21,000</td>
</tr>
<tr>
<td>Total</td>
<td>9,364</td>
<td>100</td>
<td>28,390</td>
<td>28,390</td>
<td>28,390</td>
<td>28,390</td>
<td>155,374</td>
</tr>
<tr>
<td>Revenues</td>
<td>10,472</td>
<td>20,548</td>
<td>33,920</td>
<td>34,975</td>
<td>34,975</td>
<td>34,975</td>
<td>168,740</td>
</tr>
<tr>
<td>Net</td>
<td>1,108</td>
<td>88</td>
<td>5,530</td>
<td>3,375</td>
<td>2,170</td>
<td>1,095</td>
<td>13,366</td>
</tr>
</tbody>
</table>

revenues of the Board were allocated for irrigation, roads, buildings, reclamation of land, etc., as shown in Table 28.

In analyzing the significance of this plan, it should be recalled that, as a conclusion in the two previous chapters, both the National Bank and the Treasury are limited in their means to pursue an effective monetary and fiscal policy. Also, it was stated that a close cooperation among the National Bank, the state banks, the Treasury and the Board is of utmost necessity if an effective monetary and fiscal policy is to achieve its economic development goal— that of attaining "the maximum rate of economic development and expansion compatible with the avoidance of general inflation and with the maintenance of an adequate foreign exchange reserve."

The preceding table reflects the Board's relatively huge estimated expenditures, revenues, and accumulated surpluses over the six year period. These expenditures certainly have drastic direct and indirect influences upon the national economy. In fact, available figures for the first three operating years (ending March 31, 1954) of the Development Board indicate that actual revenues amounted to 66,723,000 dinars and actual expenditures to 23,624,000 dinars (see Table 29). The surplus of 43,099,000 dinars is large as compared to the original revenue-expenditure estimates for these three years of 64,940,000 dinars and 58,214,000 dinars respectively. The accumulation of funds was to a considerable degree due to numerous obstacles that the Board encountered in its operations and the execution of its plan.

The available resources of the Board, the expected increase in oil production, and consequently in oil royalties, will sharply
expand its revenues. It is at this point that the responsible authorities of the Board should be guided, not by the amount of its revenues in formulating its investment policy, but rather by the amount of manpower, raw materials, imports ... etc., available in the country.

**TABLE 29**


<table>
<thead>
<tr>
<th>Year End 3/31</th>
<th>1952</th>
<th>1953</th>
<th>1954</th>
<th>1955*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil Royalties</td>
<td>6,702</td>
<td>22,876</td>
<td>34,823</td>
<td></td>
</tr>
<tr>
<td>Drawings on I.B.R.D. Loan</td>
<td>764</td>
<td>1,118</td>
<td>227</td>
<td></td>
</tr>
<tr>
<td>Other Revenues</td>
<td>5</td>
<td>5</td>
<td>207</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,467</td>
<td>23,999</td>
<td>35,257</td>
<td>41,000</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>100</td>
<td>214</td>
<td>261</td>
<td>650</td>
</tr>
<tr>
<td>Irrigation</td>
<td>841</td>
<td>2,461</td>
<td>4,781</td>
<td>6,864</td>
</tr>
<tr>
<td>Communications</td>
<td>627</td>
<td>1,752</td>
<td>1,914</td>
<td>4,928</td>
</tr>
<tr>
<td>Buildings</td>
<td>788</td>
<td>2,265</td>
<td>2,446</td>
<td>4,257</td>
</tr>
<tr>
<td>Land Reclamation</td>
<td>772</td>
<td>1,535</td>
<td>2,319</td>
<td>2,637</td>
</tr>
<tr>
<td>Industry</td>
<td>-</td>
<td>82</td>
<td>466</td>
<td>995</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,126</td>
<td>8,309</td>
<td>12,187</td>
<td>20,331</td>
</tr>
<tr>
<td><strong>Surplus</strong></td>
<td>4,339</td>
<td>15,690</td>
<td>23,070</td>
<td>20,669</td>
</tr>
</tbody>
</table>

*Estimated


Aside from the Board's own expenditures and its direct influence on the economy, the Board exerts an indirect influence through its lending policy, that is, it may grant loans to the banks and certain semi-official institutions. As of January, 1954, the Board had loans of 15,363,000 dinars extended to official and semi-official institutions, most of which having a duration of 20 years at

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10 Development Board, *op.cit.*, p. 4 (Article 4-3).
Because of the funds available to the Board, and in view of the ineffectiveness of the present monetary and fiscal tools in the hands of the National Bank and Treasury, particularly to combat a dangerously developing inflationary trend, a greater reliance must necessarily rest on the Board's expenditure policy with closer cooperation among these institutions in formulating policy to achieve a smooth development process. This responsibility of the Board to coordinate its expenditure and investment policies with those of the other financial and fiscal authorities may equal, if not surpass in importance, the primary statutory duty of the Board, namely, technical planning and execution of its projects.

To maintain a balance between these two goals, monetary coordination and successful technical planning, the Board's program should be comprehensive and yet flexible to such a degree that adjustments, if required in the future, could be easily executed in terms of the problems under consideration. There can be no doubt that the undertaking of such adjustments is difficult. It is true that once a relatively large project has been initiated it must be completed, but emphasis should be on the Board's general program where sectional adjustments within the program itself could be made. Lord Salter emphasizes this point in stating "that programs, though detailed and specific, must be subject to frequent revision throughout the period for which they have been framed; and that it is highly undesirable that they should be published, or still more translated into

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legislation, in a form which makes this process of modification difficult.\textsuperscript{12}

II. MEASURES FOR A SUCCESSFUL DEVELOPMENT PROGRAM

There are certain other conditions that must be seriously considered in the determination of the final shape of an economic development program. First of all, it is of utmost importance that the Board should not be guided by its available capital resources and expected revenues in determining the degree of its expenditures, but rather by the principle of achieving a well balanced aggregate demand and supply in the national economy. In other words, the degree of economic development in a country should not be determined by its available monetary resources, but rather by the availability of productive factors, primarily "man-power". As Professor Iversen states, "The Development Board can always 'afford' a given project if total demand is sufficient to absorb the available supplies, and it can never 'afford' a project - however large its deposits with the National Bank may be - if total demand becomes so large that there is danger of inflation."\textsuperscript{13}

Second, it is essential that resource development, when possible, should be done on a basis of an integrated plan with full coordination among the different projects undertaken and with a minimum of economic waste. For example, the plans covering new dams, drainage, irrigation, transportation and communication, re-settlement and housing, should be carefully integrated, timed and coordinated. If

\textsuperscript{12}Ibid, p. 9.
\textsuperscript{13}Iversen, Carl, op. cit., p. 240.
this procedure is observed there will be a minimum of economic waste and disturbance and a maximum use of the by-products of each project.

Third, expenditure on the different projects should not be concentrated in a particular section of the country, but should be widespread. This is important for several reasons. As regards welfare, there would be a wide diffusion of the gains from expenditures throughout the country. Otherwise, if concentrated, the existence of different social and economic classes would provoke sharp political unrest and social discontent. Definitely, the program should be so executed as to start with the most important project for producing quickly maximum results for the general "wellbeing" of the national population. This is imperative in order that the Board may gain sufficient popular support to carry on its projects with a minimum of resistance and protest. In fact, "Timing, balance as between different kinds of development, coordination, and a fair geographical distribution, are all necessary..." Moreover, a widespread expenditure would eliminate the possibility of "bottlenecks" (especially of manpower, and to a lesser extent of materials) experienced at higher stages of the development program.

Fourth, another fundamental pre-requisite of successful economic development is the appropriate use of available human resources which should be treated very wisely. Human resources are the essential productive factor. As Buchanan and Ellis state: "Broadly speaking, the productivity of human labor when combined with land and capital

\[14\] Salter, Lord, op. cit., p. 38.
resources depends upon the number and skills of the total population and the energy, drive, regularity and integrity with which these are applied in productive activity." Considering the prevailing circumstances in Iraq, it cannot be doubted that development will be sharply limited in the long run by shortages of labor (particularly skilled labor) and to a lesser degree by scarcity of certain materials. These factors may indeed prove to be, in the future, more drastically limiting than capital resources.

It is to Iraq's advantage, unlike the majority of other underdeveloped countries, that it is not overpopulated and will not be for many years to come. However, successful planning should be sensible to the needs and resources of this limited population with allowance given to its normal increase. The intricate problem that the Board should be facing, from a manpower point of view, is not the number of the population but rather its low productivity and limited skills.

The immediate problem of the Board authorities is not one of creating employment opportunities, but of scarcity of skilled workers needed to fill the new jobs. Although this is not an immediate problem (distinguished from that of skilled labor), it is one which will undoubtedly present itself in the future.

Reliable and current employment figures are not available. However, published information generally indicates the employment situation in the country as presented in Table 30.

The total potential labor force in Iraq is estimated to be

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about 2.5 million, of which about 1.8 million could be accounted for, thus leaving a remainder of .7 million. Although this remainder indicates some unemployment, one could be almost certain that the number is substantially greater considering the inaccuracy of the data and the prevalence of "disguised unemployment" on land. There still exists some surplus unemployed labor that could be utilized as development advanced.

### TABLE 30

**Employment Statistics in Iraq, 1953**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers on Agricultural Holdings</td>
<td>1,400,152</td>
</tr>
<tr>
<td>Persons Employed in Commerce</td>
<td>120,000*</td>
</tr>
<tr>
<td>Industrial Workers</td>
<td>92,500*</td>
</tr>
<tr>
<td>Government Employees and of Other Organizations</td>
<td>80,000*</td>
</tr>
<tr>
<td>Students</td>
<td>38,900</td>
</tr>
<tr>
<td>Police</td>
<td>17,262</td>
</tr>
<tr>
<td>Railway Employees</td>
<td>14,256</td>
</tr>
<tr>
<td>Petroleum Industry</td>
<td>12,000</td>
</tr>
<tr>
<td>Teachers</td>
<td>10,994</td>
</tr>
<tr>
<td>Basrah Port Authority</td>
<td>7,874</td>
</tr>
<tr>
<td>Licensed Health Practitioners</td>
<td>4,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,798,738</strong></td>
</tr>
</tbody>
</table>

*Estimated


"Disguised labor," which appears to be an immediate source, could be easily attracted to new employment by high remuneration and better and more adequate living accommodations. Moreover, with mechanization of agriculture, the number of employees that would be freed from land would augment the supply of labor. With this in mind, the development authorities can expect an ample supply of unskilled labor for some years to come. The primary problem is that of limited skilled labor, and secondly, the uneven distribution of the labor force and its low productivity.
The problem of low productivity is due to several factors. The high mortality rate indicating a low level of general health, and the spread of debilitating diseases (e.g., malaria and bilharzia) reduce substantially the productive capacity of the labor force. In addition, there is the low level of literacy which limits the opportunity to develop skills and thus increase productivity. And finally, cultural factors (traditional patterns of life and religious beliefs) restrict the mobility of labor from an area where productivity is low - "disguised labor" - to areas where it would be greater. Even though some of the labor force moved from less to higher productive areas, health and welfare conditions must be improved before any adequate increase in productivity standards can be expected.

The serious problem is the shortage of skilled labor. This, to a degree, can be attributed to the low level of literacy, but to a greater extent to the overall religious and philosophic beliefs, and the class structure of Iraq. The fanatic belief in religious principles, the existence of a rigid class society, tend to stifle the "reasoning, questioning and experimental mind." This can best be demonstrated by the belief that problems require no study or effort for finding solutions, which is so paramount among the majority of the people (illiterate). "That is Allah's will" or "Leave it to Allah to decide" is a basic attitude. Thus, problems are left unsolved with no initiative expended to analyze them. Further, because of the prevailing class society and caste system, various groups follow strict traditional patterns of life, with each person having a certain imposed task to do, and avoid any cultural contact that may lead to change.
Consequently, knowledge is very limited and static. For knowledge to flourish, a society with dispersion and diversity of social, political, economic and religious standards and beliefs is necessary.

Aside from these cultural and institutional factors, there are other purely economic factors which limit the amount of skilled labor. Because of the low levels of income and savings, private use of resources for developing technical research has been very much curtailed. On the other hand, usually in a country where agriculture is a predominant source of the country's livelihood, it is normally the government that is relied upon to finance such research. This has not been done adequately, and consequently, lack of government-technical assistance has been another limiting factor in the shortage of skilled labor.16

Although there are no methods to show exactly how much of the Board's resources (including those of the government) should be assigned to research and technical assistance, adequate priorities and appropriations must certainly be provided in order to improve higher education, including technical education, so that a broader base of literacy and an expansion of technical knowledge can be realized. This program should include, aside from agricultural and industrial fields, the business field which will become of great importance as development proceeds. To supply the immediate need,

16 W.A. Lewis, in his book, The Theory of Economic Growth, states, "Whereas in industrial countries research can be thought of primarily as a matter of private interests with the government plugging the gaps, in underdeveloped countries research is primarily a matter for government, and ought to be one of their major fields of activity." pp.175-176.
the Board can import technical personnel during the primary stages of development. But it should be realized that this importation is only temporary until such a time as Iraq's own nationals can replace the foreign technicians needed to carry on the newly created technical positions. Thus, the pressing problem to be considered by the Board in its planning is the amount of skilled labor to be made available. Such action is necessary in order to eliminate probable "bottlenecks" resulting from shortages of skilled labor as development progresses.

Fifth and lastly, for economic planning and development to be successful an efficient and honest government administration is needed. In fact, in the case of Iraq, and similarly in other underdeveloped countries, the lack of such an administration may become an important limiting factor, more so than scarcity of skilled labor or needed materials. Efficiency and honesty of administration should be considered for the country as a whole, including the central and local government bodies as well as the municipalities. Development cannot progress unless fully supported by the different government agencies since cooperation and assistance are in fact indispensable for the execution of any particular program and the whole economic plan in general.

Accordingly, the present law should be so modified as to create adequate links for closer cooperation and assistance among the various government agencies. It is necessary in the original planning to cover as wide a sphere as possible in order that benefits can be spread over the country as a whole. This requires the cooperation of all government bodies. Moreover, improvements should be made in the
auditing of government accounts, and in the enforcement of penalties against dishonest government officials.\textsuperscript{17}

III. THE DEVELOPMENT PLAN

The above analysis reveals the necessity of a comprehensive development plan. It should include and coordinate all the many fields to be developed, whether material or human. However, it must be realized that no matter what shape the plan may take, there will always be grounds for certain modifications at progressive stages of development. It is impossible for a planning body to know ahead of time the exact consequences arising from the development program. This has been the case even under a fully totalitarian economic system. As Lord Salter states: "The good planner in a free society will not be like an engineer, who builds with materials like stone or steel which can be exactly measured and weighed, and can therefore calculate the strains and pressures of his structure with precision. He will be more like a doctor who, though fortified with a knowledge of the human diseases to which all are subject, has to apply his treatment to particular persons with their individual idiosyncrasies."\textsuperscript{18}

As this statement implies, in the process of planning and execution, numerous factors, domestic as well as foreign, will arise necessitating certain changes and adjustments. Any plan, especially

\textsuperscript{17}In the I.B.R.D. report, \textit{The Economic Development of Iraq}, it is stated, "Salaries, particularly of officials of higher classes of the civil service, are very inadequate. The probity of officials is thus put to a sever test and to the extent that some successfully utilize their positions as opportunities for personal gain ..." p. 78.

\textsuperscript{18}Salter, Lord, \textit{op.cit.}, p. 9.
in a free society, should not be bound by definite laws and regulations. A plan confined by statutory laws with mathematical precision may end up "on the shelf" by proving impracticable when put in action. Therefore, it should be set in a general pattern and sanctioned accordingly by Parliament, leaving a wide sphere for essential administrative adjustments. Aggregate sums could be allocated to the principal sections of the program without trying to pinpoint exact amounts to be spent on definite projects within a predetermined period of time. It is very possible that certain projects may not appear necessary at the beginning which, during the process of development, prove otherwise.

Considering the natural conditions of Iraq, its two great rivers with their threat of floods, its fertile lands and extreme climatic variations, any important plan must of necessity include major water improvements as its basic project. Nevertheless, other projects, if not as vital, should be included, such as improvement of agriculture which is the basic source of the country's livelihood, communication and transportation, industry, and housing. In conjunction with these major projects adequate consideration should be given to improve health conditions and to elevate literacy standards. These are of utmost significance if an overall plan is to meet with ultimate success.

Of course, the priority given to each of these projects, as indicated earlier, should not be based on purely economic grounds. Political, social and other factors must be included in such decisions. With these requirements as a guide, a summary of what has already been accomplished and what is yet contemplated in each phase of the
A. Water Improvements

Water improvements are the most important part of the Board's development program and have received thus far a major portion of the Board's capital funds. These improvements include flood control, water storage, irrigation, drainage, and the operation and maintenance of dams and irrigation systems. At present flood control and storage of water to be utilized for irrigation purposes are the foremost problems. These projects are particularly important for central and southern Iraq.

It would be advantageous for these sections of the country if flood water could be stored and then released during the seasons when it is needed. The floods occur during the spring when it is too early for the summer crops and too late for the winter crops. During the dry season, the second half of the calendar year, the quantity of water flowing in both the Tigris and Euphrates rivers is inadequate to irrigate the areas then under cultivation. Because of these features of the rivers in Iraq, tillable areas cannot be expanded unless the flow of water is controlled and regulated.

In view of these circumstances the need for dams becomes imperative. They accomplish two purposes, protection against floods and storage of water for irrigation. Of course, from an immediate point of view, there must be some priority for dams which give a reasonable degree of flood protection. If complete protection against floods becomes the ultimate purpose, there is no doubt that the cost will be substantial and will result in the reduction of available funds.
for the development of other projects.

Such protection against flood would be more justifiable where factors of production are in abundance and are not immediately required for development of other projects. This is not the case in Iraq where productive factors are limited, especially labor and materials, and where a wide range of development is of great importance. The basis of flood protection and the relative costs involved should be justified by providing security against the worst floods, using the past three decades as a gauge, while making use of the dams in order to achieve their second purpose, that of providing stored water to irrigate more adequately the old farms and newly developed lands.

The Tigris river is more erratic than its twin, the Euphrates, and consequently involves more difficult problems of flood control. Because of its erratic characteristics, first priority has been given to its control. The Wadi Tharthar project (with an estimated cost of 16,000,000 dinars)\textsuperscript{19} which was undertaken in 1951 and is now almost completed, minimizes the risk of flood, especially in the Baghdad area. So far this project has been considered only from a flood-prevention point of view. However, its use as a water reservoir for irrigation purposes is currently under study.

Engineering firms requested to make a study of water improvements in the country have advised that the "Wadi Tharthar project be considered exclusively for flood control."\textsuperscript{20} And they agreed that it would take almost a decade before the Tharthar depression

\textsuperscript{20}Ibid, p. 187.
could be filled to a level sufficient to supply water for irrigation purposes. Further, even if this were possible, the stored water would be available to areas located south of Baghdad. With this advice in mind, the Board had to consider other dams primarily for storage purposes.

Consequently, work on the Derbendi-Khan on the Diyala river and the Dokan dam on the Lesser Zab has been started at the recommendation of several engineering firms. Also, other improvements are currently under consideration for achieving the same purposes; namely, the Bekme dam on the Great Zab, the Eski Mosul dam on the Tigris north of Mosul, the Adhaim dam on the Adhaim river, and the Fatha dam on the Tigris. The cost of these dams is estimated to be about 136,685,000 dinars. No doubt, with the completion of these dams a multiple of the 22,722,828 donums currently cultivated (24 per cent of cultivable area) could be under cultivation. The degree of successful utilization can, of course, be augmented by supplementary improvements in irrigation, transportation, and communication.

Plans for flood control and water storage on the Euphrates have been less extensive. The Lake Habbaniyah project, which has been completed recently, serves both as flood prevention and as a reservoir of water for irrigation. However, during severe flood seasons (e.g., 1952-1954) the Habbaniyah depression was not able to hold enough water to eliminate floods, particularly to the Kerbela area. This necessitated further studies concerning other areas on the Euphrates.

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\[21\text{Ibid, pp. 208-210.}\]
which might be used to enlarge the objectives of the Lake Habbaniyah project. The Abu Dibis depression is a possibility, but studies have shown that this depression may be used to achieve only flood-control objectives. Because of its heavy salt content, it would not be suitable for water storage.

In the construction of dams, especially those for water storage, more attention should be given to irrigation gates, and irrigation canals and channels which are essential to carry the water for cultivation of crops. Also, the drainage problem should be considered, that is, the draining of salt and other destructive minerals as well as excess water from the newly opened irrigated areas. Inadequate drainage facilities have resulted in the deterioration of the quality of the soil as well as salination. About 30 per cent of the cultivated land under irrigation has been abandoned in recent years because of salt accumulation that is largely the result of inadequate drainage facilities. In the past the authorities have almost entirely neglected this phase of the country's water improvements. However, the problems of drainage have gained the support of the planning board, and 13,920,000 dinars were allocated for this purpose in the second five year plan ending 1959. Once these dams, reservoirs, irrigation and drainage channels are completed, it becomes of major economic importance to have them regulated and maintained. If they lack adequate and efficient administration, it cannot be expected that the best utilization will be made of water for irrigation and other purposes (e.g., navigation and industry). At present an insufficient number of personnel, as well as their inefficiency, results in relatively large
losses in the operation of old canals and reservoirs. This can be partly attributed to the poor original construction which makes maintenance costly and difficult. With such past experience, a sincere effort should be made for proper maintenance of the new projects. Experienced engineers and staff, with adequate pay, are essential, coordinating with other government departments having a direct interest, i.e., agriculture and health, for maintaining the present projects and recommending new irrigation and drainage schemes.

And lastly, a very important aspect of these projects, mostly neglected, should be taken into account, namely, the human problem in relation to agricultural development. First, the disbursement of stored water becomes a very important problem with regard to agricultural development. At this point of development a major water policy should be formulated by the authorities—the Board, the Ministries of Agriculture and Health, and the Department of Irrigation. Primary attention should be directed towards the problem of drainage and sufficient irrigation for the lands presently under cultivation, as well as further extension in irrigation facilities for new lands.

The issue concerning new developments of water resources depends on the government's land policy, that is, the disposition of the Miri Serf (state owned) land. The manner in which these Miri Serf lands are distributed deserves prime consideration by the Board. Immediate attention should be given to the settlement of these lands if improvements are to be permanent and successful. Indeed, these lands, prior to their disposal, should be surveyed and classified so that the type of agriculture best suited to a certain area could be
determined. After such classification, reasonable and workable distribution of the lands could be successfully completed.

Then comes the problem of selecting the type of settlers to be brought to these new cultivable lands. Previous experience should be reviewed. The Board, in collaboration with other departments and governmental bodies, should decide what type of settler is to be invited, and the kind of assistance to be extended, and the accommodations to be made available prior to occupation of new areas. On a similar problem (Dujaila Project), where such mutual studies among the government departments concerned did not take place, serious failures resulted.

Table 31 shows that a total of 107,935,000 dinars is to be spent on the overall water works program during the five years, ending 1959. This includes expenditures of 20,700,000 dinars on irrigation, drainage, and storage projects on the Euphrates river basin; 53,215,000 dinars on the Tigris and its tributaries; and 33,920,000 dinars on the main and sub-drains, and other irrigation projects, land reclamation, and the like. These estimates, of course, exclude actual expenditures made on these projects during the first five year plan of the Development Board. And it is certain that, with the trend in the world price level, an increase in the total costs of these projects can be expected.

B. Agriculture and Improvement in Agricultural Productivity

1. Agriculture

With about two-thirds of Iraq's population engaged in agriculture, and the remainder dependent mainly on trade and industry,
a major and well-organized agriculture policy is essential if greater domestic prosperity and a higher standard of living are to be achieved. In fact, the relatively great expenditures on dams, after attaining reasonable protection against floods, together with the construction of irrigation and drainage systems, can only be justified on the basis of ultimately expanding agriculture production. An increase in production could be the result of either enlarging the productivity of land currently under cultivation and/or opening new cultivable lands.

Because of present conditions in Iraq, namely, low productivity and a relatively small population, the aim of a major agricultural policy should be to improve land currently under cultivation and make the most economical use of its products rather than expand the irrigation system to cover all cultivable areas. Of course, gradual opening of new lands should become an integral part of this policy as new settlers are freed from the old farms. This procedure is recommended in order to eliminate large expenditures at present on tillable lands which may not be put in use immediately because of a shortage of qualified settlers. Also, it would be more advantageous to the country if, in the development of new settlements, the same means were used that have proven successful in previous settlements. Therefore, greater attention should presently be directed towards making the new Dujaila project a complete success which then could be duplicated with a minimum of economic waste.

To improve the productivity of areas currently cultivated seems to be the most demanding problem of agricultural development at present. In Iraq, as well as in other underdeveloped countries,
<table>
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<th>Particulars</th>
<th>Total Provisions for Five Years Ending 1959</th>
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<td>A) Major Projects</td>
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<tr>
<td>1. Administrative Expenses</td>
<td>3,250</td>
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<td>2. Amortization of Tharthar Loan</td>
<td>2,200</td>
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<tr>
<td>3. Irrigation, Drainage and Storage Schemes</td>
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<tr>
<td>a) Euphrates River Basin</td>
<td>20,700</td>
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<td>b) Tigris River Basin</td>
<td>20,230</td>
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<tr>
<td>c) Tharthar Project</td>
<td>8,300</td>
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<tr>
<td>d) Berbendi-Khan Dam</td>
<td>22,785</td>
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<tr>
<td>e) Control Structures (Regulators)</td>
<td>2,000</td>
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<tr>
<td>f) Main and Sub-Drains</td>
<td>13,920</td>
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<tr>
<td>g) Other Irrigation Projects</td>
<td>20,000</td>
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<tr>
<td>4. Roads and Bridges</td>
<td></td>
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<tr>
<td>a) Basrah-Amarah-Kut-Baghdad Road</td>
<td>6,290</td>
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<td>b) Deltawah-Kirkuk Road</td>
<td>2,450</td>
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<tr>
<td>c) Baghdad-Shirgat-Mosul Road</td>
<td>3,750</td>
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<tr>
<td>d) Roads Leading to the Dams</td>
<td>7,430</td>
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<td>e) Kirkuk-Koysanjak Road</td>
<td>2,000</td>
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<td>f) Baghdad-Falloon-Ramadi Road</td>
<td>1,500</td>
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<tr>
<td>g) Baghdad-Hilla Road</td>
<td>2,700</td>
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<td>h) Hilla-Najaf Road</td>
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<tr>
<td>i) Karbalah-Najaf Road</td>
<td>1,200</td>
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<tr>
<td>j) Diwaniyah-Nasiriyah Road</td>
<td>2,900</td>
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<tr>
<td>k) Other Roads</td>
<td>10,000</td>
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<td>l) Main Bridges</td>
<td>10,000</td>
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<tr>
<td>5. Air Fields</td>
<td>53,700</td>
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<tr>
<td>6. Main Works for Railways</td>
<td>15,500</td>
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</tbody>
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Continued...
7. Main Buildings
   a) Health Institutes  7,000
   b) Scientific Institutes  3,150
   c) Housing Schemes  6,000
   d) Public Buildings  10,400
   e) Summer Resorts and Rest Homes  2,000  28,550

8. Industry, Mining and Electricity
   a) Bitumen Refinery at Qayyarah  855
   b) Cotton Spinning and Weaving Plant at Mosul  3,115
   c) Mineral Survey  543
   d) Cement Plant at Mosul  2,209
   e) Cement Plant at Sarchinar  2,150
   f) Sugar Plant  1,782
   g) Electricity  10,000
   h) Other Industries  22,000
   i) Industrial Survey  17
   j) Industrial Tools and Equipment  900  23,571

   a) Researches and Laboratories  850
   b) Agricultural Resources Development  750
   c) Animal Resources Development  750
   d) Forests  500
   e) Miri Lands Reclamation  1,125
   f) Artesian Wells  2,500  6,275

Total Major Projects  266,181

B) Minor Projects
1. Buildings and Institutes
   a) Health Institutes  3,750
   b) Scientific Institutes and Primary Schools  5,000
   c) Houses for Labour  1,500

Continued...
d) Buildings for Ministry of Defence 5,000

e) Buildings for the Police 2,000

f) Buildings for the Courts 1,250

g) Public Buildings for Other Ministries 4,000

h) Government Houses 1,250

i) Others 7,500

Total Minor Projects 31,250

Grand Total 303,306

*In June, 1956, the Iraqi government announced a 6½ per cent (retroactive to April 1, 1955) overall increase in the cost of the above program bringing it to 500,007,000 dinars for a six year period ending 1960. Allocation by major categories remained unchanged as before. (Department of Commerce. Foreign Commerce Weekly. Washington, D.C.: September 24, 1956).

Estimated Revenues of the Iraqi Development Board for the Five Years Ending 1959

Description of Revenues

1. Oil Revenues 215,000

2. Proceeds of Tharthar Project Loan 10

3. Miscellaneous Revenues 75

4. Interest 600

5. Provisionals Brought Forward from the Previous Program 37,000

Total of Revenues 252,685

one of the main reasons for low productivity is the complicated and unsatisfactory conditions of land tenure. With the exception of the new Dujailla area and a very limited number of plots, cultivated land in Iraq is largely owned and privately controlled by sheiks and urban landlords. These estates are divided into small parcels and worked by fellahaen who are generally remunerated on a 50 per cent share-cropping basis. These fellahaen usually are employed under a one year contract, and hence, make no attempt to improve their farms. In addition, they lack adequate equipment and know-how to increase productivity. Most of the sheiks and landowners show little if any interest in improving their holdings, but only interest in keeping their expenditures on their lands to the bare minimum. They spend most of their time either in the cities or abroad. However, since the end of World War II, a small number of these landowners (small but nevertheless encouraging), have shown increasing interest in their holdings, welcoming change and accepting reform. Mechanization, crop improvement, rotation and diversification are some of the methods which have been accepted and put into practice. On the other hand, attempts by the government to improve agricultural conditions and land tenancy have always been blocked by the landlords and sheiks who have strong political positions in the government. Consequently, it has been government policy "that new legislation on land tenancy (and improving the share-cropper's status) must be kept within the

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22 See I.B.R.D., pp. 5, 13-17, 137-144, for a comprehensive study of land tenure in Iraq.
bounds of what will not be actively resisted by landowners.\textsuperscript{23}

Also, a settlement policy making effective use of the Miri-Serf land, as already indicated, would greatly improve agricultural conditions.\textsuperscript{24} The new farm settlers would have an opportunity to work on their own under constructive guidance with no share-cropping. This would provide an incentive to improve land productivity. Moreover, the mere existence of the new settlement opportunity would indirectly induce the owners of large estates to improve working conditions and to offer greater compensation to their present farmers in order to retain a working force on their farms. As a consequence, an improvement in general agricultural conditions could be expected.

But a successful policy of Miri-Serf land settlement encompasses wide responsibility. A workable policy must be supported by a strong administration, efficient and well qualified to solve the many related and intricate problems. In view of this situation, the I.B.R.D. Report of 1952 recommended the establishment of a Ministry of Agriculture.\textsuperscript{25} It was organized one year later, but it must be further strengthened, technically as well as administratively, in order to solve the many current agricultural problems, and particularly those of land tenure.

2. Improvement in Agricultural Productivity

In the long run changes in land tenure and better facilities for irrigation and drainage will contribute to agricultural productivity.

\textsuperscript{23}Salter, Lord, \textit{op.cit.}, p. 54.

\textsuperscript{24}This Miri-Serf land was estimated in 1953 at about 39,256,000 donum or 60 per cent of the total cultivable land in Iraq.

\textsuperscript{25}I.B.R.D., \textit{op.cit.}, p. 32.
However, other improvements are essential in order to raise and maintain a substantially higher level of productivity. These include increased mechanization in agriculture, fertilization, better seeds, higher-grade animals, modern agricultural methods, research, education, betterment of health, and provision of financial assistance to farmers.

Because of the present low-income level of farmers and the abundance of labor and virgin lands, the use of heavy and costly agricultural machinery does not appear to be advantageous and/or economical. Instead, it would be more practical to use simple tools and machinery which can be bought or supplied by private organizations or cooperatives. This should be facilitated by extension of moderate credit to farmers. In the future, when the labor supply is absorbed and wider areas are brought under cultivation, large-scale mechanization may then become necessary. Nurske states: "The densely populated countries (areas) in process of development do not need tools and machines of the same degree of capital intensity as those used in the advanced economies where labor is relatively scarce." At the early stages of agricultural development, mechanical cultivation would not be economical unless there is a noticeable shortage of labor relative to capital.

Soil-building and the use of fertilizers are very necessary to increase the fertility and productivity of land, especially in areas which have been under constant cultivation for many centuries. Methods of soil-building in Iraq are almost unknown, and fertilizers, if used,

would consist primarily of animal manure. Hence, to increase productivity, especially considering the contemplated increase in the area of cultivation, the use of artificial fertilizers is urgent. The types of soil should be studied to determine the kind and amount of fertilizer to be used. Iraq could supply its essential fertilizers locally. Organic fertilizers could be produced as a by-product of the slaughter-houses; inorganic, as a by-product of the oil industry.

Despite its great opportunities to develop animal husbandry, Iraq is very low in livestock productivity. Production of meat, and other animal and dairy products is negligible compared to its potential. This is due chiefly to the insufficient care and feed provided for livestock. A step in the right direction would be the improvement of natural pastures, particularly in the northern sections of the country. Also, building of adequate shelters, use of scientific breeding methods, and control of parasitic diseases through the establishment of sufficient veterinary centers, would contribute greatly to the productivity of livestock output.

In the early stages of agricultural advancement, especially in new settlement areas, provision of financial assistance to new, independent farmers is essential. On the large estates the landlords occasionally advance credit as a part of the share-cropping system, but the Agricultural Bank of Iraq was organized to extend these facilities to others. However, the operation of this institution has been comparatively limited. Operation of the bank has been hampered because of changing administrations, and also because of unqualified personnel and inadequate capital. Sufficient financial facilities must be made
available to the farmers and new settlers. Adequate credit extended on reasonable terms would enable farmers to purchase necessary materials such as seeds, tools, and the like. It would also enable them to survive until their produce is sold. At present, credit terms for agricultural financing are exorbitant, and deprive the farmers of a sizable share of their produce.

The 1955-five-year development program (Table 31) included a total of 6,475,000 dinars for development of animal, plant and underwater resources, including agricultural research, animal and forest resources development, and Miri-Serf land reclamation. This amount appears inadequate to cover the wide area indicated, but it is at least encouraging as a starting point.

C. Transportation and Communication

The economic development of Iraq, as of any country, would be assisted, if not greatly advanced, by an adequate transportation system. A substantial increase in agricultural (and industrial) products would be wasted without provision for transport of the excess produce to market centers. Actually, the quick economic development contemplated in Iraq would not be possible unless primary and secondary roads are constructed. Thus, a well-balanced economic development plan must include improvements in the country's system of transportation and communication as part of the development in other fields. Such improvements should give adequate weight to the primary road system, and to secondary feeder roads that connect remote agricultural areas with the main transportation arteries.

As stated by Lord Salter, "the backbone of the transport
system in Iraq is predominantly along a line running from Mosul in the north to Basrah in the south. The country has three links with the outside world—through the port of Basrah; trans-desert-overland roads to Syria and Lebanon; and railroads to Syria, Turkey and Europe. There are also two international airports, at Baghdad and at Basrah. Currently there is 1,648 kms. of single track railway. About two-thirds of this is of metre gauge and the remainder of standard gauge.

There are more than 8,000 kms. of roads, mostly unpaved, but over the last several years considerable road construction has been completed, and substantial extensions are now under construction. Traffic by railway and overland routes is supplemented by the two rivers. However, this means of transportation has been insufficient, being available for a short time of the year.

The above information reveals the inadequacy of the present transportation system in the country. This will become a more serious problem as development progresses. An increase in imports, particularly machinery and building material, can be expected, and the export volume may also increase sharply in the future. With this expansion in both exports and imports, as well as transportation of goods within the country, the tremendous pressure on the transportation system would soon expose its inefficiencies. Thus, the need for and expansion of the transportation system in order to absorb the increased volume of traffic is urgent. The country's main transportation policy should embody this principle: "... railways (plus river transport) should

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27 Salter, Lord, op. cit., p. 61.
constitute the backbone, and roads the ribs, of the transport
anatomy."^{29} To achieve this phase of development, the Board in its
1955-five-year program allocated 74,200,000 dinars.

D. Industry and Industrial Development

1. Industry

The economy of Iraq is primarily agricultural, but this need
not imply neglect of the development of industry. On the contrary,
experience under similar conditions reveals that it would be to Iraq's
advantage to develop its industry. But the question is—"how much
industrialization should be undertaken at present?" Since Iraq is
relatively underpopulated, and has some comparative advantages in
agricultural production, industrialization should be encouraged on a
gradual basis.

Apart from the oil industry, which has been established and
controlled by foreign concerns, Iraq's industries are few and under-
developed. They are limited mainly to the processing of agricultural
products, the manufacturing of building materials, and to small-scale
manufacturing of consumer goods (e.g., shoes, beverages, cigarettes,
matches, oil extracts, soap, tanning of leather, and textiles). The
first industrial census made in 1954 indicated that 22,460 industrial
units (about half of which are located in the district of Baghdad)
were operating in Iraq, of which only 294 employed 20 persons or more.
Total industrial employment amounted to slightly over 90,000 people
(excluding 12,000 employed in the oil industry). Aggregate investment

^{29}Ibid, p. 61.
in these industries was about 22,000,000 dinars and the value of production during that year was estimated at about 39,000,000 dinars.  

The conditions which have retarded industrial development were varied. Aside from hoarding, available capital was traditionally invested in agricultural and real estate holdings where risk was regarded at a minimum, or in commerce because of anticipated high returns. Private capital and initiative were individually limited, and there was no organized capital market. Hence, the relatively huge investment required for large corporate industries could not be assembled. Industrial investment was also hindered by the limited number of skilled workers and the lack of technical "know-how". Moreover, there was no effective government encouragement of industry. It is true that certain exemptions from taxes and tariffs were provided in "A Law for the Encouragement of Industry" in 1929, but such measures did not alter investors' attitudes since they were uninformed as to where to invest and how to administer industry. This problem has been solved in part by the establishment of the Industrial Bank, which, aside from extending financial accommodations, has engaged in market and industrial research and made available pertinent industrial information.

Industrial development continued to be static until the outbreak of World War II. The sharp decline in imports, scarcity of consumer goods in local markets, military expenditures, expansion in private income and the soaring of profits all assisted in diverting

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national thinking towards industrial development. This trend was further augmented by the use of accumulated foreign exchange balances which was partially used to implement industrial construction and development. But relatively speaking, Iraq's industry remained in its infancy stage as to number and kinds, as well as size of funds invested in this sector of the economy. Only recently have certain indications appeared that warrant some optimism concerning industrialization. Particularly significant are the substantial expenditures and allocations of funds by the Development Board on industry, namely, 43,571,000 dinars for the five years ending 1959 (31,000,000 dinars allocated for the first five year plan ended 1955). Also, the expansion in private investment and in the Industrial Bank's investment in industrial concerns is important.

Perhaps the major encouraging factors for industrial development in Iraq are cheap fuel and the abundance of raw materials. With the completion of the contemplated irrigation schemes, agricultural production will increase the supply of some raw materials. Besides these raw materials, recent mineral surveys showed the presence of large sulphur deposits, iron, copper, zinc, chrome ore, glass sands, bitumen, limestone (for cement manufacturing), and a valuable salt dome. The availability of this wide range of raw materials in Iraq reveals an ample scope for industrialization. However, it is Iraq's utmost interest to attempt to develop only those industries in which it has the greatest comparative advantages.

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2. Expansion and Establishment of New Industries

Production in some of the domestic industries is adequate to meet local demand. The government has restricted the importation of goods competitive with products locally produced in order to assist the growth of these industries (e.g., cement and beer). Other industries, because of increase in local demand and sufficient capital assistance, have improved and expanded to meet the country's need with adequate capacity. But there are other industries which, if expanded, could contribute appreciably to meeting national demand. The obstacle is the lack of sufficient private capital for such expansion. This situation creates an area requiring government financial support (e.g., the rayon and cotton industries). Again, it should be remembered that in public financing of industry, private capital should be given ample opportunity to share. Further, if it appears necessary to impose protective measures to encourage industrial expansion, this means should, under no circumstances, set up an artificial protective wall to industries which could not in the long run effectively compete with foreign goods.

It is certain that rayon and cotton industries should be encouraged and temporarily protected. This is substantiated by the success of these industries (although limited in scope) and by the fact that present local production can hardly meet more than one-third of domestic consumption. Rayon imports have been increasing and account for a substantial portion of the country's textile imports. They advanced from 10,000,000 yards in 1950 to about 38,000,000 yards in 1953, while the local product in the latter year amounted to only
4,000,000 yards. From a value point of view, cotton and rayon imports over the three years ending 1953 amounted to almost 1\(^{\frac{1}{4}}\) per cent of the country's total imports for this period. It was these facts that led the Development Board to establish a new cotton weaving plant with an estimated capacity of 25,000,000 yards annually.\(^{32}\)

In addition, cement factories should be expanded in view of the pressing demand for building materials as a result of the requirements of the projects undertaken by the Development Board and of private construction. Similarly, to meet national demand, oil extraction plants, shoe factories, aluminum utensils and other consumer-goods manufacturing plants should be expanded and established when the raw materials are economically available.

The I.B.R.D. Report suggested the construction of several new plants and industries in Iraq. They include production facilities for jute, bone meal, concrete mixing, glass, date-packing crates, nitrate fertilizer and sulphur. For all of these there are sufficient raw materials and domestic demand. In most instances, the plants could be started on a small scale and expanded as demand for their products became larger. However, the Mission stated that "the largest ... industrial possibility lies in the utilization of natural gas produced in conjunction with oil and now almost totally wasted."\(^{33}\) This plant, if constructed, could supply very cheap fertilizers for use in Iraq's agriculture. In the meantime, production in excess of local demand can readily find a market abroad. Similarly, if sulphur

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\(^{32}\)Al-Jalili, A.R., op.cit., p. 68.

could be manufactured economically, it would constitute a source of foreign exchange, especially U.S. dollars.

These latter industries need direct government attention and financing. Their construction would require substantial capital investment. However, during the process of industrial development, encouragement and assistance should be given to small industrial enterprises which account for a considerable portion of national industrial output. In the early stages of development government guidance and assistance are absolutely essential, but such help, while presently required, should diminish as development proceeds to its higher stages. This would allow a progressively wider opportunity for substantial participation by private capital. Thus, for some time to come, certain classes of industries need to be developed under public ownership with greater participation of public capital. At the same time, the Industrial Bank should extend all the facilities necessary to assist present industries to expand and/or to help in the establishment of privately owned new industries. Actually, the Industrial Bank’s contribution in this important realm has been very limited (See Chapter Five). But its direct influence on the country’s industrial development, if administered effectively, would be immeasurable.34

34Lord Salter, in his book, The Development of Iraq, states: "Where desirable industrial development needs the assistance of public funds through a public institution, this (Industrial) Bank ... should be the executive instrument for the purpose. It can ... play a creative part of the greatest value. In the general environment of an expanding economy ... there is abundant opportunity for a rapid proliferation of useful and profitable light industries. Such industries will radiate prosperity and add to the general financial strength of the country instead of being, as publicly created and operated concerns are only too likely to be, parasitic upon it." pp. 75-76.
The Industrial Bank may (aside from direct financial assistance) assist industry by building and organizing a bonded warehouse where industrial goods might be stored, and against which manufacturers could obtain short-term credit secured by warehouse receipts. Also, its capital should be used only as a "revolving credit"—disposing whenever possible of its investments in well-established industries to the public. In this way it could assist in the establishment of a capital market. And last but not least, the bank should strengthen its administrative and technical staff so that more constructive efforts could be offered to the industrial sector of the national economy.

In view of the current substantial build-up in Iraq's foreign exchange reserve, there is no immediate need for foreign capital. The development and industrialization of the economy, as envisaged at present, could be easily financed through national resources. Nevertheless, foreign capital participation would produce many advantages. This is particularly true in the setting up of heavy industries, and industries whose products (to a certain extent) are dependent on foreign demand (e.g., the utilization of natural gas produced in conjunction with oil).

This need for foreign capital was realized by the Central Government. In 1955, Law No. 72, entitled "Law for the Encouragement of Industrial Undertakings", was amended (effective as of June 18, 1956) in order to provide further encouragement for foreign capital investment in Iraq. The important feature of this law is the tax exemptions, the provisions of which are the following:
1. Exemption for income tax in respect of profits which do not exceed annually 10 per cent of the paid-in capital of the undertaking for a period of 5 years. Should the profits of the undertaking exceed 10 per cent of its paid-in capital, an amount equal to that percentage only shall be exempted, and the remainder shall be liable to tax.

2. Exemption from income tax in respect of the reserve fund allotted for development purposes by the undertaking from the company's profits, provided that the undertaking is owned by a public limited-liability company in which no shareholder shall have subscribed more than 25 per cent of the paid-in capital, excluding Government and quasi-Government establishments, and provided that such sums do not exceed 50 per cent (previously 25 per cent) of the annual profits.

3. Exemption from customs import duty of ... materials which are imported for the purpose of the undertaking and which cannot be obtained in sufficient quantities except by importation.

4. Exemption from property tax for a period of 10 years in respect of immovable properties in which the undertaking is established.

5. All the transactions of the undertaking shall be exempted from the stamp duty.35

And lastly, the success of any industrialization scheme depends heavily on a well-trained labor force. In Iraq, the labor movement, like industrialization, is still at its threshold. Despite the existence of a limited number of labor unions, they have not been strong enough to improve the material condition of their members, nor have they been able to achieve higher cultural standards. Their collective bargaining power has been very negligible. There are labor laws in Iraq that stipulate working hours, vacation, compensations, and

employment of minors, but the Labor Department has not been able to enforce these laws effectively. To improve the situation, this Department should be staffed with able and experienced personnel who can enforce these laws, and recommend the enactment of new laws aiming to improve the lot of the labor force.

E. Housing Development

The problem of housing shortage in Iraq has been referred to earlier with reference to the Mortgage Bank (Chapter Five). The allocation of a sizable portion of the Board's resources to expand housing so that immediate benefits might accrue to the general public has also been mentioned. Such a plan will bring several advantages. Aside from creating tangible results within a comparatively short period of time, it will indirectly encourage professional men (doctors, engineers, administrators, and the like) to relocate. Modern residential houses built in small towns and villages will draw these men to areas where they will be much more productive in extending services that are badly needed. It is primarily due to this lack of accommodations in the country that most of the professional men reside in Greater Baghdad.

It follows that as productivity and income of the people increase so will housing facilities. But this does not mean that immediate attention should not be directed towards the construction of certain types of houses, that is, cheap houses which are urgently needed by the low-income group. With this in mind the Development Board recently undertook direct responsibility for constructing about 2,600 cheap housing units to be occupied by the SARIFA dwellers.
(Bids for 7,600 additional housing units were recently announced by the Board.) Augmenting this program, the Board has extended loans to several municipalities for the construction of similar housing. But the Board's efforts and contributions to the construction of better housing for the middle class—primarily teachers and junior government employees—has been almost ignored in the past.

However, the Board should not be left with full responsibility for the housing program. Aside from an allocation of funds, the actual responsibility for housing development should rest with an appropriate department or with a bureau attached to the Ministry of Social Affairs. This agency should be entrusted with making an expert survey of the need for houses in the country, and with the construction and administration of these housing projects. The new houses should be of small and moderate sizes, different styles, and in the pattern of a community development such as those of the United States and Western Europe. The small and moderate size of housing units will assist occupants to meet more easily the rent.

It seems more practical for the Mortgage Bank to undertake the building of better houses for that group with sufficient and stable income which might ultimately allow them to purchase their own homes on an installment plan. As stated earlier, the Mortgage Bank has been empowered by Law (No. 8 of 1953) to construct houses on its own which would be disposed of under an installment scheme. But to augment the operations of this bank and assure its success, its

capital must be increased, perhaps by a 2 to 3,000,000 dinar grant from the Board to be used as a revolving fund for this purpose. By increasing the bank's working capital and improving its staff, it should be able to carry on effectively the housing projects as contemplated by the development program.

Finally, in view of the acute housing shortage in Iraq and its social implications, building of these houses should be given preference over construction of public buildings. This preference does not mean a complete negligence of the latter type of buildings, but that housing should be given immediate priority while public building could be postponed merely because they are not as urgently needed. Moreover, the construction of houses, and particularly public buildings, should be undertaken at such a time and to such an extent as to avoid possible shortages and "bottlenecks" in the use of materials and skilled labor.

F. Education

"Education is a basic condition for the agricultural, industrial and technological progress of the country as well as for the development of a fuller cultural life and the sound growth of democratic institutions."37 The importance of this statement is apparent in view of the present percentage of literacy in Iraq which is reported at about 12 per cent. Despite this low ratio a favorable trend over the last two decades is indicated by an increase in the number of schools from 262 to 1,454, and in the number of students

from 32,750 to 255,769 (Table 5). However, the portion of the population of primary and secondary learning age is estimated at nearly a million which shows that almost 750,000 children and youths are without schooling.

Although admitted that illiteracy and ignorance adversely effect the national economic life, the educational system in Iraq has continued along its traditional path of narrow-training. As originally formulated it was designed to produce civil servants for government posts. This trend has continued even though the supply of civil servants is now more than adequate. An important weakness of such a system is its failure to incorporate courses which would effectively contribute to the supply of citizens qualified to undertake free and independent professions. Further, the system lacked technical and vocational education which resulted in a negligible supply of trained and skilled labor so urgently needed. Especially as industrial and agricultural development proceeds, the demand for such qualified labor force will substantially increase. An educational system cannot be successful unless it is so formulated as to foster economic opportunities in the country.

Most of the reports submitted to the Iraqi authorities on education have emphasized the almost total lack of comprehensiveness in the prevailing educational system in relation to the requirements of the national economy. Suggestions have been offered in the past, but because of many factors, both financial and cultural, they have been almost entirely ignored. As stated in one investigation, "The reports contain a number of excellent suggestions and proposals which are
almost as pertinent today as they were when they were originally made. It is a matter of regret that circumstances should have stood in the way of their implementation. The Ministry of Education should make a careful study of these documents in formulating an over-all policy of educational development.  

Some progress has been made, but several changes should be made in educational policy. Aside from the four technical schools in Iraq graduating about 50 students annually, there are special vocational schools that have been organized by the Port of Basrah, the Iraq Petroleum Company in Kirkuk, and by the Iraqi State Railways in an attempt to train their required employees. However, it was estimated by a committee studying procedures for providing skilled labor that the existing technical and vocational schools in 1951 would graduate only \( \frac{473}{5} \) over a five year period. This number is certainly negligible in comparison with the total of such skills needed. The Engineering College in Baghdad has effected some improvement during its short life, but its supply of engineers has been impeded, and their quality hampered by the inadequate facilities.

Of vital importance is the incorporation of scientific and technical learning throughout the educational system even though the results will take a long time to materialize. In order to fulfill an immediate demand for highly trained technicians as well as administrators, increased emphasis should be placed on Iraqi students studying abroad. During the scholastic year 1952-1953 there were over 1,000

\[ \text{38} \text{ibid, p.386.} \]

\[ \text{39 Salter, Lord, op.cit., p. 91.} \]
students studying abroad who were supported by the Ministry of Education, other government departments, and the Development Board. In addition, there were about 1,300 students studying abroad on their own. Students studying under government grant abroad cost the state annually over 1,500,000 dinars. But the system of foreign scholarships has been found to be impractical, and requires considerable revision and study if full reward is to be reaped from this relatively large annual expenditure. Serious attention should be given to the selection of the foreign institutions where the scholars are sent, to the choice of their fields of study, to their living conditions abroad, and particularly to their employment on returning to Iraq in their field of specialization. Previous experience demonstrates the evils of the prevailing selective system which often is made on the basis of favoritism and political pressure. No special consideration was given to the selection of foreign institutions and the courses to be studied. This may be attributed to lack of appropriate and qualified administrators.

Lastly, the Board through its direct contribution in this endeavor could exert a substantial influence in the shaping of the country's educational policy. The Board should make certain that its funds allocated for education are being spent in the most economical and productive manner. Also, it should require that its support of education is coordinated with the Board's development program. Otherwise, the economic development of the country will be obstructed.

G. Health

Over the past two decades or so, health conditions in Iraq have undergone some remarkable improvements. However, what has been accomplished is minute in comparison with what must be accomplished to create a healthy society. If prevailing endemic diseases are to be eliminated and health conditions to be appreciably elevated, there must be more doctors, hospitals, dispensaries, and preventative and curative facilities. Despite past efforts, the fact remains that at present there is only one doctor for every 7,000 people, and the majority of these doctors is concentrated in the large cities (e.g., Baghdad, Basrah, and Mosul). This also holds true for hospitals and infirmaries. The villages, rural areas, and even small towns present health conditions that are pitiful because of the lack of medical services. A patient with sufficient financial means may have to travel hundreds of miles in order to obtain treatment.

It has been reported that malaria alone kills about 50,000 people annually. The spread of such other endemic diseases as bilharzias, hookworm, dysentery, trachoma, and tuberculosis takes a substantial death toll of the population, leaving those surviving these diseases with low vitality and productivity. The unbelievably low productivity of the Iraqi working force and fellaheen is largely due to these diseases. Because of the low productivity, personal income has been relatively low. This contributes towards the deterioration of national wealth.

Thus, preventative and curative measures become of great importance as a basic step in the development program. The I.B.R.D. Report contains a comprehensive study of the public health problem in Iraq. It states that in order to speed the improvement of national health an immediate attack should be launched "on those diseases which sap the vitality and undermine the productivity of the people."\(^{42}\) The report also notes that, "While the curative services have developed rapidly, measures for the prevention of disease and promotion of good health have not kept pace."\(^{43}\) Moreover, it emphasized that, "one of the most important sectors of the entire public health program should be a well-planned attack on the leading endemic diseases, e.g., schistosomiasis (bilharzia), malaria and ankylostomiasis (hookworm)."\(^{44}\)

The monetary cost of curing and preventing these diseases is justifiable because of improved well-being, the increase in productivity of the population, and indirectly the national wealth. It is a good investment. As a preventative measure, the Board should extend financial assistance to municipalities in order to enable them to eliminate environmental conditions where such diseases thrive, i.e., improvement of the sewage system, closing of open drains, eliminating stagnant ponds, acquiring and using certain chemicals (e.g., copper sulphate and DDT). The above measures and the Board's improvements in drainage would tend to eliminate the conditions contributing to bilharzia, malaria, and hookworm. With regard to tuberculosis and

\(^{42}\)I.B.R.D., \textit{op.cit.}, p. 49.  
\(^{43}\)\textit{Tbid.}, p. 362.  
\(^{44}\)\textit{Tbid.}, p. 369.
trachoma, the betterment of housing accommodations and food diets would effectively contribute towards their substantial reduction and ultimate elimination.

Curative measures are left to the Ministry of Health. There is need for adequate medical centers, full and efficiently staffed, and for infirmaries and dispensaries, especially in congested areas. A mobile health unit, periodically visiting places where they are needed, may be a good starting point until the construction of medical centers in selected areas is completed. Also, a comprehensive health-educational program should be incorporated in the country's educational system.

IV. SUMMARY

Revenues from oil and the abundance of natural resources provided a national impetus towards economic expansion and development. Accordingly, a Development Board was organized and entrusted with the responsibilities of preparing and executing an overall plan for economic development, with a substantial portion of the country's royalties from oil segregated for this purpose. But a successful development program must incorporate certain features; namely, expenditures should be guided, not by available financial resources, but by the availability of raw materials and labor, and by the trends in output and prices. Increases in prices are likely to occur, but their proper function is to increase output. Development of the various projects should be coordinated in order to avoid "bottlenecks" and economic waste. Also, contemplated projects should be dispersed throughout the country for the maximum "welfare", 
beginning with those projects which will bring beneficial results to
the majority of the population in the shortest time.

Neither material nor financial factors present a serious
obstacle to economic development in Iraq. The main drawback is the
lot of the human being. The present condition of the people and of
the labor force in general, and the lack of labor skills in particular,
may be the gravest impediment in the path of economic expansion.
Disease and illiteracy have sapped productivity. The threat of annual
devastating floods, exhausted soil, the poverty of nearly all workers
indicate the urgent need for a comprehensive development program which
would incorporate many improvements both human and material. The major
project of water use and conservation must tie in with improvements in
agriculture (e.g., irrigation and drainage systems, soil building)
and with gradual industrialization, and with the building and improving
of transportation and communication facilities. But this material
development must be coordinated with and must serve as a stimulant
towards the betterment of individuals and their living conditions, such
as improving public health services, and elevating literacy standards.
Also, the civil service system should be renovated and government depart-
ments staffed with adequate and competent personnel in order to assure
effective administration of the development program.

These various needs and proposals have been taken into consid-
eration by the government and the Development Board. They have been
undertaken for the most part in the Board's plans. Since the Board is
still in its infancy, it is not possible to evaluate its achievements
and contributions at present.
CHAPTER EIGHT

SUMMARY AND CONCLUSION

Iraq is a small country of 168,000 square miles. Its population of approximately 5,000,000 is predominantly Arab. A major part of the country is desert, but its two great rivers, the Tigris and the Euphrates, provide water for an economy which is largely agricultural. Approximately two-thirds of the people are engaged in agriculture.

The oldest civilization in the world has been traced to Iraq. Under the Abbasides of Baghdad, Iraq reached the apex of its civilization which lasted about five centuries. In the thirteenth century, A.D., Iraq lost its independence after the destruction of the Arab Empire by the Mongols. From that time until the early part of the twentieth century the people of Iraq lived in the Dark Ages. Their main experience was poverty and maladministration.

With the collapse of the Ottoman Empire, Britain occupied Iraq because of its strategic position and possession of probable oil resources. Consequently, military occupation was extended from 1917 to 1920. This was replaced by a civil regime which was finally terminated by a decision of the League of Nations in 1932. Iraq became independent and the first Arab member of the League of Nations.

The presence of foreign powers in Iraq, whether Turkish or British, over such a long period, aggravated public feeling and produced an extreme nationalism and anti-colonialism. This nationalistic movement was strengthened by the partition of Palestine which excited anti-British and anti-American sentiments throughout Iraq and the Middle East.
However, Nuri-es-Said, Britain's old friend, was always able and successful in directing policies in Iraq, and to some extent in the Arab world, so as to maintain friendly relations with the Western powers. Nevertheless, Iraq has not yet enjoyed real stability and maturity in its internal political affairs which is an essential requirement for economic development and expansion. There is no doubt that domestic political disorder and disturbances would curtail and retard the achievements of any contemplated economic reform program in the country.

Sociologically, the Iraqi society, because of its centuries of experience, is permeated with distrust and dissatisfaction. It is composed of a population burdened by disease, illiteracy and poverty. A long time will be required to improve and elevate its standards to those of the advanced democratic societies of the world. This background of the Iraqi people must always be kept in mind when passing judgment on their achievements in recent history.

The impact of the more developed countries of the world by means of the advances in transportation and communication, and the direct contact with these countries during the Second World War kindled an incentive among the Iraqis towards improvements and progress. The lack of capital, which in the past was one of the prime drawbacks, is now no problem. The new oil agreements provide the basis for progress and development.

The substantial expenditures by the Allied Armies during World War II, augmented by a sharp decline in the value of imports and a noticeable increase in the value of exports, resulted in an unprecedented
accumulation in Iraq's foreign exchange reserves, particularly sterling balances held in London. As a consequence of this build-up, Iraq for the first time emerged as a creditor country in 1945.

The sharp increases in imports immediately following World War II continued in greater proportion than the increase in exports. Trade deficits became larger and reached their peak in 1948. During this year the unusual increase of the trade deficit was accounted for by the closing of the Haifa pipeline immediately after the Palestinian War, and by crop failures. The latter necessitated increases in imports and a sharp reduction in exports.

It was not until 1950 that the unfavorable balance of trade was reversed because of the new oil agreement which brought about a substantial increase in production and export of oil, and a larger share of royalties for Iraq. The deficit, existing prior to 1950, was financed by drawings on Iraq's sterling balances, by local capital investments of the oil companies, by advances of these companies, and by some domestic loans. Some of these transactions were necessary because of the temporary blocking of Iraq's sterling balances in London during 1947. Later, the expansion in the United Kingdom's foreign exchange balances and gold holdings eased restrictions on the blocked balances. Also, the revenue from oil royalties, which showed a marked increase as a result of the 1950 agreement, was further augmented by modification of the oil agreement in 1952. This stipulated the sharing of oil revenue on an equal basis. As a result, Iraq has since enjoyed a surplus in the current account of its balance of payments.
Iraq's exports consist almost entirely of primary or raw materials while imports consist chiefly of manufactured goods. The main export is crude oil. Other major exports include barley, dates and, to a lesser degree, animals and animal products. The main imports are machinery, iron, steel, textiles, sugar and tea. Local climatic conditions affect Iraq's ability to export agricultural products. The sharp decline in exports in 1948 was primarily due to bad harvests (as in 1951, 1952 and 1954), and the increase in exports in the following years was due to favorable crop seasons. The Korean War, which caused an increase in prices of raw materials and manufactured goods, was responsible for increasing the value of both imports and exports during 1950-1951.

Excluding oil, the United Kingdom throughout Iraq's short history has continued to receive the largest share of Iraqi exports. India, Japan, The Netherlands, the United States, and some neighboring countries are Iraq's important customers. However, with the inclusion of oil exports, France becomes Iraq's major customer. As to imports, the United Kingdom also remains the primary supplier, followed in importance by the United States, Japan, Italy, and India. But in recent years Iraq's trade agreements have made some temporary shifts in the direction of its trade.

Since the undertaking of the development projects and investment programs, the composition of imports and exports has changed. Because of the investments and the limited amount of locally produced goods, reasonable price levels could not be maintained unless goods were made available by importing in order to cope with the increased
demand. To attain this goal, the central authorities encouraged the importation of goods, and restricted exports to certain surpluses. The expansion of imports was partially due to increased imports of capital and construction goods for development purposes. In general, the probability of a continued demand in excess of national production at reasonable prices means that an adequate amount of foreign exchange reserves must be maintained to finance deficits in trade account. Otherwise, long-term borrowing will be necessary.

The proposed relatively huge investment program, made possible by the accumulation of substantial revenues, cannot be achieved smoothly unless the process of expansion is effectively regulated throughout its successive steps. Certain measures are needed to direct and control economic processes. For the interests of the whole economy, there must be effective monetary and fiscal measures in order to realize the goal of a maximum rate of economic development and expansion compatible with the avoidance of general inflation, and with the maintenance of an adequate foreign exchange reserve.

It was found that neither the National Bank of Iraq nor the Treasury could, at present, exert such direct and effective control on the economy, especially to curb an expansion leading towards inflation. For instance, the National Bank, faced with the high liquidity position of the commercial banks, the Treasury and the Development Board, and the lack of powers by statute to reduce substantially this liquidity, is drastically limited in executing effectively any monetary policy to cope with unfavorable developments in the national economy. Moreover, the National Bank's ineffectiveness is accentuated by the absence of
money and capital markets.

As a result of these circumstances, the National Bank must rely on passive measures, thus reducing its importance in executing the monetary responsibilities which will naturally increase as the expansion program proceeds. The National Bank, as the central monetary authority, must be strengthened in order to fulfill its responsibilities successfully. Such an alteration requires a change in its statutory structure so as to implement it with the necessary power to reduce substantially the abnormal liquidity position of the banking institutions. This involves the power to widen the limits of reserve requirements. Also, direct control over the credit policies of commercial banks and the power to create a money and capital market are essential. Once these are established, the traditional measures of a central banking system would be effective in encouraging investment and expansion, or vice versa, depending on conditions.

Even if the above suggestions were adopted so as to strengthen the National Bank, its influence upon the country's economy would still depend greatly upon the support of all the fiscal authorities. Appropriate changes in fiscal policy are vital if the proposed expansion is to progress smoothly. But national fiscal policy is seriously hindered, especially in an attempt to curb developing inflationary tendencies, by the structure of government expenditures and revenues.

The outstanding feature of government expenditures is inflexibility. This is particularly true since the transfer of a major part of the expenditures on economic and development projects from the government budget to the Development Board, thereby diverting to the
Board an important tool in the country's fiscal control. Moreover, a substantial portion of government expenditures is for defense and police protection. A part of these expenditures is for the importation of armaments—a kind of expenditure not usually varied because of economic reasons. In general, a major portion of the government's expenditures is for essential functions and consists of wages and salaries. Any reduction in them, for instance, as a measure to retard expansion in the economy, would not appear to be feasible.

The nature of government revenues also hinders any fiscal policy which attempts to check inflation. A large portion of these revenues is made up of indirect taxes. Since a change in the rates or the introduction of new taxes requires parliamentary approval, which is time consuming, the effectiveness of indirect taxes as a fiscal instrument in controlling the economy is weakened. Insofar as the income tax is concerned, its poor administration and the negligible portion of the population affected by it greatly limit its effectiveness in terms of fiscal controls. But most important, the greatest portion of national income, that of agriculture (including agricultural land), remains completely untaxed.

To overcome these weaknesses and to augment further the effectiveness of a national fiscal policy, the legislative body should confer on the Treasury certain rights, namely, the authority to impose new taxes, or to raise existing ones whenever circumstances seem to require such action. The current situation also indicates the necessity of strengthening the administration of the income tax while widening its scope so as to include agricultural income.
The foregoing improvements in the fiscal system would provide an indispensable basis for controlling the process of economic expansion and development. Fiscal policy could then be used to reinforce monetary policy. But Iraq's goal of economic development cannot be achieved unless monetary and fiscal policies, and the plans of the Development Board are in harmony.

For the general plan of the Development Board to be successful, with the minimum of "bottlenecks" and difficulties, it must be formulated to include all major conditions needing improvement, but sufficiently flexible to handle any future adjustments. And in a country as economically underdeveloped and as sparsely populated as Iraq, investments must not be guided by availability of capital, but rather by availability of labor. In order to eliminate criticism and lack of cooperation from certain parts of the population and bring maximum benefit to a majority of the people, investment should be diversified over the largest possible area, beginning, of course, with projects appearing to be the most important economically. Diversification of investment will also eliminate future "bottlenecks", chiefly as to labor supply.

At present there is no shortage of labor, especially with the possibility of attracting "disguised labor" from the farming areas. But skilled labor is almost non-existent. Moreover, the very low productivity of the Iraqi fellah and laborer, because of poor health and a high degree of illiteracy, means that skilled labor is likely to remain a limiting factor. Thus, it is foreseen that Iraq's greatest handicap in economic development is neither capital nor material resources, but
human inadequacies. Therefore, any major economic development program must begin with improvement of the basis of living conditions, such as health and education.

Because of the natural and geographic conditions in Iraq which include important rivers (subject to floods), arid lands, fertile lands, and many material resources, any important plan of development must necessarily involve water improvements (flood control and irrigation) as its basic project. In addition, other projects, while not quite so vital, must be incorporated at an early date, such as improvements of agriculture and housing, the expansion of industry, and development of communications and transportation.

Improvements in the control of floods and in agriculture should be coordinated. The building of dams (after insuring a reasonable degree of protection against floods) should be for the purpose of providing irrigation and drainage channels. These are essential in order to increase agricultural production and productivity. Other measures for improving the techniques of farming should be undertaken at the same time and on a widespread basis.

Insofar as industrial expansion and development are concerned, they should be encouraged on a gradual basis, despite the availability of cheap fuel and many raw materials. For large-scale industrialization would quickly exhaust the scarce supply of skilled labor. But more important, the advantages of agricultural production greatly outweigh the limited advantages of industrial production in Iraq.

This does not rule out a certain degree of industrialization. But it must be limited in the beginning to those industries which have
raw materials available domestically and which have sufficient productivity to compete with goods now imported in large quantities. Any protection of industries against foreign competition by means of import tariffs or otherwise, should be highly selective, moderate, and temporary.

Benefits from agricultural improvements and industrial expansion cannot be fully realized unless supported by adequate transportation and communication systems. The present transportation system will hamper greatly economic development. The same situation exists concerning communications. Both must be improved as an integral part of the development program.

The Development Board is aware of the various conditions which need to be improved and the projects to be executed. These are incorporated in the country's major plan for economic development. With constructive guidance, the full cooperation on the part of the Iraqi people, and with a world at peace, these objectives can be attained. And lastly, but most important of all, they can be attained under a democratic system of government without loss of human rights and dignity.


**Arabic Literature**


GREAT BRITAIN


INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT


INTERNATIONAL MONETARY FUND


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**LEAGUE OF NATIONS**


UNITED STATES


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AUTOBIOGRAPHY

I, Evans Elias Ghazala, was born in Baghdad, Iraq, August 20, 1922. I received my secondary school education in the public schools of Baghdad. My undergraduate training was obtained partially at the American University of Beirut, Lebanon, and also at the University of Cincinnati, where I received the degree Bachelor of Arts in 1949. In 1950 I received my Master of Arts degree from the same University. While engaged in a research and survey program at the Irving Trust Company, New York, N.Y., I completed some graduate studies at New York University. In August, 1951, I received an appointment with the Rafidain Bank, Baghdad, where I acted in several capacities. Between January 1953, and June 1954, I continued my graduate studies at The Ohio State University and specialized in international trade and finance. This work completed the residence requirement for the doctorate and enabled me to become a candidate for the Ph.D. degree. I have been an employee of The Central Trust Company, Cincinnati, Ohio, during most of the time since 1954.