

Testimony of Lawrence J. Korb
Senior Fellow Center for American Progress
Before the House Budget Committee September 16, 2008

Introduction

Chairman Spratt, Ranking Member Ryan, and other members of the committee, I appreciate the opportunity to testify before you today to discuss the Iraqi government's huge and growing budget surplus and to place it in the context of the horrendous costs of the war in Iraq to our troops, their families, the Iraqi people, and the American taxpayer. I commend the committee for holding this hearing at such a critical moment in America's long and unanticipated involvement in Iraq.

Violence in Iraq is at its lowest levels since 2004. By almost every measure, ethno-sectarian violence in the country has declined from the horrific levels of a year ago. Shiite militias, such as Muqtada Al-Sadr's Mahdi Army, have been weakened because Sunni insurgents began cooperating with us against Al Qaeda in Iraq, or AQI, as a result of the U.S. midterm elections in 2006 and the horrible practices of AQI. AQI, which was only supported by some Iraqis because of their fear of an indefinite American occupation, has lost that support and is no longer able to operate in many parts of the country. And the American general in charge of training the Iraqi Security Forces has stated that the Iraqi army and police will be able to assume full responsibility for internal security as early as April 2009.

But while the reduction in violence has produced tenuous security gains in Iraq, it has not yet resulted in a sustainable political equilibrium that is able to lock in what progress has been made. Rather than creating breathing room for the Iraqi government to undertake meaningful political reconciliation between Iraq's competing ethnic and sectarian groups—the objective of the surge—the continued large-scale American troop presence has allowed the Iraqi government to stall on making the tough choices that a timetable for an American withdrawal would force them to confront.

While there has been apparent progress on some uncontroversial legislation, the Iraqi government has yet to set a date for much-needed provincial elections originally scheduled for October, pass an oil-sharing law, meaningfully implement de-Baathification reform and the amnesty law, and finalize the legal status of the disputed city of Kirkuk.

Nowhere is this failure to govern responsibly more apparent than in the implementation of the budget by the government of Prime Minister Nuri al-Maliki. While Iraq's ability to generate revenue continues to grow, its capability and willingness to effectively and efficiently execute its budget is virtually non-existent. As I will note below, Iraqi budgets have been passed but only a fraction of Iraq's revenue has been spent. After more than five years of having the American taxpayer bear the full cost of Iraq's reconstruction and stabilization, it is time for the Iraqi government to take budgetary responsibility, especially since the Bush administration is forced to borrow money from abroad to pay these bills.

As Mr. Christoff noted, Iraq's revenues and its budget surplus are large and growing. Transferring more of Iraq's financial burden to the Iraqis is not only a fiscal necessity for the United States; it is also a way for the Maliki government to gain the trust of the Iraqi

Testimony of Lawrence J. Korb
Senior Fellow Center for American Progress
Before the House Budget Committee September 16, 2008

people. By assuming a greater role in Iraq's reconstruction, providing essential services, and creating much-needed jobs, the government can provide an impetus for political reconciliation. Former Afghan Finance Minister Ashraf Ghani put it well when he recently said, "the budget is where social rights meet social obligations." The United States must begin transferring financial responsibilities to the Iraqi government immediately in order to give the Maliki government the incentive to take responsibility for the well-being of ordinary Iraqi people.

But in doing so the United States must exercise strict oversight, offer guidance, share best practices, and provide honest criticism of shortcomings as the Iraqis take on more budgetary responsibility. Financial mismanagement, a lack of bureaucratic infrastructure, and widespread corruption all have the potential to derail initiatives to improve the lives of the Iraqi people. Similarly, transferring budgetary authority for security programs such as the "Sons of Iraq"—scheduled for October 1 of this year—to the Iraqi government without ensuring that the Maliki government does not carry out its policy of eliminating these Sunni militias could undermine recent security progress.

Before I outline the steps necessary to rein in corruption and correct budgetary mismanagement, let me put Iraq's budget surplus into context.

A quick and cheap war

In 2002, in the lead-up to the unnecessary and unjustified invasion and occupation of Iraq, members of the Bush administration assured the American people and Congress that this would be a quick and relatively inexpensive war, both in terms of blood and treasure. In a September 2002 interview with *The Wall Street Journal*, former White House Economic Advisor Larry Lindsey estimated that the price tag for the Iraq war would be between \$100 billion and \$200 billion. Lindsay astoundingly went on to argue that, while this was an "upper bound" estimate, the successful prosecution of the war would actually "be good for the economy."

The Bush administration quickly sought to distance itself from Lindsey's initial estimate, contending erroneously that it was much too high. When asked about the financial cost of the war, Indiana Governor Mitch Daniels, then Director of the Office of Management and Budget, called Lindsey's estimate, "very, very high" in an interview with *The New York Times*. Daniels then stated that the cost of the war would be in the range of \$50 billion to \$60 billion.

In order to gain support for the war, even this relatively low-ball estimate was rejected by the White House. Then Deputy Defense Secretary Paul Wolfowitz stated that estimates such as Lindsey and Daniels' were, "so dependent on future, unpredictable circumstances as to be of little value." In fact, Wolfowitz and others in the administration assured Congress that the war in Iraq would pay for itself. Referring to the cost of rebuilding Iraq after the American invasion, Wolfowitz testified before the Defense Subcommittee of the House Appropriations Committee that, "there's a lot of money to pay for this that doesn't have to be U.S. taxpayer money, and it starts with the assets of the Iraqi people. ... The oil revenues of that country could bring between \$50 billion and \$100 billion over the course

Testimony of Lawrence J. Korb
 Senior Fellow Center for American Progress
 Before the House Budget Committee September 16, 2008
 of the next two to three years.... We're dealing with a country that can really finance its
 own reconstruction, and relatively soon."

The cost of the Iraq war to the American taxpayer

Like every other statement about the war, history has shown the Bush administration's estimates of the financial cost of the war to be wildly off the mark. Since fiscal year 2003, when the Department of Defense and other federal agencies began appropriating funds for the initial invasion, Congress has appropriated approximately \$653 billion dollars for the war in Iraq. (This sum includes the FY 2008 Supplemental H.R. 2642/ P.L. 110-252. These funds are expected to last through June or July of 2009).

Chart 1¹

	Fiscal year 01/02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09 bridge	Total
Department of Defense	0	50	56.4	83.4	98.1	129.6	145.4	53.4	616.2
Foreign aid and diplomatic operations	0	3	19.5	2	3.2	3.2	2.8	0.8	34.4*
VA medical	0	0	0	0.2	0.4	0.9	1	0	2.5
Total: Iraq	0	53	75.9	85.5	101.7	133.6	149.2	54.3	653.1

* Note: Foreign aid and diplomatic operations do not include the full range of reconstruction and stabilization funds.

While the vast majority of U.S. expenditures on Iraq have been appropriated through the Department of Defense for security operations (see Chart 1), both DoD and other federal agencies, such as USAID and the Departments of Treasury and State, have contributed significant funds for stabilization and reconstruction activities (see Chart 2).

Chart 2²

Fiscal year	2003	2004	2005	2006	2007	2008 consolidated	Enacted total 2003-2005	Unenacted 2008 supp. req.
Total non-DoD funds (State, USAID, Treasury, etc.)	2,944.90	18,440.20	3.6	1,657.70	2,159.90	260.5	25,466.80	986
Total DoD funds (050 funds)	853.2	140	6,319	3,715.00	6,317.70	1,870.00	19,267.90	1,959.70
Total U.S. reconstruction asst.	3,798.10	18,580.20	6,322.69	5,372.70	8,477.60	2,130.50	44,734.70	2,945.70

¹ Congressional Research Service, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11," July 14, 2008

² Congressional Research Service, "Iraq: Reconstruction Assistance," May 22, 2008.

Testimony of Lawrence J. Korb
Senior Fellow Center for American Progress
Before the House Budget Committee September 16, 2008

In fact, the funds already authorized for reconstruction and stabilization alone approach estimates by the Bush administration of the war's total cost. According to the Government Accountability Office, since fiscal year 2003 Congress has appropriated approximately \$48 billion to finance stabilization and reconstruction efforts in Iraq through various U.S. agencies (see Chart 2). This figure includes funds dedicated to developing Iraq's security forces and efforts to enhance Iraq's capacity to govern, as well as funds to rebuild the country's oil, electricity, and water sectors, among others.³

As of June of this year, approximately 88 percent of this \$48 billion has been obligated (\$42 billion), while only 68 percent (about \$32 billion) has been spent. Over two-thirds of the funds spent to date (approximately \$23 billion) have supported reconstruction and stabilization activities in the security, oil, water, and electricity sectors. This leaves the United States with over \$16 billion in unspent funds for stabilization and reconstruction.

The Iraqi government's surplus

Despite miscalculations and misrepresentations by Wolfowitz and other Bush administration officials about how and why to overthrow the regime of Saddam Hussein, Wolfowitz's prediction that Iraq could pay for its own reconstruction has finally come to pass—albeit nearly six years after the fact. While it was certainly not the case that the Iraqi interim government, formed in the aftermath of the invasion, was capable of providing funds for its own reconstruction, Iraq's financial status has improved along with the security situation. Record oil prices, steady investment in Iraq's oil infrastructure, and an improved security situation have all contributed to the government's improved financial situation.

Because Mr. Christoff provided details of the Iraqi government's budget surplus in his opening testimony, I will not spend much time defining the surplus, nor will I go into great detail in regard to how it was accumulated. However, I will analyze several trends in Iraqi government spending, or lack thereof, that demonstrate the unwillingness of that government to spend its large and growing revenues on its own people.

First, while the Iraqi government's revenues and total expenditures are increasing, its expenditure ratio (actual expenditures for a ministry or activity divided by the budgeted amount for this ministry or activity) has actually been decreasing steadily. That is, while the Iraqi government is spending more money every year in absolute terms, as the amount of revenue it accrues from oil profits and other tax revenue increases, the actual amount the Maliki government is spending on government salaries and investment projects relative to its budget allocations is decreasing. GAO first noticed this trend in 2005 when the government was spending just 73 percent of its budget allocations. This number dropped to 67 percent in 2006, and continues to decline. In 2007, it spent only 65 percent of the allocated funds.

Second, the Maliki government is not using its growing revenues to invest in its future. In every year since 2005, "Iraq spent a greater percentage of its operating budget, including salaries, than its investment budget. For example, in 2007, the Iraqi government spent 80

³ GAO08-1031 P 16. Note that the Congressional Research Service places this number at \$34.4 billion.

Testimony of Lawrence J. Korb
Senior Fellow Center for American Progress
Before the House Budget Committee September 16, 2008

percent of its \$28.9 billion operating budget and [only] 28 percent of its \$12.2 billion investment budget.”

This lack of investment is especially evident in the actions of Iraq’s central ministries which deal with the electrical, water, oil, and security sectors. These central ministries, which are “responsible for providing essential services to the Iraqi people, spent a smaller share of their investment budgets than the Iraqi government as a whole. Further, their investment expenditure ratios declined from 14 percent in 2005 [to 13 percent in 2006] to 11 percent in 2007. Specifically, while the central ministries budgeted \$5.7 billion and \$8.1 billion for investments in 2005 and 2007, they [only] spent \$825 million and \$896 million, respectively.”

Overall, while the Maliki government allocated \$28.0 billion for investment by its main central ministries from 2005 to 2008, by April 2008 it had spent only 14 percent of it, or \$3.9 billion. These spending shortfalls are particularly worrisome given the important services these sectors have to provide to ordinary Iraqi citizens. The lack of these essential services, due in part to the Maliki government’s lack of spending on their respective sectors, means that the central government is increasingly irrelevant in the lives of ordinary Iraqis—a situation that does not bode well for the Iraq’s future stability.

The United States should insist that the Maliki government begin using its increasing budget surplus to fund its own national reconstruction. However, the United States must recognize that the government’s ability to do so is still significantly hampered by a lack of administrative capacity.

Addressing Iraqi government capacity

A lack of management skills, bureaucratic infrastructure, and widespread corruption have significantly degraded the Iraqi government’s capacity to manage and allocate its large and growing budget surplus.

Infrastructure deficit and budget mismanagement

Government-wide de-Baathification, enacted by the Bush administration in May 2003, is primarily responsible for Iraq’s severe lack of qualified budget and procurement professionals. A report issued by the Special Inspector General for Iraq Reconstruction demonstrates how the Iraqi interim government, “not only purged the remaining skilled ministerial staff, but also replaced them with persons hired more for their ethnic loyalty and/or family relationship than for their qualifications.”⁴

The decision by Ambassador L. Paul Bremer—that was supported by President George W. Bush and other political appointees in the administration but opposed by most military and diplomatic officials—to institute aggressive de-Baathification policies undermined Iraq’s ability to construct a functioning government significantly. The GAO reported that the Coalition Provisional Authority’s de-Baathification program “provided

⁴ Office of the Inspector General for Iraq Reconstruction, “Status of Ministerial Capacity Development in Iraq” (January 2007), available at <http://www.sigir.mil/reports/pdf/audits/06-045.pdf>.

Testimony of Lawrence J. Korb
Senior Fellow Center for American Progress
Before the House Budget Committee September 16, 2008

for the investigation and removal of even junior party members from upper-level management in government, universities, and hospitals.”⁵ In November 2004, the director of the Supreme National Commission for de-Baathification, Mithal al-Alusi, estimated that as a result of the commission’s work, “thirty-five thousand Ba’ath Party members have left their jobs.” In total, the director claimed the commission had focused its efforts on a group of about 65,000 former party members.⁶

This sweeping de-Baathification created a severe lack of human infrastructure in Iraq’s ministries. In testimony earlier this year before the House Committee on Oversight and Government Reform, former U.S. Comptroller General David Walker cited an Iraq Reconstruction Management Office study, which found that in 11 of 12 surveyed ministries, the majority of staff did not have proper training for their positions. He remarked that “the lack of trained staff has particularly hindered the ability of ministries to develop and execute budgets.”⁷

Some progress has been made in reversing the damage done by these policies. Some relatively lower ranking former Baathists have been permitted to appeal their dismissals and request reinstatement. Finally, in the beginning of 2008, after much foot dragging, the Maliki government finally approved the Accountability and Justice Law, also known as the de-Baathification law, which replaced the old de-Baathification guidelines.

Unfortunately, as the International Center for Transitional Justice discovered, this new law will bring about only small changes. For example, it opens the appeals process to a larger number of Iraqis, and allows most workers fired under the law to collect government pensions. On balance though, it does not significantly change the old system. In fact, the law extends de-Baathification standards “to a number of organizations not previously affected, including the Iraqi judiciary.”⁸ In effect, there will be fewer former Baath party members in government in the new system than in the old.

Addressing Iraqi corruption

Even if budget funds can be competently and effectively allocated, the United States must ensure that money allocated for reconstruction and stabilization is stolen by corrupt officials. In Transparency International’s 2007 Corruption Perceptions Index, Iraq was ranked 178 out of 180 countries, with only Myanmar and Somalia perceived as more corrupt.⁹ In July 2008, SIGIR released an updated assessment of anticorruption efforts in the country. While this document commended the Iraqi government for ratifying the U.N. Convention Against Corruption, or UNCAC, and noted that the U.S. Embassy in Iraq had taken steps toward strengthening its anticorruption programs, the report made clear that there is still a great deal of room for improvement.¹⁰

⁵ <http://www.gao.gov/new.items/d08117.pdf>

⁶ Anderson, Jon Lee. “Out on the Street: The United States’ de-Baathification program fuelled the insurgency.” November 15, 2004. *The New Yorker*.

⁷ <http://www.gao.gov/new.items/d08124t.pdf>

⁸ <http://www.ictj.org/images/content/7/6/764.pdf>

⁹ http://www.transparency.org/policy_research/surveys_indices/cpi/2007

¹⁰ <http://www.sigir.mil/reports/pdf/audits/08-023.pdf>

Testimony of Lawrence J. Korb
Senior Fellow Center for American Progress
Before the House Budget Committee September 16, 2008

In 2006, Stuart Bowen, the head of SIGIR, correctly labeled corruption Iraq's "second insurgency."¹¹ At that time, the Maliki government estimated that corruption was costing it \$4 billion per year.¹² Moreover, in some cases, corruption provided a direct benefit to insurgents. In November 2006, *The New York Times* uncovered a classified U.S. government report, which estimated that Iraqi insurgent groups were taking in between \$25 million and \$100 million a year "from oil smuggling and other criminal activity involving the state-owned oil industry, aided by 'corrupt and complicit' Iraqi officials."¹³ Although the Maliki government claims that it is trying to reign in corruption, it does not yet have an effective system for doing so.

For example, in March 2008, the State Department reported that the Iraqi Commission on Integrity, or CoI, an independent body tasked with investigating corruption, had been able to hear only 214 of 3,100 cases on its docket. State noted that the Maliki government has not provided the necessary infrastructure for handling such a large volume of work. Moreover, in trying to adjudicate corruption cases, the body, "confronted high-level attempts to influence prosecutions of members of the ruling party."¹⁴ In testimony before the House Committee on Oversight and Government Reform in October 2007, the former head of the commission, Judge Radhi al-Radhi, reported receiving death threats before his resignation the previous month, and informed the committee that, "since the establishment of the Commission of Public Integrity, 31 employees have been assassinated..."¹⁵

Finally, even when the commission has been able to hear cases, the Iraqi legal system presents significant roadblocks for prosecuting those guilty of corruption. SIGIR reported that the Iraqi Criminal Procedure Code contains a provision under which ministers can stop corruption cases from moving forward. In 2007, they did so at least 67 times in order to protect their own employees from prosecution.¹⁶

Recommendations

To get the Maliki government to spend its budget surplus efficiently and effectively, let me make the following recommendations:

- **Provide a soft landing for Sunni militias.** On October 1 of this year, the Maliki government will assume administrative and operational responsibility for Sons of Iraq militias in and around Baghdad. Sunni militias in other parts of Iraq are slated to be put under the central government's control later this year. Prime Minister Maliki has stated his intention to incorporate only 20 percent of these militiamen into the Iraqi Security Services while promising to provide civilian jobs and training for the other 80 percent.

¹¹ http://www.sigir.mil/reports/pdf/testimony/SIGIR_Testimony_06-003T.pdf

¹² <http://www.guardian.co.uk/world/2006/dec/02/usa.iraq>

¹³ <http://www.nytimes.com/2006/11/26/world/middleeast/26insurgency.html>

¹⁴ <http://www.sigir.mil/reports/pdf/audits/08-023.pdf>

¹⁵ <http://reform.democrats.house.gov/documents/20071004103646.pdf>

¹⁶ <http://www.sigir.mil/reports/pdf/audits/08-023.pdf>

Testimony of Lawrence J. Korb
Senior Fellow Center for American Progress
Before the House Budget Committee September 16, 2008

If the Iraqi government integrates these militiamen successfully into state institutions, it will be an important step in advancing political accommodation and the elected government's monopoly on the use of force. If, however, Maliki's administration does not provide these fighters with a viable alternative to returning to the insurgency or attempts to arrest them, many of the recent security gains could be undercut relatively quickly.

As the United States transitions administrative and operational responsibility for the Sons of Iraq to the Maliki government, we must ensure that it does not again take actions that could alienate tens of thousands of armed and experienced fighters. The United States must ensure that Sons of Iraq members are paid their normal salaries until fully integrated into the security forces, government jobs, or training programs. If the Maliki government drags its feet, the United States must pressure the Iraqi government to implement a full integration program for these militiamen.

- **Fully implement de-Baathification.** Although the Accountability and Justice Law may not be inclusive enough to repair the damage done by the extensive de-Baathification of 2003, it is an opportunity for many qualified professionals to re-enter the civil service. The United States should pressure the Iraqi government to ensure that this moderate advance is implemented fully. As of June 2008, the government of Iraq had not yet appointed members to the committee slated to replace the old de-Baathification apparatus, and the current committee has received conflicting instructions from the Iraqi government about whether to proceed with reinstatement petitions.¹⁷

Not only does this represent a failure to meet one of the benchmarks agreed to by the Congress and the administration (which require the government to both enact *and* implement a de-Baathification law), but it slows down the process of rebuilding a competent bureaucracy. The United States must pressure the Iraqi government to make progress on this important issue.

- **Pursue anticorruption within the Iraqi government.** In addition to pushing for the reinstatement of competent workers, the United States must be prepared to make a sustained commitment to reduce corruption in the government of Iraq. In January 2007, SIGIR reported that U.S. government agencies working with Iraqi ministries did not have clearly defined shared goals or consistent methods for information sharing. The Joint Task Force on Capacity Development was created to correct these shortfalls. However, SIGIR found it had "limited authority to coordinate the various activities and to establish an overall capacity-development agenda."¹⁸
- **Set a timetable for withdrawal and institute a diplomatic surge.** Until we set a specific timetable for withdrawal, the Iraqi government will not have the incentive to get its act together and take responsibility for its own destiny and begin

¹⁷ <http://www.reuters.com/article/latestCrisis/idUSYAT251579>

¹⁸ <http://www.sigir.mil/reports/pdf/audits/06-045.pdf>

Testimony of Lawrence J. Korb
Senior Fellow Center for American Progress
Before the House Budget Committee September 16, 2008
spending its own funds. Moreover, until it is clear that we are leaving, the
countries region will not have the incentive to work with the Iraqi government to
ensure that Iraq does not become a failed state.

Conclusion

The failures of the Bush administration to ensure that the Maliki government spends its increasingly large budget surpluses on its own reconstruction and stabilization is a symptom of a much larger problem with the way that this war was justified and conducted. Although we cannot undue the damage that has been done to our military personnel and their families, the cost to the American taxpayer, the damage to military readiness, our overall financial situation, and the harm to our reputation in the world, we can take a small step by demanding that the Maliki government pay for its own reconstruction and stabilization.