

## Post War Issues #4: Iraq, Paying Its Debt to Society

by [Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

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### ABOUT THE AUTHORS



[Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

Patrick Clawson is Morningstar senior fellow and director of research at the Washington Institute for Near East Policy.



### Brief Analysis

The U.S. and its coalition partners have insisted on the acceptance in principle of Iraq's responsibility to pay compensation for the loss, damage and injury its aggression has caused. While all agree on the importance of the principle, strong differences exist on how hard to push Iraq for actual cash. Kuwait and Saudi Arabia have raised the issue repeatedly at crucial junctures. Others have argued that reparations would provoke Iraqi resentment and/or opposition to arms control and regional security arrangements. Secretary of State James Baker and his British counterpart Douglas Hurd have suggested that if Saddam Hussein were overthrown, the coalition could adopt a new attitude about reparations and could even consider assistance to Iraq.

### The Case for Reparations

Iraq is a potentially wealthy country with valuable, easily recoverable oil reserves. While allied bombing destroyed Iraq's refineries, it had little effect on Iraq's oil production facilities. These could return to near-total operation within a year. Depending on the price of oil and Iraqi production levels, Iraq could then expect to earn \$15-20 billion per year. Iraq could use these oil earnings for many purposes. For example, Iraq could pay for civilian imports (about \$10 billion/year pre-war) and for debt service (which would require about \$5 billion a year were Iraq granted the same payment terms as Latin American nations). The \$5 billion per annum in debt service might be divided in the following way: \$1.5 billion to Arab governments, \$1.5 billion to commercial suppliers, \$.5 billion for bank debt, \$.3 billion to the Soviet Union, and \$1.2 billion for all other governments. The margin left for reconstruction or reparations thus could total up to \$5 billion a year. Iraq could earn additional capital by increasing its oil exports, or in the event that oil prices consistently exceeded \$15-\$18 dollars/barrel.

Reparations payments would not be excessive, because the war damages suffered by Iraq have been greatly exaggerated. Iraq could claim \$100 billion in damages only if pain and suffering were included. Iraq's entire stock of tangible wealth (besides land and minerals) is no more than \$100 billion, based on the rule-of-thumb that net wealth is three times GNP. Half of that is for households -- e.g., houses and cars -- little of which was damaged. The other \$50 billion is in business assets and infrastructure. Many of the facilities hit were damaged not destroyed. The cost of repairing this damage is a fraction the price of rebuilding from scratch. Furthermore, some of the reconstruction

work would merely accelerate the normal process of repair and replacement. To be sure, full return to the pre-war tangible wealth level might require as much as \$50 billion of additional investment over 5-10 years to rebuild depleted stocks of imported goods, and to import consumer goods until oil starts flowing again. Iraq could rebuild at the economically ideal pace if it raised oil output roughly 2 million barrels per day above the pre-war level.

Letting Iraq off the hook would invite Baghdad to return to its old ways of using all available resources for the military. This is unnecessary and unwise. Iraq retains a military more than ample to defend against aggression. There is no legitimate reason for any Iraqi government, Ba'athist or pro-Western, to buy arms, other than isolated spare parts. Were Baghdad to return to the world arms bazaar, it would raise troubling questions about Iraq's intentions. Reparations are one way to ensure that Baghdad does not have the capacity to prepare for renewed aggression. While Iraq may need money, so do its victims, and they have a better moral claim. Kuwaiti requirements include: rebuilding facilities; compensating its people for lost property and income; and meeting its pledges of more than \$15 billion to the coalition. Kuwait also has a right to compensation for the \$20 billion in oil income that the Iraqi-set fires will consume. Despite the image in the West of bottomless Saudi pockets, Saudi Arabia may exhaust its foreign reserves during 1991. Furthermore, a score of other nations have applied to the UN for relief from the damages caused by the invasion -- lost markets, lost remittances from workers in Kuwait, and higher oil prices.

### The Case Against Reparations

However, reparations could pose a number of political problems. In the first instance, over time reparations might inflame Iraq's leaders and/or its people. Second, reparations might also be divisive within the coalition. For example, reparations and reconstruction could only proceed if Iraqi oil output rose by such a large margin that Saudi Arabia and other Arab states were forced to reduce their output. In that case, reparations might become something of a shell game: Saudi income would be reduced to allow Iraq to earn enough to pay reparations to Saudi Arabia. While the potential recipients of reparations have a strong moral claim for some payment, this should not come at the expense of other U.S. interests in the region -- and insisting on reparations might require trading off other aims. On any list of U.S. regional goals, transfer of additional resources to Kuwait and Saudi Arabia would not rank very high. Clearly, the U.S. would find it far more important to secure Iraqi agreement on arms limitations and intrusive inspection of weapons production facilities than reparations.

In addition, it is clear that the objectives of limiting Iraq's military while repaying Kuwait and Saudi Arabia (the principal states who suffered from Iraqi aggression) could be achieved through other means more acceptable to world and Iraqi opinion. First, a tough stance on debt repayments would leave Iraq without any spare resources. For seven years, Iraq has been the only country in the world allowed to violate a carefully-constructed set of principles used by the industrial nations for debt rescheduling. Under these procedures, rescheduling is provided only in the event of agreement on an IMF reform program. Prior to August 2, finance ministries of the industrial nations already favored requiring Iraq to negotiate an IMF agreement (though the political leaders had not yet agreed). Iraq would benefit from an IMF program, and the world would also gain from the information the IMF would collect in one of the world's most secretive societies. Were the Iraqis to refuse the IMF conditions, then the original terms under which the debt was contracted could be enforced, which would require payments of very roughly \$15 billion a year. A second way to keep Iraq on a tight leash without using reparations would be to adopt a tough stance on re-opening of the oil pipelines. The UN sanctions could be kept in place or the same end could be achieved by lifting the sanctions but encouraging the Saudis and Turks to insist on full payment of all overdue debts before their pipelines were reopened. The commercial dispute over debt is a real factor, not a trumped-up excuse. Saudi Arabia and Turkey could well decide to keep the pipelines closed irrespective of the state of UN sanctions.

### Use the Reparations Threat to Encourage Saddam's Overthrow?

Reparations are but a means; the end should be to keep Iraq poor as long as Saddam is in power. Thus, the best

approach to the reparations issue would be to use reparations as one element in an allround program of economic pressure designed to make clear to Iraqis that their country will be poor and weak as long as Saddam is in power. Asked about aid to a post-Saddam Iraq, President Bush responded, "We'll give them a little free advice. And the advice will be: use [your] enormous oil resource." If a new and pro-Western government comes to power in Baghdad, there would be no reason for the coalition to provide grants or make loans that Iraq cannot afford to pay. The best way for Washington to help Baghdad repair the war damage quickly would be to agree to pay in advance for future oil deliveries for the Strategic Petroleum Reserve, or to encourage private commodity traders and banks to pay in advance of delivery for Iraqi oil. The principle for aiding Iraq, should the West wish to do so, should be to buy more oil, not to burden Western taxpayers.

Patrick Clawson is the editor of Orbis and a resident scholar at the Foreign Policy Research Institute. He was desk officer for Iraq and Kuwait at the International Monetary Fund in the mid-1980s. His most recent publications include two Washington Institute studies: Iraq's Economic and Military Vulnerabilities (Policy Focus #14, October 1990, with W. Seth Carus) and [Unaffordable Ambitions: Syria's Economic Crisis](http://www.washingtoninstitute.org/templateC04.php?CID=83) (<http://www.washingtoninstitute.org/templateC04.php?CID=83>). ❖

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