Baghdad Year Zero

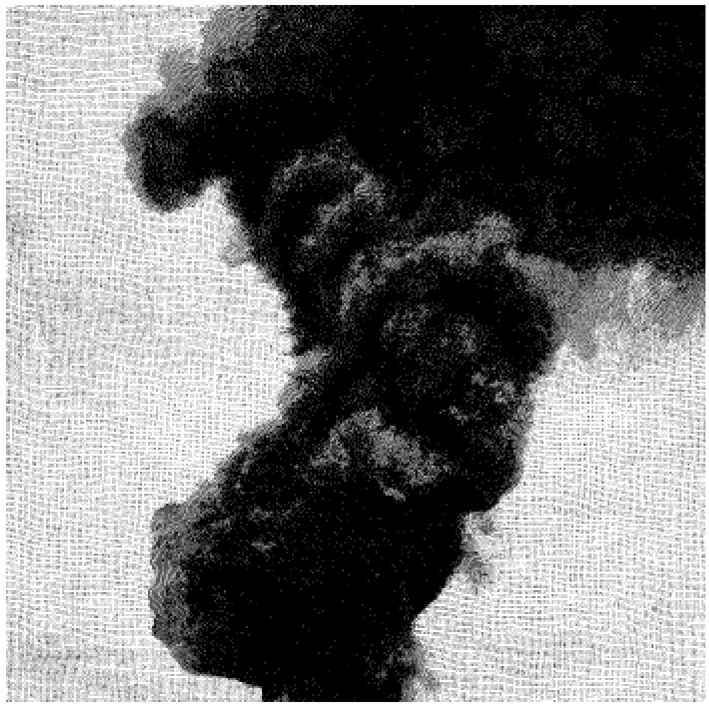
Pillaging Iraq in pursuit of a neocon utopia

http://www.harpers.org/BaghdadYearZero.html
Posted on Friday, September 24, 2004. Originally from Harper's Magazine, September 2004. By Naomi Klein.

It was only after I had been in Baghdad for a month that I found what I was looking for. I had traveled to Iraq a year after the war began, at the height of what should have been a construction boom, but after weeks of searching I had not seen a single piece of heavy machinery apart from tanks and humvees. Then I saw it: a construction crane. It was big and yellow and impressive, and when I caught a glimpse of it around a corner in a busy shopping district I thought that I was finally about to witness some of the reconstruction I had heard so much about. But as I got closer I noticed that the crane was not actually rebuilding anything—not one of the bombed-out government buildings that still lay in rubble all over the city, nor one of the many power lines that remained in twisted heaps even as the heat of summer was starting to bear down. No, the crane was hoisting a giant billboard to the top of a three-story building. SUNBULAH: HONEY 100% NATURAL, made in Saudi Arabia.

Seeing the sign, I couldn't help but think about something Senator John McCain had said back in October. Iraq, he said, is “a huge pot of honey that's attracting a lot of flies.” The flies McCain was referring to were the Halliburtons and Bechtels, as well as the venture capitalists who flocked to Iraq in the path cleared by Bradley Fighting Vehicles and laser-guided bombs. The honey that drew them was not just no-bid contracts and Iraq's famed oil wealth but the myriad investment opportunities offered by a country that had just been cracked wide open after decades of being sealed off, first by the nationalist economic policies of Saddam Hussein, then by asphyxiating United Nations sanctions.

Looking at the honey billboard, I was also reminded of the most common explanation for what has gone wrong in Iraq, a complaint echoed by everyone from John Kerry to Pat Buchanan: Iraq is mired in



blood and deprivation because George W. Bush didn't have “a postwar plan.” The only problem with this theory is that it isn't true. The Bush Administration did have a plan for what it would do after the war; put simply, it was to lay out as much honey as possible, then sit back and wait for the flies.

* * *

The honey theory of Iraqi reconstruction stems from the most cherished belief of the war's ideological architects: that greed is good. Not good just for them and their friends but good for humanity, and certainly good for Iraqis. Greed creates profit, which creates growth, which creates jobs and products and services and everything else anyone could possibly need or want. The role of good government, then, is to create the optimal conditions for corporations to pursue their bottomless greed, so that they in turn can meet the needs of the society. The problem is that governments, even neoconservative governments, rarely get the chance to prove their sacred theory right: despite their enormous ideological advances, even George Bush's Republicans are, in their own minds, perennially sabotaged by meddling Democrats, intractable unions, and alarmist environmentalists.

Iraq was going to change all that. In one place on Earth, the theory would finally be put into practice in its most perfect and uncompromised form. A country of 25 million would not be rebuilt as it was before the war; it would be erased, disappeared. In its place would spring forth a gleaming showroom for laissez-faire economics, a utopia such as the world had never seen. Every policy that liberates multinational corporations to pursue their quest for profit would be put into place: a shrunken state, a flexible workforce, open borders, minimal taxes, no tariffs, no ownership restrictions. The people of Iraq would, of course, have to endure some short-term pain: assets, previously owned by the state, would have to be given up to create new opportunities for growth and investment. Jobs would have to be lost and, as foreign products flooded across the border, local businesses and family farms would, unfortunately, be unable to compete. But to the authors of this plan, these would be small prices to pay for the economic boom that would surely explode once the proper conditions were in place, a boom so powerful the country would practically rebuild itself.

The fact that the boom never came and Iraq continues to tremble under explosions of a very different sort should never be blamed on the absence of a plan. Rather, the blame rests with the plan itself, and the extraordinarily violent ideology upon which it is based.

* * *

Torturers believe that when electrical shocks are applied to various parts of the body simultaneously subjects are rendered so confused about where the pain is coming from that they become incapable of resistance. A declassified CIA "Counterintelligence Interrogation" manual from 1963 describes how a trauma inflicted on prisoners opens up "an interval—which may be extremely brief—of suspended animation, a kind of psychological shock or paralysis. . . . [A]t this moment the source is far more open to suggestion, far likelier to comply." A similar theory applies to economic shock therapy, or "shock treatment," the ugly term used to describe the rapid implementation of free-market reforms imposed on Chile in the wake of General Augusto Pinochet's coup. The theory is that if painful economic "adjustments" are brought in rapidly and in the aftermath of a seismic social disruption like a war, a coup, or a government collapse, the population will be so stunned, and so preoccupied with the daily pressures of survival, that it too will go into suspended animation, unable to resist. As Pinochet's finance minister, Admiral Lorenzo Gotuzzo, declared, "The dog's tail must be cut off in one chop."

That, in essence, was the working thesis in Iraq, and in keeping with the belief that private companies are more suited than governments for virtually every task, the White House decided to privatize the task of privatizing Iraq's state-dominated economy. Two months before the war began, USAID began drafting a work order, to be handed out to a private company, to oversee Iraq's "transition to a sustainable market-driven economic system." The document states that the winning company (which turned out to be the KPMG offshoot Bearing Point) will take "appropriate advantage of the unique opportunity for rapid progress in this area presented by the current configuration of political circumstances." Which is precisely what happened.

L. Paul Bremer, who led the U.S. occupation of Iraq from May 2, 2003, until he caught an early flight out of Baghdad on June 28, admits that when he arrived, “Baghdad was on fire, literally, as I drove in from the airport.” But before the fires from the “shock and awe” military onslaught were even extinguished, Bremer unleashed his shock therapy, pushing through more wrenching changes in one sweltering summer than the International Monetary Fund has managed to enact over three decades in Latin America. Joseph Stiglitz, Nobel laureate and former chief economist at the World Bank, describes Bremer's reforms as “an even more radical form of shock therapy than pursued in the former Soviet world.”

The tone of Bremer's tenure was set with his first major act on the job: he fired 500,000 state workers, most of them soldiers, but also doctors, nurses, teachers, publishers, and printers. Next, he flung open the country's borders to absolutely unrestricted imports: no tariffs, no duties, no inspections, no taxes. Iraq, Bremer declared two weeks after he arrived, was “open for business.”

One month later, Bremer unveiled the centerpiece of his reforms. Before the invasion, Iraq's non-oil-related economy had been dominated by 200 state-owned companies, which produced everything from cement to paper to washing machines. In June, Bremer flew to an economic summit in Jordan and announced that these firms would be privatized immediately. “Getting inefficient state enterprises into private hands,” he said, “is essential for Iraq's economic recovery.” It would be the largest state liquidation sale since the collapse of the Soviet Union.

But Bremer's economic engineering had only just begun. In September, to entice foreign investors to come to Iraq, he enacted a radical set of laws unprecedented in their generosity to multinational corporations. There was Order 37, which lowered Iraq's corporate tax rate from roughly 40 percent to a flat 15 percent. There was Order 39, which allowed foreign companies to own 100 percent of Iraqi assets outside of the natural-resource sector. Even better, investors could take 100 percent of the profits they made in Iraq out of the country; they would not be required to reinvest and they would not be taxed. Under Order 39, they could sign leases and contracts that would last for forty years. Order 40 welcomed foreign banks to Iraq under the same favorable terms. All that remained of Saddam Hussein's economic policies was a law restricting trade unions and collective bargaining.

If these policies sound familiar, it's because they are the same ones multinationals around the world lobby for from national governments and in international trade agreements. But while these reforms are only ever enacted in part, or in fits and starts, Bremer delivered them all, all at once. Overnight, Iraq went from being the most isolated country in the world to being, on paper, its widest-open market.

* * *

At first, the shock-therapy theory seemed to hold: Iraqis, reeling from violence both military and economic, were far too busy staying alive to mount a political response to Bremer's campaign. Worrying about the privatization of the sewage system was an unimaginable luxury with half the population lacking access to clean drinking water; the debate over the flat tax would have to wait until the lights were back on. Even in the international press, Bremer's new laws, though radical, were easily upstaged by more dramatic news of political chaos and rising crime.

Some people were paying attention, of course. That autumn was awash in “rebuilding Iraq” trade shows, in Washington, London, Madrid, and Amman. *The Economist* described Iraq under Bremer as “a capitalist dream,” and a flurry of new consulting firms were launched promising to help companies get access to the Iraqi market, their boards of directors stacked with well-connected Republicans. The most prominent was New Bridge Strategies, started by Joe Allbaugh, former Bush-Cheney campaign manager. “Getting the rights to distribute Procter & Gamble products can be a gold mine,” one of the company's partners enthused. “One well-stocked 7-Eleven could knock out thirty Iraqi stores; a Wal-Mart could take over the country.”

Soon there were rumors that a McDonald's would be opening up in downtown Baghdad, funding was almost in place for a Starwood luxury hotel, and General Motors was planning to build an auto plant. On the financial side, HSBC would have branches all over the country, Citigroup was preparing to offer substantial loans guaranteed against future sales of Iraqi oil, and the bell was going to ring on a New York–style stock exchange in Baghdad any day.

In only a few months, the postwar plan to turn Iraq into a laboratory for the neocons had been realized. Leo Strauss may have provided the intellectual framework for invading Iraq preemptively, but it was that other University of Chicago professor, Milton Friedman, author of the anti-government manifesto *Capitalism and Freedom*, who supplied the manual for what to do once the country was safely in America's hands. This represented an enormous victory for the most ideological wing of the Bush Administration. But it was also something more: the culmination of two interlinked power struggles, one among Iraqi exiles advising the White House on its postwar strategy, the other within the White House itself.

* * *

As the British historian Dilip Hiro has shown, in *Secrets and Lies: Operation ‘Iraqi Freedom’ and After*, the Iraqi exiles pushing for the invasion were divided, broadly, into two camps. On one side were “the pragmatists,” who favored getting rid of Saddam and his immediate entourage, securing access to oil, and slowly introducing free-market reforms. Many of these exiles were part of the State Department's Future of Iraq Project, which generated a thirteen-volume report on how to restore basic services and transition to democracy after the war. On the other side was the “Year Zero” camp, those who believed that Iraq was so contaminated that it needed to be rubbed out and remade from scratch. The prime advocate of the pragmatic approach was Iyad Allawi, a former high-level Baathist who fell out with Saddam and started working for the CIA. The prime advocate of the Year Zero approach was Ahmad Chalabi, whose hatred of the Iraqi state for expropriating his family's assets during the 1958 revolution ran so deep he longed to see the entire country burned to the ground—everything, that is, but the Oil Ministry, which would be the nucleus of the new Iraq, the cluster of cells from which an entire nation would grow. He called this process “de-Baathification.”

A parallel battle between pragmatists and true believers was being waged within the Bush Administration. The pragmatists were men like Secretary of State Colin Powell and General Jay Garner, the first U.S. envoy to postwar Iraq. General Garner's plan was straightforward enough: fix the infrastructure, hold quick and dirty elections, leave the shock therapy to the International Monetary Fund, and concentrate on securing U.S. military bases on the model of the Philippines. “I think we should look right now at Iraq as our coaling station in the Middle East,” he told the BBC. He also paraphrased T. E. Lawrence, saying, “It's better for them to do it imperfectly than for us to do it for them perfectly.” On the other side was the usual cast of neoconservatives: Vice President Dick Cheney, Secretary of Defense Donald Rumsfeld (who lauded Bremer's “sweeping reforms” as “some of the most enlightened and inviting tax and investment laws in the free world”), Deputy Secretary of Defense Paul Wolfowitz, and, perhaps most centrally, Undersecretary of Defense Douglas Feith. Whereas the State Department had its Future of Iraq report, the neocons had USAID's contract with Bearing Point to remake Iraq's economy: in 108 pages, “privatization” was mentioned no fewer than fifty-one times. To the true believers in the White House, General Garner's plans for postwar Iraq seemed hopelessly unambitious. Why settle for a mere coaling station when you can have a model free market? Why settle for the Philippines when you can have a beacon unto the world?

The Iraqi Year Zeroists made natural allies for the White House neoconservatives: Chalabi's seething hatred of the Baathist state fit nicely with the neocons' hatred of the state in general, and the two agendas effortlessly merged. Together, they came to imagine the invasion of Iraq as a kind of Rapture: where the rest of the world saw death, they saw birth—a country redeemed through violence, cleansed by fire. Iraq wasn't being destroyed by cruise missiles, cluster bombs, chaos, and looting; it was being born again. April 9, 2003, the day Baghdad fell, was Day One of Year Zero.

While the war was being waged, it still wasn't clear whether the pragmatists or the Year Zeroists would be handed control over occupied Iraq. But the speed with which the nation was conquered dramatically increased the neocons' political capital, since they had been predicting a “cakewalk” all along. Eight days after George Bush landed on that aircraft carrier under a banner that said MISSION ACCOMPLISHED, the President publicly signed on to the neocons' vision for Iraq to become a model corporate state that would open up the entire region. On May 9, Bush proposed the “establishment of a U.S.-Middle East free trade area within a decade”; three days later, Bush sent Paul Bremer to Baghdad to replace Jay Garner, who had been on the job for only three weeks. The message was unequivocal: the pragmatists had lost; Iraq would belong to the believers.

A Reagan-era diplomat turned entrepreneur, Bremer had recently proven his ability to transform rubble into gold by waiting exactly one month after the September 11 attacks to launch Crisis Consulting Practice, a security company selling “terrorism risk insurance” to multinationals. Bremer had two lieutenants on the economic front: Thomas Foley and Michael Fleischer, the heads of “private sector development” for the Coalition Provisional Authority (CPA). Foley is a Greenwich, Connecticut, multimillionaire, a longtime friend of the Bush family and a Bush-Cheney campaign “pioneer” who has described Iraq as a modern California “gold rush.” Fleischer, a venture capitalist, is the brother of former White House spokesman Ari Fleischer. Neither man had any high-level diplomatic experience and both use the term corporate “turnaround” specialist to describe what they do. According to Foley, this uniquely qualified them to manage Iraq's economy because it was “the mother of all turnarounds.”

Many of the other CPA postings were equally ideological. The Green Zone, the city within a city that houses the occupation headquarters in Saddam's former palace, was filled with Young Republicans straight out of the Heritage Foundation, all of them given responsibility they could never have dreamed of receiving at home. Jay Hallen, a twenty-four-year-old who had applied for a job at the White House, was put in charge of launching Baghdad's new stock exchange. Scott Erwin, a twenty-one-year-old former intern to Dick Cheney, reported in an email home that “I am assisting Iraqis in the management of finances and budgeting for the domestic security forces." The college senior's favorite job before this one? "My time as an ice-cream truck driver." In those early days, the Green Zone felt a bit like the Peace Corps, for people who think the Peace Corps is a communist plot. It was a chance to sleep on cots, wear army boots, and cry "incoming"—all while being guarded around the clock by real soldiers.

The teams of KPMG accountants, investment bankers, think-tank lifers, and Young Republicans that populate the Green Zone have much in common with the IMF missions that rearrange the economies of developing countries from the presidential suites of Sheraton hotels the world over. Except for one rather significant difference: in Iraq they were not negotiating with the government to accept their "structural adjustments" in exchange for a loan; they were the government.

Some small steps were taken, however, to bring Iraq's U.S.-appointed politicians inside. Yegor Gaidar, the mastermind of Russia's mid-nineties privatization auction that gave away the country's assets to the reigning oligarchs, was invited to share his wisdom at a conference in Baghdad. Marek Belka, who as finance minister oversaw the same process in Poland, was brought in as well. The Iraqis who proved most gifted at mouthing the neocon lines were selected to act as what USAID calls local "policy champions"—men like Ahmad al Mukhtar, who told me of his countrymen, "They are lazy. The Iraqis by nature, they are very dependent. . . . They will have to depend on themselves, it is the only way to survive in the world today." Although he has no economics background and his last job was reading the English-language news on television, al Mukhtar was appointed director of foreign relations in the Ministry of Trade and is leading the charge for Iraq to join the World Trade Organization.

* * *

I had been following the economic front of the war for almost a year before I decided to go to Iraq. I attended the "Rebuilding Iraq" trade shows, studied Bremer's tax and investment laws, met with contractors at their home offices in the United States, interviewed the government officials in Washington who are making the policies. But as I prepared to travel to Iraq in March to see this experiment in free-market utopianism up close, it was becoming increasingly clear that all was not going according to plan. Bremer had been working on the theory that if you build a corporate utopia the corporations will come—but where were they? American multinationals were happy to accept U.S. taxpayer dollars to reconstruct the phone or electricity systems, but they weren't sinking their own money into Iraq. There was, as yet, no McDonald's or Wal-Mart in Baghdad, and even the sales of state factories, announced so confidently nine months earlier, had not materialized.

Some of the holdup had to do with the physical risks of doing business in Iraq. But there were other more significant risks as well. When Paul Bremer shredded Iraq's Baathist constitution and replaced it with what *The Economist* greeted approvingly as "the wish list of foreign investors," there was one small detail he failed to mention: It was all completely illegal. The CPA derived its legal authority from United Nations Security Council Resolution 1483, passed in May 2003, which recognized the United States and Britain as Iraq's legitimate occupiers. It was this resolution that empowered Bremer to unilaterally make laws in Iraq. But the resolution also stated that the U.S. and Britain must "comply fully with their obligations under international law including in particular the Geneva Conventions of 1949 and the Hague Regulations of 1907." Both conventions were born as an attempt to curtail the unfortunate historical tendency among occupying powers to rewrite the rules so that they can economically strip the nations they control. With this in mind, the conventions stipulate that an occupier must abide by a country's existing laws unless “absolutely prevented” from doing so. They also state that an occupier does not own the “public buildings, real estate, forests and agricultural assets” of the country it is occupying but is rather their “administrator” and custodian, keeping them secure until sovereignty is reestablished. This was the true threat to the Year Zero plan: since America didn't own Iraq's assets, it could not legally sell them, which meant that after the occupation ended, an Iraqi government could come to power and decide that it wanted to keep the state companies in public hands, or, as is the norm in the Gulf region, to bar foreign firms from owning 100 percent of national assets. If that happened, investments made under Bremer's rules could be expropriated, leaving firms with no recourse because their investments had violated international law from the outset.

By November, trade lawyers started to advise their corporate clients not to go into Iraq just yet, that it would be better to wait until after the transition. Insurance companies were so spooked that not a single one of the big firms would insure investors for “political risk,” that high-stakes area of insurance law that protects companies against foreign governments turning nationalist or socialist and expropriating their investments.

Even the U.S.-appointed Iraqi politicians, up to now so obedient, were getting nervous about their own political futures if they went along with the privatization plans. Communications Minister Haider al-Abadi told me about his first meeting with Bremer. “I said, ‘Look, we don't have the mandate to sell any of this. Privatization is a big thing. We have to wait until there is an Iraqi government.’” Minister of Industry Mohamad Tofiq was even more direct: “I am not going to do something that is not legal, so that's it.”

Both al-Abadi and Tofiq told me about a meeting—never reported in the press—that took place in late October 2003. At that gathering the twenty-five members of Iraq's Governing Council as well as the twenty-five interim ministers decided unanimously that they would not participate in the privatization of Iraq's state-owned companies or of its publicly owned infrastructure.

But Bremer didn't give up. International law prohibits occupiers from selling state assets themselves, but it doesn't say anything about the puppet governments they appoint. Originally, Bremer had pledged to hand over power to a directly elected Iraqi government, but in early November he went to Washington for a private meeting with President Bush and came back with a Plan B. On June 30 the occupation would officially end—but not really. It would be replaced by an appointed government, chosen by Washington. This government would not be bound by the international laws preventing occupiers from selling off state assets, but it would be bound by an “interim constitution,” a document that would protect Bremer's investment and privatization laws.

The plan was risky. Bremer's June 30 deadline was awfully close, and it was chosen for a less than ideal reason: so that President Bush could trumpet the end of Iraq's occupation on the campaign trail. If everything went according to plan, Bremer would succeed in forcing a “sovereign” Iraqi government to carry out his illegal reforms. But if something went wrong, he would have to go ahead with the June 30 handover anyway because by then Karl Rove, and not Dick Cheney or Donald Rumsfeld, would be calling the shots. And if it came down to a choice between ideology in Iraq and the electability of George W. Bush, everyone knew which would win.

* * *

At first, Plan B seemed to be right on track. Bremer persuaded the Iraqi Governing Council to agree to everything: the new timetable, the interim government, and the interim constitution. He even managed to slip into the constitution a completely overlooked clause, Article 26. It stated that for the duration of the interim government, "The laws, regulations, orders and directives issued by the Coalition Provisional Authority . . . shall remain in force" and could only be changed after general elections are held.

Bremer had found his legal loophole: There would be a window—seven months—when the occupation was officially over but before general elections were scheduled to take place. Within this window, the Hague and Geneva Conventions' bans on privatization would no longer apply, but Bremer's own laws, thanks to Article 26, would stand. During these seven months, foreign investors could come to Iraq and sign forty-year contracts to buy up Iraqi assets. If a future elected Iraqi government decided to change the rules, investors could sue for compensation.

But Bremer had a formidable opponent: Grand Ayatollah Ali al Sistani, the most senior Shia cleric in Iraq. al Sistani tried to block Bremer's plan at every turn, calling for immediate direct elections and for the constitution to be written after those elections, not before. Both demands, if met, would have closed Bremer's privatization window. Then, on March 2, with the Shia members of the Governing Council refusing to sign the interim constitution, five bombs exploded in front of mosques in Karbala and Baghdad, killing close to 200 worshipers. General John Abizaid, the top U.S. commander in Iraq, warned that the country was on the verge of civil war. Frightened by this prospect, al Sistani backed down and the Shia politicians signed the interim constitution. It was a familiar story: the shock of a violent attack paved the way for more shock therapy.

When I arrived in Iraq a week later, the economic project seemed to be back on track. All that remained for Bremer was to get his interim constitution ratified by a Security Council resolution, then the nervous lawyers and insurance brokers could relax and the sell-off of Iraq could finally begin. The CPA, meanwhile, had launched a major new P.R. offensive designed to reassure investors that Iraq was still a safe and exciting place to do business. The centerpiece of the campaign was Destination Baghdad Exposition, a massive trade show for potential investors to be held in early April at the Baghdad International Fairgrounds. It was the first such event inside Iraq, and the organizers had branded the trade fair "DBX," as if it were some sort of Mountain Dew−sponsored dirt-bike race. In keeping with the extreme-sports theme, Thomas Foley traveled to Washington to tell a gathering of executives that the risks in Iraq are akin "to skydiving or riding a motorcycle, which are, to many, very acceptable risks."

But three hours after my arrival in Baghdad, I was finding these reassurances extremely hard to believe. I had not yet unpacked when my hotel room was filled with debris and the windows in the lobby were shattered. Down the street, the Mount Lebanon Hotel had just been bombed, at that point the largest attack of its kind since the official end of the war. The next day, another hotel was bombed in Basra, then two Finnish businessmen were murdered on their way to a meeting in Baghdad. Brigadier General Mark Kimmitt finally admitted that there was a pattern at work: "the extremists have started shifting away from the hard targets . . . [and] are now going out of their way to specifically target softer targets." The next day, the State Department updated its travel advisory: U.S. citizens were "strongly warned against travel to Iraq."

The physical risks of doing business in Iraq seemed to be spiraling out of control. This, once again, was not part of the original plan. When Bremer first arrived in Baghdad, the armed resistance was so low that he was able to walk the streets with a minimal security entourage. During his first four months on the job, 109 U.S. soldiers were killed and 570 were wounded. In the following four months, when Bremer's shock therapy had taken effect, the number of U.S. casualties almost doubled, with 195 soldiers killed and 1,633 wounded. There are many in Iraq who argue that these events are connected—that Bremer's reforms were the single largest factor leading to the rise of armed resistance.

Take, for instance, Bremer's first casualties. The soldiers and workers he laid off without pensions or severance pay didn't all disappear quietly. Many of them went straight into the mujahedeen, forming the backbone of the armed resistance. “Half a million people are now worse off, and there you have the water tap that keeps the insurgency going. It's alternative employment,” says Hussain Kubba, head of the prominent Iraqi business group Kubba Consulting. Some of Bremer's other economic casualties also have failed to go quietly. It turns out that many of the businessmen whose companies are threatened by Bremer's investment laws have decided to make investments of their own—in the resistance. It is partly their money that keeps fighters in Kalashnikovs and RPGs.

These developments present a challenge to the basic logic of shock therapy: the neocons were convinced that if they brought in their reforms quickly and ruthlessly, Iraqis would be too stunned to resist. But the shock appears to have had the opposite effect; rather than the predicted paralysis, it jolted many Iraqis into action, much of it extreme. Haider al-Abadi, Iraq's minister of communication, puts it this way: “We know that there are terrorists in the country, but previously they were not successful, they were isolated. Now because the whole country is unhappy, and a lot of people don't have jobs . . . these terrorists are finding listening ears.”

Bremer was now at odds not only with the Iraqis who opposed his plans but with U.S military commanders charged with putting down the insurgency his policies were feeding. Heretical questions began to be raised: instead of laying people off, what if the CPA actually created jobs for Iraqis? And instead of rushing to sell off Iraq's 200 state-owned firms, how about putting them back to work?

* * *

From the start, the neocons running Iraq had shown nothing but disdain for Iraq's state-owned companies. In keeping with their Year Zero−apocalyptic glee, when looters descended on the factories during the war, U.S. forces did nothing. Sabah Asaad, managing director of a refrigerator factory outside Baghdad, told me that while the looting was going on, he went to a nearby U.S. Army base and begged for help. “I asked one of the officers to send two soldiers and a vehicle to help me kick out the looters. I was crying. The officer said, ‘Sorry, we can't do anything, we need an order from President Bush.’” Back in Washington, Donald Rumsfeld shrugged. “Free people are free to make mistakes and commit crimes and do bad things.”

To see the remains of Asaad's football-field-size warehouse is to understand why Frank Gehry had an artistic crisis after September 11 and was briefly unable to design structures resembling the rubble of modern buildings. Asaad's looted and burned factory looks remarkably like a heavy-metal version of Gehry's Guggenheim in Bilbao, Spain, with waves of steel, buckled by fire, lying in terrifyingly beautiful golden heaps. Yet all was not lost. “The looters were good-hearted,” one of Asaad's painters told me, explaining that they left the tools and machines behind, “so we could work again.” Because the machines are still there, many factory managers in Iraq say that it would take little for them to return to full production. They need emergency generators to cope with daily blackouts, and they need capital for parts and raw materials. If that happened, it would have tremendous implications for Iraq's stalled reconstruction, because it would mean that many of the key materials needed to rebuild—cement and steel, bricks and furniture—could be produced inside the country.

But it hasn't happened. Immediately after the nominal end of the war, Congress appropriated $2.5 billion for the reconstruction of Iraq, followed by an additional $18.4 billion in October. Yet as of July 2004, Iraq's state-owned factories had been pointedly excluded from the reconstruction contracts. Instead, the billions have all gone to Western companies, with most of the materials for the reconstruction imported at great expense from abroad.

With unemployment as high as 67 percent, the imported products and foreign workers flooding across the borders have become a source of tremendous resentment in Iraq and yet another open tap fueling the insurgency. And Iraqis don't have to look far for reminders of this injustice; it's on display in the most ubiquitous symbol of the occupation: the blast wall. The ten-foot-high slabs of reinforced concrete are everywhere in Iraq, separating the protected—the people in upscale hotels, luxury homes, military bases, and, of course, the Green Zone—from the unprotected and exposed. If that wasn't injury enough, all the blast walls are imported, from Kurdistan, Turkey, or even farther afield, this despite the fact that Iraq was once a major manufacturer of cement, and could easily be again. There are seventeen state-owned cement factories across the country, but most are idle or working at only half capacity. According to the Ministry of Industry, not one of these factories has received a single contract to help with the reconstruction, even though they could produce the walls and meet other needs for cement at a greatly reduced cost. The CPA pays up to $1,000 per imported blast wall; local manufacturers say they could make them for $100. Minister Tofiq says there is a simple reason why the Americans refuse to help get Iraq's cement factories running again: among those making the decisions, “no one believes in the public sector.”[1]

This kind of ideological blindness has turned Iraq's occupiers into prisoners of their own policies, hiding behind walls that, by their very existence, fuel the rage at the U.S. presence, thereby feeding the need for more walls. In Baghdad the concrete barriers have been given a popular nickname: Bremer Walls.

As the insurgency grew, it soon became clear that if Bremer went ahead with his plans to sell off the state companies, it could worsen the violence. There was no question that privatization would require layoffs: the Ministry of Industry estimates that roughly 145,000 workers would have to be fired to make the firms desirable to investors, with each of those workers supporting, on average, five family members. For Iraq's besieged occupiers the question was: Would these shock-therapy casualties accept their fate or would they rebel?

* * *

The answer arrived, in rather dramatic fashion, at one of the largest state-owned companies, the General Company for Vegetable Oils. The complex of six factories in a Baghdad industrial zone produces cooking oil, hand soap, laundry detergent, shaving cream, and shampoo. At least that is what I was told by a receptionist who gave me glossy brochures and calendars boasting of “modern instruments” and “the latest and most up to date developments in the field of industry.” But when I approached the soap factory, I discovered a group of workers sleeping outside a darkened building. Our guide rushed ahead, shouting something to a woman in a white lab coat, and suddenly the factory scrambled into activity: lights switched on, motors revved up, and workers—still blinking off sleep—began filling two-liter plastic bottles with pale blue Zahi brand dishwashing liquid.

I asked Nada Ahmed, the woman in the white coat, why the factory wasn't working a few minutes before. She explained that they have only enough electricity and materials to run the machines for a couple of hours a day, but when guests arrive—would-be investors, ministry officials, journalists—they get them going. “For show,” she explained. Behind us, a dozen bulky machines sat idle, covered in sheets of dusty plastic and secured with duct tape.

In one dark corner of the plant, we came across an old man hunched over a sack filled with white plastic caps. With a thin metal blade lodged in a wedge of wax, he carefully whittled down the edges of each cap, leaving a pile of shavings at his feet. “We don't have the spare part for the proper mold, so we have to cut them by hand,” his supervisor explained apologetically. “We haven't received any parts from Germany since the sanctions began.” I noticed that even on the assembly lines that were nominally working there was almost no mechanization: bottles were held under spouts by hand because conveyor belts don't convey, lids once snapped on by machines were being hammered in place with wooden mallets. Even the water for the factory was drawn from an outdoor well, hoisted by hand, and carried inside.

The solution proposed by the U.S. occupiers was not to fix the plant but to sell it, and so when Bremer announced the privatization auction back in June 2003 this was among the first companies mentioned. Yet when I visited the factory in March, nobody wanted to talk about the privatization plan; the mere mention of the word inside the plant inspired awkward silences and meaningful glances. This seemed an unnatural amount of subtext for a soap factory, and I tried to get to the bottom of it when I interviewed the assistant manager. But the interview itself was equally odd: I had spent half a week setting it up, submitting written questions for approval, getting a signed letter of permission from the minister of industry, being questioned and searched several times. But when I finally began the interview, the assistant manager refused to tell me his name or let me record the conversation. “Any manager mentioned in the press is attacked afterwards,” he said. And when I asked whether the company was being sold, he gave this oblique response: “If the decision was up to the workers, they are against privatization; but if it's up to the high-ranking officials and government, then privatization is an order and orders must be followed.”

I left the plant feeling that I knew less than when I'd arrived. But on the way out of the gates, a young security guard handed my translator a note. He wanted us to meet him after work at a nearby restaurant, “to find out what is really going on with privatization.” His name was Mahmud, and he was a twenty-five-year-old with a neat beard and big black eyes. (For his safety, I have omitted his last name.) His story began in July, a few weeks after Bremer's privatization announcement. The company's manager, on his way to work, was shot to death. Press reports speculated that the manager was murdered because he was in favor of privatizing the plant, but Mahmud was convinced that he was killed because he opposed the plan. “He would never have sold the factories like the Americans want. That's why they killed him.”

The dead man was replaced by a new manager, Mudhfar Ja'far. Shortly after taking over, Ja'far called a meeting with ministry officials to discuss selling off the soap factory, which would involve laying off two thirds of its employees. Guarding that meeting were several security officers from the plant. They listened closely to Ja'far's plans and promptly reported the alarming news to their coworkers. “We were shocked,” Mahmud recalled. “If the private sector buys our company, the first thing they would do is reduce the staff to make more money. And we will be forced into a very hard destiny, because the factory is our only way of living.”

Frightened by this prospect, a group of seventeen workers, including Mahmud, marched into Ja'far's office to confront him on what they had heard. “Unfortunately, he wasn't there, only the assistant manager, the one you met,” Mahmud told me. A fight broke out: one worker struck the assistant manager, and a bodyguard fired three shots at the workers. The crowd then attacked the bodyguard, took his gun, and, Mahmud said, “stabbed him with a knife in the back three times. He spent a month in the hospital.” In January there was even more violence. On their way to work, Ja'far, the manager, and his son were shot and badly injured. Mahmud told me he had no idea who was behind the attack, but I was starting to understand why factory managers in Iraq try to keep a low profile.

At the end of our meeting, I asked Mahmud what would happen if the plant was sold despite the workers' objections. “There are two choices,” he said, looking me in the eye and smiling kindly. “Either we will set the factory on fire and let the flames devour it to the ground, or we will blow ourselves up inside of it. But it will not be privatized.”

If there ever was a moment when Iraqis were too disoriented to resist shock therapy, that moment has definitely passed. Labor relations, like everything else in Iraq, has become a blood sport. The violence on the streets howls at the gates of the factories, threatening to engulf them. Workers fear job loss as a death sentence, and managers, in turn, fear their workers, a fact that makes privatization distinctly more complicated than the neocons foresaw.[2]

* * *

As I left the meeting with Mahmud, I got word that there was a major demonstration outside the CPA headquarters. Supporters of the radical young cleric Moqtada al Sadr were protesting the closing of their newspaper, *al Hawza*, by military police. The CPA accused *al Hawza* of publishing “false articles” that could “pose the real threat of violence.” As an example, it cited an article that claimed Bremer “is pursuing a policy of starving the Iraqi people to make them preoccupied with procuring their daily bread so they do not have the chance to demand their political and individual freedoms.” To me it sounded less like hate literature than a concise summary of Milton Friedman's recipe for shock therapy.

A few days before the newspaper was shut down, I had gone to Kufa during Friday prayers to listen to al Sadr at his mosque. He had launched into a tirade against Bremer's newly signed interim constitution, calling it “an unjust, terrorist document.” The message of the sermon was clear: Grand Ayatollah Ali al Sistani may have backed down on the constitution, but al Sadr and his supporters were still determined to fight it—and if they succeeded they would sabotage the neocons' careful plan to saddle Iraq's next government with their “wish list” of laws. With the closing of the newspaper, Bremer was giving al Sadr his response: he wasn't negotiating with this young upstart; he'd rather take him out with force.

When I arrived at the demonstration, the streets were filled with men dressed in black, the soon-to-be legendary Mahdi Army. It struck me that if Mahmud lost his security guard job at the soap factory, he could be one of them. That's who al Sadr's foot soldiers are: the young men who have been shut out of the neocons' grand plans for Iraq, who see no possibilities for work, and whose neighborhoods have seen none of the promised reconstruction. Bremer has failed these young men, and everywhere that he has failed, Moqtada al Sadr has cannily set out to succeed. In Shia slums from Baghdad to Basra, a network of Sadr Centers coordinate a kind of shadow reconstruction. Funded through donations, the centers dispatch electricians to fix power and phone lines, organize local garbage collection, set up emergency generators, run blood drives, direct traffic where the streetlights don't work. And yes, they organize militias too. Al Sadr took Bremer's economic casualties, dressed them in black, and gave them rusty Kalashnikovs. His militiamen protected the mosques and the state factories when the occupation authorities did not, but in some areas they also went further, zealously enforcing Islamic law by torching liquor stores and terrorizing women without the veil. Indeed, the astronomical rise of the brand of religious fundamentalism that al Sadr represents is another kind of blowback from Bremer's shock therapy: if the reconstruction had provided jobs, security, and services to Iraqis, al Sadr would have been deprived of both his mission and many of his newfound followers.

At the same time as al Sadr's followers were shouting “Down with America” outside the Green Zone, something was happening in another part of the country that would change everything. Four American mercenary soldiers were killed in Fallujah, their charred and dismembered bodies hung like trophies over the Euphrates. The attacks would prove a devastating blow for the neocons, one from which they would never recover. With these images, investing in Iraq suddenly didn't look anything like a capitalist dream; it looked like a macabre nightmare made real.

The day I left Baghdad was the worst yet. Fallujah was under siege and Brig. Gen. Kimmitt was threatening to “destroy the al-Mahdi Army.” By the end, roughly 2,000 Iraqis were killed in these twin campaigns. I was dropped off at a security checkpoint several miles from the airport, then loaded onto a bus jammed with contractors lugging hastily packed bags. Although no one was calling it one, this was an evacuation: over the next week 1,500 contractors left Iraq, and some governments began airlifting their citizens out of the country. On the bus no one spoke; we all just listened to the mortar fire, craning our necks to see the red glow. A guy carrying a KPMG briefcase decided to lighten things up. “So is there business class on this flight?” he asked the silent bus. From the back, somebody called out, “Not yet.”

Indeed, it may be quite a while before business class truly arrives in Iraq. When we landed in Amman, we learned that we had gotten out just in time. That morning three Japanese civilians were kidnapped and their captors were threatening to burn them alive. Two days later Nicholas Berg went missing and was not seen again until the snuff film surfaced of his beheading, an even more terrifying message for U.S. contractors than the charred bodies in Fallujah. These were the start of a wave of kidnappings and killings of foreigners, most of them businesspeople, from a rainbow of nations: South Korea, Italy, China, Nepal, Pakistan, the Philippines, Turkey. By the end of June more than ninety contractors were reported dead in Iraq. When seven Turkish contractors were kidnapped in June, their captors asked the “company to cancel all contracts and pull out employees from Iraq.” Many insurance companies stopped selling life insurance to contractors, and others began to charge premiums as high as $10,000 a week for a single Western executive—the same price some insurgents reportedly pay for a dead American.

For their part, the organizers of DBX, the historic Baghdad trade fair, decided to relocate to the lovely tourist city of Diyarbakir in Turkey, “just 250 km from the Iraqi border.” An Iraqi landscape, only without those frightening Iraqis. Three weeks later just fifteen people showed up for a Commerce Department conference in Lansing, Michigan, on investing in Iraq. Its host, Republican Congressman Mike Rogers, tried to reassure his skeptical audience by saying that Iraq is “like a rough neighborhood anywhere in America.” The foreign investors, the ones who were offered every imaginable free-market enticement, are clearly not convinced; there is still no sign of them. Keith Crane, a senior economist at the Rand Corporation who has worked for the CPA, put it bluntly: “I don't believe the board of a multinational company could approve a major investment in this environment. If people are shooting at each other, it's just difficult to do business.” Hamid Jassim Khamis, the manager of the largest soft-drink bottling plant in the region, told me he can't find any investors, even though he landed the exclusive rights to produce Pepsi in central Iraq. “A lot of people have approached us to invest in the factory, but people are really hesitating now.” Khamis said he couldn't blame them; in five months he has survived an attempted assassination, a carjacking, two bombs planted at the entrance of his factory, and the kidnapping of his son.

Despite having been granted the first license for a foreign bank to operate in Iraq in forty years, HSBC still hasn't opened any branches, a decision that may mean losing the coveted license altogether. Procter & Gamble has put its joint venture on hold, and so has General Motors. The U.S. financial backers of the Starwood luxury hotel and multiplex have gotten cold feet, and Siemens AG has pulled most staff from Iraq. The bell hasn't rung yet at the Baghdad Stock Exchange—in fact you can't even use credit cards in Iraq's cash-only economy. New Bridge Strategies, the company that had gushed back in October about how “a Wal-Mart could take over the country,” is sounding distinctly humbled. “McDonald's is not opening anytime soon,” company partner Ed Rogers told the *Washington Post*. Neither is Wal-Mart. The *Financial Times* has declared Iraq “the most dangerous place in the world in which to do business.” It's quite an accomplishment: in trying to design the best place in the world to do business, the neocons have managed to create the worst, the most eloquent indictment yet of the guiding logic behind deregulated free markets.

The violence has not just kept investors out; it also forced Bremer, before he left, to abandon many of his central economic policies. Privatization of the state companies is off the table; instead, several of the state companies have been offered up for lease, but only if the investor agrees not to lay off a single employee. Thousands of the state workers that Bremer fired have been rehired, and significant raises have been handed out in the public sector as a whole. Plans to do away with the food-ration program have also been scrapped—it just doesn't seem like a good time to deny millions of Iraqis the only nutrition on which they can depend.

* * *

The final blow to the neocon dream came in the weeks before the handover. The White House and the CPA were rushing to get the U.N. Security Council to pass a resolution endorsing their handover plan. They had twisted arms to give the top job to former CIA agent Iyad Allawi, a move that will ensure that Iraq becomes, at the very least, the coaling station for U.S. troops that Jay Garner originally envisioned. But if major corporate investors were going to come to Iraq in the future, they would need a stronger guarantee that Bremer's economic laws would stick. There was only one way of doing that: the Security Council resolution had to ratify the interim constitution, which locked in Bremer's laws for the duration of the interim government. But al Sistani once again objected, this time unequivocally, saying that the constitution has been “rejected by the majority of the Iraqi people.” On June 8 the Security Council unanimously passed a resolution that endorsed the handover plan but made absolutely no reference to the constitution. In the face of this far-reaching defeat, George W. Bush celebrated the resolution as a historic victory, one that came just in time for an election trail photo op at the G-8 Summit in Georgia.

With Bremer's laws in limbo, Iraqi ministers are already talking openly about breaking contracts signed by the CPA. Citigroup's loan scheme has been rejected as a misuse of Iraq's oil revenues. Iraq's communication minister is threatening to renegotiate contracts with the three communications firms providing the country with its disastrously poor cell phone service. And the Lebanese and U.S. companies hired to run the state television network have been informed that they could lose their licenses because they are not Iraqi. "We will see if we can change the contract," Hamid al-Kifaey, spokesperson for the Governing Council, said in May. "They have no idea about Iraq." For most investors, this complete lack of legal certainty simply makes Iraq too great a risk.

But while the Iraqi resistance has managed to scare off the first wave of corporate raiders, there's little doubt that they will return. Whatever form the next Iraqi government takes—nationalist, Islamist, or free market—it will inherit a shattered nation with a crushing $120 billion debt. Then, as in all poor countries around the world, men in dark blue suits from the IMF will appear at the door, bearing loans and promises of economic boom, provided that certain structural adjustments are made, which will, of course, be rather painful at first but well worth the sacrifice in the end. In fact, the process has already begun: the IMF is poised to approve loans worth $2.5–$4.25 billion, pending agreement on the conditions. After an endless succession of courageous last stands and far too many lost lives, Iraq will become a poor nation like any other, with politicians determined to introduce policies rejected by the vast majority of the population, and all the imperfect compromises that will entail. The free market will no doubt come to Iraq, but the neoconservative dream of transforming the country into a free-market utopia has already died, a casualty of a greater dream—a second term for George W. Bush.

The great historical irony of the catastrophe unfolding in Iraq is that the shock-therapy reforms that were supposed to create an economic boom that would rebuild the country have instead fueled a resistance that ultimately made reconstruction impossible. Bremer's reforms unleashed forces that the neocons neither predicted nor could hope to control, from armed insurrections inside factories to tens of thousands of unemployed young men arming themselves. These forces have transformed Year Zero in Iraq into the mirror opposite of what the neocons envisioned: not a corporate utopia but a ghoulish dystopia, where going to a simple business meeting can get you lynched, burned alive, or beheaded. These dangers are so great that in Iraq global capitalism has retreated, at least for now. For the neocons, this must be a shocking development: their ideological belief in greed turns out to be stronger than greed itself.

Iraq was to the neocons what Afghanistan was to the Taliban: the one place on Earth where they could force everyone to live by the most literal, unyielding interpretation of their sacred texts. One would think that the bloody results of this experiment would inspire a crisis of faith: in the country where they had absolute free reign, where there was no local government to blame, where economic reforms were introduced at their most shocking and most perfect, they created, instead of a model free market, a failed state no right-thinking investor would touch. And yet the Green Zone neocons and their masters in Washington are no more likely to reexamine their core beliefs than the Taliban mullahs were inclined to search their souls when their Islamic state slid into a debauched Hades of opium and sex slavery. When facts threaten true believers, they simply close their eyes and pray harder.

Which is precisely what Thomas Foley has been doing. The former head of “private sector development” has left Iraq, a country he had described as “the mother of all turnarounds,” and has accepted another turnaround job, as co-chair of George Bush's reelection committee in Connecticut. On April 30 in Washington he addressed a crowd of entrepreneurs about business prospects in Baghdad. It was a tough day to be giving an upbeat speech: that morning the first photographs had appeared out of Abu Ghraib, including one of a hooded prisoner with electrical wires attached to his hands. This was another kind of shock therapy, far more literal than the one Foley had helped to administer, but not entirely unconnected. “Whatever you're seeing, it's not as bad as it appears,” Foley told the crowd. “You just need to accept that on faith.”

About the Author

Naomi Klein is the author of *No Logo* and writer/producer of *The Take*, a new documentary on Argentina's occupied factories.

Notes

1. Tofiq did say that several U.S. companies had expressed strong interest in buying the state-owned cement factories. This supports a widely held belief in Iraq that there is a deliberate strategy to neglect the state firms so that they can be sold more cheaply--a practice known as "starve then sell." [Back]

2. It is in Basra where the connections between economic reforms and the rise of the resistance was put in starkest terms. In December the union representing oil workers was negotiating with the Oil Ministry for a salary increase. Getting nowhere, the workers offered the ministry a simple choice: increase their paltry salaries or they would all join the armed resistance. They received a substantial raise. [Back]

This is **Baghdad Year Zero**, a feature by Naomi Klein, originally from September 2004, published Friday, September 24, 2004. It is part of Features, which is part of Harpers.org.

Written By
Klein, Naomi

Permanent URL
http://harpers.org/BaghdadYearZero.html