



Exiting Iraq: The Economic Reasoning

BY CHRIS COYNE

Among many other problems, the current U.S. occupation of Iraq suffers from a problem of incentive misalignment. From the beginning of the occupation, the United States made very clear its firm commitment to stay the course. This provided a disincentive to members of the Iraqi populace as well as to Iraq's neighbors to cooperate and contribute to the reconstruction.

First, consider the populace of Iraq. Iraqis of all backgrounds believe the United States is committed to remaining in the country. As a result, many have little incentive to invest the necessary effort to make Iraq a self-sustaining order. Citizens can free-ride off the efforts of others, mainly the occupying forces, because they do not internalize the full costs of their action or lack thereof.

Iraq's neighbors face a similar set of incentives. Many of these countries can maintain an extreme position, often an anti-U.S. position, because they also do not incur the full costs of their actions. For example, Iran has engaged in political subversion by arming and supporting Moktada al-Sadr's Shiite militia. Syria has also maintained its anti-American stance throughout the occupation. Although Saudi Arabia and Kuwait have both verbally offered support for the U.S. efforts in Iraq, the latter delivering some aid, both have failed to fully deliver in practice. The exceptions are Turkey, which has been supportive of the U.S. efforts after initially dissenting, and Jordan, which has been supportive from the beginning.

What would be the impact of withdrawal by U.S. forces? For one, the disengagement of U.S. troops from Iraq would shift the incentives facing Iraqi citizens. In a post-U.S. Iraq, the indigenous populace would incur a greater proportion of the cost of their inaction. They would have a

stronger incentive to invest in the development of their community because they would no longer have the option of relying on U.S. troops. From garbage collection and schools to crime prevention, community safety and development, Iraqi citizens would have the incentive to engage in productive behaviors that bettered Iraqi society.

The decision calculus of those countries neighboring Iraq would also shift with a U.S. withdrawal. These countries would have a vested interest in ensuring that Iraq did not devolve into a state of chaos. An unstable Iraq would serve as a breeding ground for opponents and dissidents that could pose a threat to Iran and Saudi Arabia. Likewise, Turkey and Kuwait would both have a strong interest in seeing a stable order in Iraq. As such, these countries would face a strong incentive to engage in activities that support and maintain a stable order.

Disengagement from Iraq will not be easy. It will require great diplomatic effort to make the benefits clear and garner the support of all parties involved. That said, the current situation is characterized by an incentive structure that is incompatible with the ultimate goal of achieving a self-sustaining liberal order. Disengagement, carried out correctly, would shift the incentives faced by the citizens in Iraq as well as those in close geographical proximity, and would provide some hope of a stable Iraq.

Christopher J. Coyne received his PhD in economics from George Mason University in May 2005. His dissertation was titled, "After War: Essays on the Mechanisms for Successful Postwar Reconstruction and Social Change," which will be printed in manuscript form by Stanford University Press. He joined the Department of Economics at Hampden-Sydney College (www.hsc.edu) in August 2005.

