MERCATUS CENTER

GEORGE MASON UNIVERSITY

"AMERICA'S ROLE AS NATION BUILDER: LESSONS LEARNED AND APPLIED TO IRAQ"

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MORNING PANEL SESSION

TOWARD LEGITIMACY: STRATEGIC INSTITUTION BUILDING

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TIM ROEMER: (In progress.) -- this morning with this conference. I will introduce the moderator, who will introduce the very distinguished panelists that we have for our first panel. And again, we're very excited to have had Ambassador Dobbins. and now this panel, and later Deputy Secretary Wolfowitz, and then another distinguished panel to follow immediately after Dr. Wolfowitz's comments.

Let me introduce our moderator, someone associated with George Mason University. Theodore Roosevelt once said, and I quote, "Far and away, the best prize that life offers is the chance to work hard at work worth doing," unquote. From the first time that Maurice McTigue was associated with Mercatus, which was back in 1997, coincidentally that coincides with the hurricane here. You will see with Maurice's style, he brings energy, commitment and knowledge to not only a panel but to our university and the Mercatus Center.

Maurice is currently the director of the government accountability program at the Mercatus Center. Previously, he served as New Zealand member of Parliament, Cabinet minister and ambassador. Prior to his arrival in the United States, Mr. McTigue led an ambitious and extremely successful effort to restructure New Zealand's public sector and to revitalize its stagnant economy in the 1984 to 1994 time period. He entered the New Zealand Parliament in 1985 and served as the National Party's junior whip. In 1990, McTigue was appointed minister of employment and associate minister of finance. In April 1994, he moved to Canada as New Zealand's ambassador. He was just recently appointed to the Office of Personnel Management's senior review committee, formed to make recommendations for the new human resource system at the newly created Department of Homeland Security. In addition, Mr. McTigue is a frequent contributor to the national magazines and trade publications, and he sits on the performance management advisory committee for the Commonwealth of Virginia. Working hard at work worth doing, Maurice McTigue. Thank you very much.

(Applause.)

MAURICE McTIGUE: Thank you, ladies and gentlemen, and thank you, Tim, for that introduction. And it's a pleasure for me to be here sitting at this forum in the United States today as a visitor to your country and seeing firsthand the wonderful commitment that Americans have to peace and freedom around the world. I have with me on the panel today some extremely learned people who have specialties that I think are going to help to inform this debate.

To my immediate left, I have Claudia Rosett. She's a member of the editorial board of the Wall Street Journal in Europe. Claudia is a member of the editorial board at the Wall Street Journal. She writes a weekly column, "Letter from America," for the Wall Street Journal, which also appears as "America the Beautiful" on

OpinionJournal.com. Ms. Rosett first joined the Journal as books editor in '84. In September of '86, she became editorial page editor of the Asian Wall Street Journal. She joined the Journal's Moscow bureau as a reporter in '93 and became Moscow bureau chief in '94. In September of '96, she spent a year living in New Delhi, before joining the Journal's editorial page in New York and has since become a columnist. In May 1990, Ms. Rosett received an Overseas Press Club Citation for interpret of foreign affairs reporting for her on-the-scene coverage of the Tiananmen Square uprising. Ms. Rosett received a bachelor's degree in English from Yale. She has a master's degree in English from Columbia and a master's in business administration from the University of Chicago.

Sitting to Claudia's left is Vernon Smith, who really needs no introduction. He's a research scholar and professor economics and law at the Interdisciplinary Center for Economic Studies – or Science at George Mason University. Vernon, as you're well aware, won the Nobel Prize in economics in 2002 and is currently a professor of economics and law at George Mason University. He served on many boards around the country and on many academic journals. He has a wide and long history in the field of economics. He was elected a member of the National Academy of Sciences in '95 and received Celtic's Distinguished Alumni Award in '96. He has served as a consultant on the privatization of electric power in Australia and New Zealand and participated in numerous private and public discussions of energy deregulation in the United States. In 1997, he served as blue ribbon panel member on the National Electric Reliability Council.

And to Vernon's left, we have Jack Goldstone. Jack is the Virginia E. and John T. Hazel, Jr., professor of public policy and eminent scholar at George Mason University. Jack is the Virginia E. and John T. Hazel professor and public policy, and he earned his B.A., M.A., and Ph.D. at Harvard University. His areas of specialization range widely, encompassing such fields as comparative and historical sociology, analysis of violence, and collective action and public policy analysis. Professor Goldstone is the author of "Revolution and Rebellion in the Early Modern World" and the editor of numerous books, including "Revolutions of the Late 20th Century."

We're gathered here this morning really to consider what is the great challenge for what has been described as the coalition of the willing in Iraq, and I would pose that it is to know when a stable, open, free, and democratic civil society exists. We brought together this panel of people with great expertise in certain of the preconditions necessary for the existence of open and civil societies and for those societies to be stable.

We're going to start with Claudia this morning, and I'm going to ask Claudia, in thinking about civil societies and the widespread experience that you've had around the world, what do you think of the preconditions for a stable civil society to exist? Is it possible to create a stable civil society from what has been an autocracy or a dictatorship, and be able to do that in such a way that it's going to remain stable over time and not drip back into the unfortunate experiences of the past? Claudia?

CLAUDIA ROSETT: Thank you for a small question. (Scattered laughter.) I should tell you, I'm a great believer in truth in advertising. I'm actually a former member of the Journal's editorial board. I left their staff last year. I still write a column for them, so I cannot get your op-eds into the paper, but I can tell you – try and share some of the things I have come across in about more than 20 years of journalism, covering a lot of places that are dealing with some of the problems that we've been talking about here today.

And I guess – actually, when this discussion was proposed, the first thing that came to my mind was the medical rule, "First do no harm," which seems to be sort of left out of the equation in a lot of this. And, you know, I was interested – the previous speaker mentioned toward the end of his talk that we were allocating something like $1,000 per Iraqi. That really doesn't tell you much, except that we're spending a lot of money, and the entire theory of modern finance will tell you it depends what you spend the money on. This is terribly important, and many Iraqis may know that much better than the enormous army of bureaucrats who are now descending upon the place and the many more who are waiting in the wings.

You know, how do you try and keep something going? I think part of the answer is to understand – can we quickly redefine a few things? I'm going to try and get through this fast, and stop me if I go on too long. But we talk about nation building, which sort of implies as a metaphor that you arrive with a little erector kit, and you're building institutions like they're blocks. It's actually a process much more like growing a garden, or it's something where there is tremendous interaction between all sorts of factors, including whatever we do there.

And one of the things we do when we go and try to help countries is we create our own enormous bureaucracies, which they then learn to interact with. And this can have its own rather bad results, and you know, some quick examples of things that didn't quite work out the way that you might have expected, looking at the amounts of money poured in and the efforts that were made: Russia in the 1990s. And I really wish people would look a great deal more to that in trying to figure out what to do with Iraq, where we went in. We poured money in there. We made loans, we had projects, we did all sorts of things, and what we mainly did was we taught the Russian government to game our system.

And all this culminated at the point where we had told world investors, come on in, it's fine, because we wanted everybody to think it was fine. It was actually incredibly high-risk, and we had this spectacular devaluation and default in 1998, at which point a lot of the A bureaucracies went away. The IMF repaid itself its own bad loans and went home for a while. The World Bank kind of backed off, and at that point, the Russian government realized it really had no alternative if it was going to keep going but to kind of pull up its socks and start cleaning up something and, you know, create something called an understandable, tolerable tax code. And they are still – they were coming off a terrible, difficult time, but they're in far better shape since we started offering them a lot less advice.

Another interesting example that doesn't often come up in this kind of discussion is Taiwan, where the United States pulled out of there for economic purposes, at least as far as aid transfers – again, the kind of nation building that we're talking about. In a rather dramatic way in 1979, Jimmy Carter recognized China, the mainland, and we still provided a defense umbrella, but it was really left to Taiwan, and it had a jolting effect at the time of stopping a liberal movement that was in progress. Ten years later, they went ahead and started really democratizing. They got rid of martial law; they are now a democracy. They did that without our really being – without our having any official presence there.

And then very quickly, perhaps the subject most dear to this gathering's heart and maybe I should – the U.N. in Iraq. If I could quickly run through with you what the U.N. did in Iraq in the run-up to this war – it was an astounding example of how what's meant to be an aid effort can turn into this sort of – metastasize into this thing entwined with systems that you don't really want to have in place. And the danger of the U.N. in Iraq is how much of that is in some way going to carry forward, and the basic problem was Saddam controlled all of Iraq's oil revenues. Those were basically the income of the country, and the U.N. went into the business of -- in order to get relief in past sanctions to hungry babies, they got into the business of overseeing Saddam's oil sales and then overseeing relief supplies he bought.

And this whole thing was set up in a way that made a whole lot of sense to the U.N., which was they got a commission of the oil sales and basically turned themselves into his fixer, his comprador (?). They were in business with the guy who was supposed to be overseeing them, and this became the most monumentally huge operation in the U.N.'s history, in terms of cash flow – more than $100 billion in deals that they stamped over the course of this thing, with no particular transparency. And if you wonder why the U.N. has been so vociferously interested in doing things in Iraq -- although they have pulled out most of their staff for the moment, they've let their local staff – it probably has a great deal to do with that. And again, I suggest look to the bureaucracy, and probably the most important thing we can do in Iraq is break up that oil monopoly, because that is where power is going to concentrate itself again if it is left there. I think our other panelists are going to address this.

Finally, let me just give you an entertaining little tale from Turkey, which was something I picked up at a World Bank meeting a few years ago in a booklet on things that the International Finance Corporation had had trouble dealing with but had overcome, a little set of case studies. And one of these was a fancy hotel in Istanbul, where the IFC, which tries to bring private sector help to countries and show them how to do things right, went in to develop a luxury hotel, and this case study noted that the problem they ran into was competition – was the private sector in Turkey was actually starting to build all these other luxury hotels, and the IFC, which was meant to be an aid project, ended up having to compete with these rather more effective private sector businesspeople.

And well, they did manage in the end, but it was tough, and at that point, you say to yourself, what is the IFC doing in there at all? Now, this may seem to be a minor part of what goes on in trying to sustain a country that has been through some terrible time, but it is a tremendous point of leverage in shaping what those governments are. I point out to you, say, Egypt, a country that has been one of our biggest aid recipients for many years now and is pretty much a disaster. And I would just suggest don't think that simply sending in manpower, simply pouring in money really matters. The most useful thing you can do is probably teach ideas. I'd be happy to address that in other ways, but basic ideas that underpin our society – that's what's going to do it.

And there's an entire theory of economics that talks about – there's sort of a subset of that that talks about the importance of individual information, of knowledge that people have, of knowledge that the, say, Iraqis have, that nobody at the U.N. or any force coming in to so-called "build a nation" is going to have. But we can most usefully teach them our principles, and from there, they really have to figure it out for themselves. Thank you.

MR. McTIGUE: Thank you, Claudia. I'm going to come back with a question, but I'm going to ask Vernon now to make some comments, because I think that you've opened for him nicely the window of opportunity. And Vernon, it seems that where you have an autocratic democracy like existed in Iraq, you get the accumulation of all of the national wealth in a very small number of hands. How do you go about dispersing that wealth out, so that a, the people of Iraq will feel that they have some ownership in what's happening, but also starting to set the preconditions for a market economy to start to operate?

VERNON SMITH: Thank you, Maurice. First, I want to agree with Claudia that one should first do no harm. Unfortunately, the Hippocratic oath says, "Do no intended harm." (Laughter.) And I looked that up recently because I wanted to use it, and it says no intent, and I realize, well, you know, well, that gives them an out, doesn't it? (Laughter.) And you know, it's the unintended harm that's so devastating.

I want to speak to -- in answering Maurice's question, I want to speak generally to the great need I think for economic liberalization. I should – I think it should be given a co-equal status with political liberalization in Iraq. And I think Iraq is an opportunity to do a completely revolutionary thing, and that is to recognize that public assets belong to the public and not to governments.

And I have – I spoke to this about – for the first time about 20 years ago. This idea, the closest it has come to being implemented has been in Alaska in what is called the Alaskan Permanent Fund. And basically what I would like to see happen in Iraq is that all of the oil properties -- the manufacturing, refining, pipeline and producing facilities and new exploration leases – be auctioned for the account of the people. Now, there's various ways of doing this. One approach would issue scrip. The reason why I have originally developed that idea in the United States is because there's a tradition in

the United States, long before the government had very much power to pay for things by using land and issuing scrip to the army and this sort of thing.

And the idea – there's two ways of going about auctioning properties for the account of the people. One is to issue them scrip, and everybody gets an equal share of the scrip, and then all property that is auction, the bids are denominated in scrip. So that when – and this scrip is listed in all the exchanges, and so when the transfer of ownership takes place, one gives up the scrip, and anyone who in owner of scrip who wants to sell his scrip is free to do it. That's how the bidders get it.

I think, though, in a country like Iraq the Alaskan model without what I consider to be their mistakes might be a better intermediate plan. In effect, the Alaskan Permanent Fund, what it did was to take 25 percent of the oil revenues, put them in essentially a mutual fund, and then an annual dividend is declared from that fun each year for the account of every man, woman, and child in Alaska. I think there's two mistakes in that that can – that should be corrected. One is I think there should be made – a provision made so that the shares in this fund can be traded. This might be introduced gradually in a country like Iraq, but this allows individual citizens to get access to liquidity and capital for their own investments.

And I quite agree with Claudia that information is – it's important to – for development to come from the information that's dispersed among peoples. You know, those peoples were trading in markets long, long before there was anything like Western capitalism. There's a long history there of trade, and it's changed.

Essentially, the main mistake Alaska did was not only to not make these sharers tradable or make provisions for doing that. The other thing they did is they didn't put all the revenue in the people's account. Some of it they put into the account for the – a spending account for the state. And today, the state has a budget gap, and the people have their permanent fund. (Scattered laughter.) And there is a very nice experiment. Before the permanent fund was set up, there was something like $900 million. The first big flow of money came in to the state, and that went out almost as fast as it came in, and it's hard to find out even what happened to it, according to my friends in Alaska.

So I would suggest that some sort of model like this be seriously considered to sort of maximize the economic freedom and the capacity of individuals in Iraq to exercise that economic freedom and minimize government control over assets, which of course in country after country, they used to basically brutalize their people. Thank you.

MR. McTIGUE: Thank you, Vernon. And I'm now going to move on to Jack Goldstone and really say to Jack, listening to Ambassador Dobbins and listening to both Claudia and Vernon and being aware of your field of studies, would you like to tell us something about the importance of institutions before you start to liberalize the rest of the economy, sort of reflecting on some of the things that seemed to have gone wrong in Russia, where we rushed to put a market economy in place before the institutions were there that allowed a market economy to actually function, and opening up the opportunity

for some of the things to go wrong that did – a significant part of the economy moving into the black economy and also moving in criminality? And would you see some similarities for those opportunities in Iraq?

JACK GOLDSTONE: Well, what goes wrong in countries like those former Communist countries who have not made positive transitions was a failure to create stable institutions in the political sector and stable institutions to distribute and protect private property. In the absence of those two factors, criminal gangs grabbed the concentrations of property without dispersal and are able to exert undo influence. If we're going to avoid that kind of outcome in Iraq – and it's perfectly avoidable, I believe – we simply need to get a clear plan of what institutions need to be established and work at that goal.

I think the question that's often phrased, "What is our exit strategy for Iraq? How soon can we get out?" is a question that leads to failure. The fact is that the Muslim world, from Nigeria to Indonesia, is the main source of our global energy supplies at present. It's also the main source for the financing and recruitment of international terrorism. We need to be involved in these regions, and the question is not "How do we get out of Iraq or the Middle East?" but rather, "What are the terms on which we can constructively remain?" What we need to work toward is a transition from a situation of leading the reconstruction of Iraq to becoming a lasting partner with the people of Iraq in reconstructing but also maintaining and defending the freedom that we hope they achieve.

Now, the institutions that will help them achieve this, I just want to highlight three areas. One is security, the second is services, primarily health and education, and the third is political reconstruction, particularly with attention to political parties and structures of democracy.

Now, security issue, as Ambassador Dobbins identified, is absolutely crucial. No government, no matter how democratic or well constituted, will command the loyalty and respect of its people if it cannot protect them. Security is essential not just for U.S. troops but for the population of Iraq. If we want people to respect what we're doing there, it will not do to preside over a lawless society. I think that's something that the U.S. simply has to recognize we cannot do alone. We can win the situation in Iraq with international help and support, or we can lose it alone, but I no longer think we can win it alone. The numbers just don't add up. Iraq had an army of 400,000 roughly this spring. It was dissolved. Even if only 5 percent of that army retreats into guerrilla activities, that's 20,000 adversaries. Conventional arithmetic is it takes at least a 10 to 1 advantage to deal with the guerrilla opposition, so we need at least 200,000 troops engaged in combat and guerrilla fighting activities.

That says nothing about police to keep order in the country. New York City has a police force of about 40,000 officers. The whole country of Iraq currently has about that number, maybe a little bit more. Is it enough? New York City has about two murders

per day. When it got up to three murders, there was an outcry. Homicides at their highest level in the last 40 years were five a day. That was considered a disaster.

Baghdad, a city half the size of New York, has gone from having one gunshot fatality at the morgue a month or so to having 12 in the most recent period. That's a level of disorder that would create panic and in an American city would be considered intolerable. I don't think we consider ourselves to be making good progress in Iraq if homicide rates there are at levels we would simply consider an intolerable collapse of order, a failure to safeguard our citizens by our standards. How many police would you need for Iraq? Probably at least 100,000. 150,000 might be better. Are we going to get them by ourselves by training Iraqis in a foreseeable amount of time? Probably not. We need allies who can contribute police, troops, as well as financial support if we're going to get the security situation under control.

Failing that security situation, everything else is difficult. For example, rebuilding the oil industry: if adequate security is in place, private firms will contribute to that rebuilding, the same for electricity, hotels, other elements of infrastructure. But without adequate security, even if the U.S. government builds those facilities, they will be washed away like sandcastles in the tide, to use Ambassador Dobbins' apt analogy. Its security situation's not solved.

Troops are important, but one also needs to provide services. Even more important than restoring electricity is restoring services that individuals need to build their futures, and particularly, I mean health and education. About 10 percent of the schools in Iraq have now been rehabilitated – 10 percent in six months. You do that arithmetic; it says you get 100 percent of the schools rehabilitated in five years. That's not fast enough. We need to know how many children are in school and what are they learning. This is a country where half the population is under 15. If it takes three years, five years to rebuild the school system, if we lose a quarter million adolescents who do not go through school in the next three years, we are never going to be able to create a peaceful, stable society. We are going to have residual problems that will be with Iraq for a long time. It's essential to accelerate that element of services, as well as security.

And finally, political system: Thank goodness for the enlightening views of my colleagues here on the panel with regard to Iraqi oil. The worst thing in the world for Iraq would be to create a government and then give that government control of oil revenues. Why? It simply creates a prize. Whoever gets control of government gets control of $20 billion a year in revenue to spend as they see fit. Isn't that wonderful? What kinds of people would want to take that position on? We would create a situation in which every faction or group in Iraq would be competing with the others for control of that. If you want a stable democracy, one of the prerequisites of the government has to ask people for permission to tax and spend their revenue. If you create a direct conduit from the revenue into the government without the people having to give their permission or be consulted, you are going to recreate an authoritarian regime, regardless of the institutional structures you leave in place.

What needs to be done? Professor Smith and others have and can devise a number of useful plans, whether it's a trust fund, a dispersal, but some measure to essentially give the Iraqi people a direct, realized stake in their revenues. If you want to create a demonstration effect that will shake up the rest of the Middle East, then give the Iraqi people a direct stake in oil revenues, create a situation in which the government has to ask people's permission for how much they can spend and what they spend it on, and that will be a striking example to Saudi Arabia and other oil states.

Last thing, it would be a wonderful thing to spend some effort in building national parties. One of my nightmares about Iraq is that we spend a lot of time getting security on services under control, but in the six to 12 months while we do that, political parties develop that are locally rooted in the Shi'a, Sunni, and Kurdish communities, such that when we do have national elections, we end up with regional blocs fighting for control of the national government. That is a recipe for deadlock and disintegration of a national democratic government.

What we need to foster in the run-up to national elections is truly national parties that will be structured, that they need to have Kurdish, Sunni, and Shi'a constituents and officials working together to forge a national policy. That was the plan in this country. We had to develop some institutions that would be Northerners and Southerners, small states and large states, agricultural and commercial interests into an institutional framework that forced them to cooperate, if need be in spite of themselves, in order to get anything done. And we do need to work at similar institutions in order to make an Iraqi democracy not simply an empty shell in which different regional factions will fight for control, but a set of institutions in which the requirement for getting popular assent and earning popular sovereignty is developing popular support in multiple regions of the country.

MR. McTIGUE: Thank you, Jack. I'm going to ask just a couple of questions of the panel to pull out a few comments that I think are valuable, and then I'm going to ask you people to pose questions as well. The first question, Claudia, I want to put it to you, and then Jack might also like to respond. In the discussion that we've had this morning, nobody's actually talked about the judicial systems, the institution of the law, because it seems to me that if you're building a stable society, then the institution of the law, both a criminal code and a civil code and the public's ability to feel confident that it's going to be fairly administered and it will not be able for it to discriminate against different groups upon whatever basis. In your experience, how important do you think that is, in terms of nation building?

MS. ROSETT: It's immensely important. It's hugely difficult, and we don't really know how to do it. That's the answer. Maybe I can offer a little more – something maybe a little more useful there. Of course it's terribly important, but the thing that's going on in a lot of these – in the kind of country we're talking about, in Iraq or in a post-Soviet Russia, is – and maybe I could just speak to something you were saying here, the crime rate, for instance – is you're not coming out of a system where you had things that were functional and healthy. You're coming out of something that's really sick, and it's

– part of what goes on when you break up a dictatorship is you effectively privatize a lot of the dirty, nasty, ugly things that were going on in the dark. I mean, the crime rate in Iraq may be 12 murders a day –

MR. GOLDSTONE: (Inaudible.)

MS. ROSETT: - I wonder what it was in the mass graves, if you average it out before. I mean, we're now seeing it. It's become transparent. It's something where you – and they're free to talk about it, but they weren't. And I would bet you, just as in the Soviet Union, people were all talking about the crime that they could see in the streets of Russia in the '90s and could then report and explore, but no one was really able to do that very well 10, 20, 30 years before, when enormous atrocities were happening, and people were afraid to do anything. This has something to do with the law in the sense that people do want a system that they can depend on, that's impartial, that they understand.

But you have to somehow create something economists really haven't figured out how to measure yet. The World Bank certainly doesn't know, and that is an entire other system that's basically based on trust in a system, that you will be decently dealt with. And how to create that, again, I think it comes back in part to saying things depend less on whether we actually supply x amount of material welfare, which usually gets stolen and turns up on the black market and goes to somebody who will pay a lot of money for it, and that's all perfectly fine economically in some ways but does not create an atmosphere of trust. And perhaps more usefully, you can try and teach people what are the rules that work? What are the things you need to know? What are the principles? Look for people who will try to go out and enforce that. You find in any of these societies decent, honest people, and their problem is they can't get anywhere, because the system isn't set up that way. You're trying to turn around a super tanker. That's kind of the long, difficult answer. It's really hard, it's really important, it's one of the basic things.

MR. McTIGUE: Jack, would you like to contribute on that?

MR. GOLDSTONE: Yeah. The court system is a particularly difficult one in Iraq because of the religious and regional differences. One thing a government is looked for in terms of what people ask in governance is justice. They need officials of the courts, officials of the police, officials of the government that they can trust – something that was totally lacking, as you point out, under the prior regime. Building that trust, however, requires working with familiarity. If you simply drop a Western secular law code into a region that has been run under a kind of tribal authority and the Qu'ranic law, you will have problems of distrust.

And so this is something where I think we need to draw on our experience in Bosnia, in Kosovo. The Bush administration has talked about bringing troops from Turkey because they're Muslim troops, but to my view, bringing 10,000 armed troops from a country that has a history of being the colonial power in the region prior to World War I is not something that most Iraqis want, and they've said so. On the other hand,

bringing Muslim jurists from other countries could be a way to help meet some of the civil service needs, integrate support from other Muslim countries and provide needed services.

MR. McTIGUE: Thank you. That echoes some of the other things that I picked up from your comments before, Jack, where it seemed to me what you were talking about was the need to build partnerships with a great number of other countries that had the specific skills and capabilities to be able not just to deliver but to speak to certain populations.

I want to move now, Vernon, to you again. In the comments that you made about the ability to be able to disperse wealth back to the people, to be able to get something of a market economy going again, and also to move away the opportunism that comes if it's concentrated in one small group of people, to be able to capture that wealth again, would you like to comment on some of the experiences of Thatcher's privatization, which did move a certain proportion of the value of scrip into the hands of private individuals in Britain, and what actually happened when they had that in their hands? And were people generally able to manage this new asset that was now dispersed to them?

MR. SMITH: I can't really speak in detail about the British experience, but I think – except I will say that generally, in a country like Britain, it was important that they get political legitimacy for the changes they were making, so that you had to recognize groups like the unions and other interest groups in the transition. But I think in Iraq we have the possibility of an entirely different approach, and I think this would help to sort of legitimize the notion of free democratic institutions. It would help – it would be a dramatic sort of way of recognizing the quality of rights in this initial claim.

Obviously, 25 years from now, people are not going to have equal shares, because they're going to do differing things with their source of funds, depending upon the opportunities and information that they face. But that's precisely the process whereby you will get wealth created and development and a vibrant economy in Iraq that is sustainable. And it seems to me that this would help to – when combined with the development of the kind of political institutions that are needed. It might have some hope of succeeding.

Now, on the question of justice, the question that you put to Claudia and Jack, I think – well, obviously, you begin with the constitution in the sense of trying to establish a rule of law and adjust the system. But I think it would be important to build on the past where there were people familiar enough with the cultures and the history of Iraq, know something about where we're going that could give some guidelines on how to build on the tribal community and neighborhood cultures. These always exist, even in a dictatorship. And the question is whether that some of those and the sort of trust that you want to build can't come out of those organizations and the religious communities.

MR. McTIGUE: I'm now going to take questions from the audience. There's microphones on either side of the auditorium here if you would like to queue up behind

the microphones, and keep your questions as brief as possible, if you would. Would you please give your name and the organization you represent, when you get to ask your question? Right, up in the gallery, yes, sir?

Q: My name's Dave Hancock. I'm from the U.S. General Accounting Office, and I'm certainly – I certainly recognize the evil that you mentioned, in terms of putting a lot of the power over oil revenues into the government. However, in terms of sharing a lot of oil revenues with the people of Iraq, I can certainly see how this would be contributory to economic growth, in terms of, say, Alaska or Britain. However, do you believe that there might be certain obstacles in Iraq, such as the fact that it's a patriarchal society with not very much history of individual enterprise, and the fact that very often, a lot of the resources that individuals have end up going into the hands of local sheiks? I was wondering, do you feel that this is a surmountable obstacle to this endeavor?

MR. McTIGUE: Okay. Vernon, do you want to take that?

MR. SMITH: Well, of course it's an obstacle, but I think an even bigger obstacle to a reasonable transition in Iraq is to go back to business as usual, and the next government controls and gets access to these assets. And it's not only the existing assets of course, but Iraq has a huge oil and gas exploration development that has not been tapped.

So I'm talking about a very long-term auction program that would begin by recognizing – simply recognizing Iraqi citizens' rights to that. And it may be that some transition mechanism is needed in order to gradually introduce the exchangeability of those shares. And this might help to build some of the financial and the other kinds of institutions that need to be grown there. And I quite agree with Claudia – we don't know how to do this. And I am convinced of one thing, though, and that is that it's almost impossible to do from the top down. It's got to come from individuals. I mean, you have to build on what people know, and you have to – it may be difficult, but you have to trust people. And that may be hard to do, but I think it's much better to trust individuals and dispersed individuals who will – many of whom will not have any difficulty figuring out what to do with their economic power that is produced. Many of them of course may waste and waste away that opportunity, and that – which is one of the reasons why I think some sort of a transition may be important and needs to be built and blended in with the educational, development of the educational institutions.

MR. McTIGUE: Thank you. I'll take your question, sir, and then yours.

Q: Yeah, my name is Alistair Millar with the Fourth Freedom Foundation and George Washington University. I have a question first for Vernon Smith with regard to your making public Iraqi oil funds. As you know, Benon Sevan, the head of the OIP, Iraq Oil for Food program, is preparing to close down that operation formally now by the end of the month, and it may even happen as early as next week. And I just wonder what you think needs to be done to increase transparency in that transfer of power, so we don't

have closed books going over to other people who haven't even been able to give us any idea of our own energy policy.

And the other – the other question I have is with regard to trying to internationalize this effort. What can be done to bring international institutions in? Would an international conference outside Iraq help to encourage more countries – (audio break, tape change) --

MR. McTIGUE: Thank you. Vernon?

MR. SMITH: I'm not sure I understood the first question. The – was it –

Q: The fact that it seems that there are deals already going on in the oil industry with some of those who have been appointed to manage it at the moment that are somewhat less than transparent, and how important is transparency to be able to work?

MR. SMITH: Well, yes, transparency is important, and I think one would have to begin with an inventory of the assets and the establishment of an auction system in which these assets would go to highest bidders. And the people who tend to bid the most for things at auction are the people who tend to value them the most. They believe, anyway, that they can get the most from those assets. The – all of the operations, explorations, would be open to the best-informed enterprises anywhere in the world. There's no reason why that couldn't be a completely international effort. All I'm talking about is the mechanism whereby – that the revenue and all of those – the income and wealth that's obtained from that bidding would go into – would be preserved in an account that would the Iraqi people would have claim to. No, this should very much an international, international effort.

MR. McTIGUE: Thank you. I'll take your question, and can I just – if we could keep the questions and the answers very short, we might manage to get two more in. I'll take yours, and then I'll take yours after. Yes, sir?

Q: I'm Bob Hershey (sp). I'm a consulting engineer. To achieve this transparency, to what extent will the Internet be useful for some of these things?

MR. McTIGUE: The question really wasn't – Jack, you might like to take a go at this one, but to achieve the level of transparency necessary for ideas to be able to be exchanged whether – (inaudible) – with regard to the dispersal of wealth or it's the building of institutions. How useful is the Internet in a country that is as underdeveloped as Iraq, I presume?

MR. GOLDSTONE: One of the best things that is going on in Iraq is the emergence of a free press -- hundreds of papers, magazines, and Web sites. The question of transparency is not so much is there media, whether print or virtual, to disperse information, as will the people who are writing for either Internet or print journals have access to the people who are controlling the oil revenues. That's a matter of both

commitment of the provisional authority to be transparent and preferably, I agree, to have international involvement to ensure that this does not look like a U.S. operation of selling the rights to Iraqi oil.

Now, one of the problems we face – and this is a widely held view – is that in the Muslim world that the U.S. is sitting on Iraqi soil, waiting for Iraqi oil. And having a system that transparently transfers future rights to exploration as well as current revenues to a fund authorized to disperse or hold in trust those revenues for the Iraqi people and make sure it is publicly accounted for would be the best antidote to that view of U.S. interests.

MR. McTIGUE: Thank you very much. I'm going to squeeze this question in. Yes, sir, up there in the gallery?

Q: Yeah, thank you. I'm Dave Von Brikenrakard (sp) with the United States Bill of Rights Foundation. My question goes to Professor Goldstone and your comment on building justice, bringing in jurists from other Muslim countries to assist in their lawmaking. Under the guise that when the good compromises with the bad, bad wins. How are you going to do this? The inconsistency between how we look at law and what is justice to us can be a very different thing from clerics of the Muslim law.

MR. GOLDSTONE: Well, I think part of the exercise in building trust is that the United States needs to show a willingness for Iraqis to come up with their own answers to problems and accept that they may not always be the same answers that the United States may prefer. Now, at the level of selecting jurists, I would want to see a careful screening to avoid the type of accidents we've had in our own military, where chaplains were screened by individuals who turned out to have ties to terrorist organizations. So I'm not simply saying, let's hold a recruitment fair, and anyone who shows up will be employed. But what I am saying is that we need to recognize different people, have different ways and respecting those ways is part of building a reciprocal trust relationship. So I would say be cautious, but also be trusting.

MR. McTIGUE: We've now come to the expiration of our time. Could I just ask you to join with me in showing your appreciation to the panel and their comments?

(Applause.)

Could I ask you just to exit the auditorium as soon as you can here on my right, your left, and to move to the Dome as quickly as possible? Our guest speaker, Paul Wolfowitz will start exactly at 12:15, so please try and be there –

(End of morning panel session.)