

I recently came back from about five months in Iraq, serving as CPA Administrator Bremer's economic advisor.

Security certainly is critical for longer-term success for Iraq. The progress with the economy as well with schools healthcare and other areas puts in stark relief what is at stake. The people of Iraq and the region can have a country that really works.

A foundation for a revolutionized economy is being put in place in Iraq. This new economy will challenge the economic policies and the politics of the whole region. From first-hand observation, I know it is an imperfect world there, often messy, but progress is real. Americans will see it over time, once the terrorists are held at bay.

You can see and feel progress from month to month. These stories of progress have been swept off the front page by coverage of the violence against democracy and reform. They represent significant building blocks for a country that works for all people of Iraq.

In June, we started paying 1.3 million government employees. This was a real accomplishment considering that our first steps were to find out who the employees were and then to deliver the cash all over the country.

In July, another milestone was reached when a new Iraqi currency was announced. The swap of the old for the new started throughout the country on October 15.

The 2003 and 2004 budget was developed for the national government, put together by a CPA team and Iraqis. They started out with almost no budget information, no surprise since Saddam's budget prewar was a state secret.

Banks were all closed just a few months ago, but now almost all are open. Checks are being cashed and some small loans are being extended. Shops on the street are busy. Electricity production is at pre-war levels and oil production is up substantially.

A few weeks ago sweeping economic reforms unlike any in the Middle East were announced by the finance minister.

Iraq wants jobs. The Iraqis concluded that an open economy would in time bring the investment to help create the jobs. The World Bank told Iraqis that in 2002 the Middle East attracted only \$4 billion in foreign investment as opposed to \$7 billion in Sub-Saharan Africa and approximately \$42 billion in Latin America.

However, Iraq cannot borrow its way into prosperity. It needs investment. The plan is to provide an edge in the global and domestic competition for investment.

A new law allows for foreign investment up to 100 percent of foreign ownership, full repatriation of investment and profits, national treatment and no screening committee. Six foreign banks can come into the country and take deposits immediately. There will be a fast track admission for two of these banks, looking to early and substantial loans by those banks. Several banks are showing interest.

The top bracket for individual and corporate taxes will be 15 percent. Low rates will make it possible to collect the taxes and will encourage investment. Tariffs are to be at a flat rate of 5 percent, with the exception of food, medicine, and a few other items with tariffs at zero.

These proposals were approved by the Governing Council, a very diverse and independent minded group. As Bremer's representative to the Economic Committee of the Governing Council, I worked closely with this group on various drafts of economic policy proposals for hours at a time. The meetings had the collaborative and democratic feel of an executive session of a legislative committee.

It is premature to speculate on how democracy will work in Iraq. However, from seeing the process of agreeing to economic reform, I see great potential.

Religious groups and individuals can work together if they are given enough time and opportunity.

A democratic process and market forces are mutually supportive perhaps both are necessary in Iraq. A democratic process should foster individual freedom and economic opportunity. Market forces can create widely held resources that give the means to avoid an arbitrary and exploitative government.

More certainly needs to be done. More credit needs to be made available through local and foreign banks, including to Iraqis who will need assistance to compete with or be part of foreign investments.

Iraq needs a competition law to prevent undue concentration of economic power and several other legal changes are necessary.

Also there is a need to continue to cut back on subsidies to government-owned companies and give the private sector room to grow. The World Bank has carefully studied post-war and post-communist transition economies. Those studies make it clear that the sooner subsidies are reduced the quicker an economic recovery.

In any case, historic progress can be made on these matters.

However, it will take time. Studies show that substantial economic growth occurs in post-transition economies over extended time periods. We can expect difficulty for a while in Iraq. There will be controversy. It is in the nature of change. A strong safety net for the poor, of course, must continue to be in place during this period of change.

The supplemental appropriations bill before Congress is important. It includes \$15 billion for infrastructure. The infrastructure was nearly destroyed by lack of maintenance for a generation, the war itself and the looting afterward. The infrastructure is critical for the economic recovery. For example, more electricity is central to economic production. Construction of the infrastructure and other needed expenditures will help spur economic activity. This activity will help to sustain political will in the country and allow time for the economic changes required to bring about economic growth that benefits the Iraqi people.

Change will not be easy, but the impact of an open economy, paired with some type of democratic process in Iraq, will change the lives of the Iraqi people and impact the whole region.

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