Petroleum and economic development of Iraq

Taha Hussain al-Sabea

The University of Montana

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ACKNOWLEDGMENTS

The author would like to take this opportunity to express his gratitude to Professors R. E. Shannon, B. Gordon, and R. Wallace of Montana State University, for their guidance and critical advice, and especially Dr. Shannon, the thesis director, whose questions and criticisms were very helpful. He is also deeply indebted to Dr. A. M. Wahab of Loyola University, Los Angeles, California, for his comments and suggestions.

The author wishes to thank Mr. Aziz A. Kelidar for his help in securing valuable source materials from Iraq. Also, my appreciation to Mrs. Mary A. Wilson for her contributions in typing the thesis.
PREFACE

The aim of this thesis is to study and analyse the evolution of the petroleum industry and the role of petroleum revenue in the development of modern Iraq.

I have focused this study upon Iraq because I am a citizen of that country, therefore starting with the assets of some knowledge of its history and language. The limited source of materials available in the United States on some subjects has been supplemented by Iraqi sources, which I have translated, when necessary, from Arabic. I worked for the Government of Iraq in Baghdad Refinery for five years (therefore, I believe that I am well acquainted with the petroleum industry in Iraq). I also studied petroleum economy for a full year at the University of Baghdad, when I attended the College of Economics and Commerce there.

Iraq is an underdeveloped country which is trying to utilize its petroleum revenues to develop its economy and, in turn, its people and their standard of living. The importance of Iraq, as the seventh oil-producing country in the world, plays a great role in stimulating my desire to study this topic. Above all, it is my duty as a student of Economics and as an Iraqi, to serve both Economics and Iraq when I devote my time to study this particular subject. I hope I will be successful in dealing scientifically with the aim of this thesis.
TABLE OF CONTENTS

Page

PREFACE ................................................................. iii
LIST OF TABLES ......................................................... vii
LIST OF FIGURES ...................................................... ix
LIST OF MAPS ........................................................... x

PART I. THE IRAQI ECONOMY IN GENERAL, CHARACTERISTICS
AND TRENDS

CHAPTER

I. INTRODUCTION ..................................................... 2

The People of Iraq
Government and Political System
Education
Agriculture
Soil
Water
Capital
Land Tenure System
Industry
Natural Resources

II. THE ECONOMY AS OF 1952 ......................................... 17

National Income of Iraq
Productivity of Labor Force
Industrial Productivity

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Chapter

Domestic and Foreign Trade

Agricultural Productivity

III. OBSTACLES TO ECONOMIC DEVELOPMENT IN 1952

Limitation on Investment Capital

Technological Factors

The Weakness of the Taxation System

The Scale of the Domestic Market

Internal Factors Affecting Capital Formation in Iraq

Exportation of Domestic Capital

The Exodus of the Jews

Investment and Incentives

PART II. THE ROLE OF PETROLEUM AS A RESOURCE FOR ECONOMIC DEVELOPMENT

IV. EVOLUTION AND HISTORICAL REVIEW OF THE PETROLEUM INDUSTRY IN IRAQ

The Struggle for Petroleum Concession during the Ottoman Empire Reign in Iraq

The San Remo Agreement

The Red Line Agreement

Petroleum Companies in Iraq

The 1952 Agreement

Pipelines Projects

Petroleum Production

Refineries

Petroleum Industry and Labor Relations in Iraq

Effect of the Petroleum Revenue on the Iraqi Balance of Payments

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<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The International Transaction of Iraq and the Role of Petroleum</td>
<td></td>
</tr>
<tr>
<td>Internal Spending and Its Effects on the Local Economy - Employment</td>
<td></td>
</tr>
<tr>
<td>Direct Payment by the Oil Companies and Financial Help to Iraq</td>
<td></td>
</tr>
<tr>
<td>V. OVERALL ECONOMIC DEVELOPMENT, 1952-1960</td>
<td>103</td>
</tr>
<tr>
<td>The Development Board and Its Program</td>
<td></td>
</tr>
<tr>
<td>Structure and Function of the Development Board</td>
<td></td>
</tr>
<tr>
<td>Finance of the Development Board</td>
<td></td>
</tr>
<tr>
<td>Development Board Planning</td>
<td></td>
</tr>
<tr>
<td>Implementation of the Agricultural and Irrigation Program</td>
<td></td>
</tr>
<tr>
<td>Implementation of State Manufacturing</td>
<td></td>
</tr>
<tr>
<td>The Economic Situation in 1960 as Contrasted with 1952</td>
<td></td>
</tr>
<tr>
<td>The Overall Economic Plan and Aims</td>
<td></td>
</tr>
<tr>
<td>VI. CRITICAL EVALUATION AND CONCLUSION</td>
<td>149</td>
</tr>
<tr>
<td>BIBLIOGRAPHY</td>
<td>167</td>
</tr>
</tbody>
</table>
**LIST OF TABLES**

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dr. Fenelon's Estimate of the Iraqi National Income, 1956</td>
<td>17</td>
</tr>
<tr>
<td>2. Dr. Fenelon's Estimate of the National Products, 1956</td>
<td>18</td>
</tr>
<tr>
<td>3. Per Capita Income, 1953-1956</td>
<td>18</td>
</tr>
<tr>
<td>4. Percentage Sector of Iraqi National Income for the Year 1960</td>
<td>19</td>
</tr>
<tr>
<td>7. Size Distribution of Industrial Establishment, 1954</td>
<td>30</td>
</tr>
<tr>
<td>8. Value of Iraq's Principal Imports (Excluding imports by oil</td>
<td>33</td>
</tr>
<tr>
<td>companies)</td>
<td></td>
</tr>
<tr>
<td>10. Date Exports, 1953-1960</td>
<td>36</td>
</tr>
<tr>
<td>11. Live Animals</td>
<td>37</td>
</tr>
<tr>
<td>12. Cotton Exports</td>
<td>37</td>
</tr>
<tr>
<td>13. Wool Exports</td>
<td>38</td>
</tr>
<tr>
<td>14. Total of Imports, Exports and Transits of the Iraqi Foreign</td>
<td>39</td>
</tr>
<tr>
<td>Trade for the Years 1950-1960</td>
<td></td>
</tr>
<tr>
<td>15. Land Use: Iraq, 1956</td>
<td>41</td>
</tr>
<tr>
<td>16. Percentage of Land Surveyed and Ownership of Land for the</td>
<td>41</td>
</tr>
<tr>
<td>Year 1951</td>
<td></td>
</tr>
<tr>
<td>17. Distribution of Holdings by Size in Iraq</td>
<td>42</td>
</tr>
<tr>
<td>18. Percentage Distribution of Government Receipts</td>
<td>52</td>
</tr>
<tr>
<td>19. Oil Production and Oil Revenue for the Years 1928-1960</td>
<td>77</td>
</tr>
<tr>
<td>20. Export, Import-excluding petroleum-and Balance of Payments</td>
<td>92</td>
</tr>
</tbody>
</table>

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Table

21. International Transactions--Iraq ......................................................... 95
23. Oil Revenue, 1950-1960 ........................................................................ 100
30. Ratio of Export/Import (Percentage) ...................................................... 134
31. Index of Ratio of Export/Import ............................................................. 134
32. Per Capita Income (in Pounds) ............................................................. 135
33. Index of Per Capita Income ................................................................. 135
34. Wholesale Price Index and Cost of Living Index for Unskilled Labor in Baghdad ................................................................. 136

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# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Index of Population for the Years 1953-1961</td>
<td>139</td>
</tr>
<tr>
<td>2. Index of National Income for the Years 1953-1961</td>
<td>140</td>
</tr>
<tr>
<td>3. Index of State Revenue from Oil for the Years 1953-1961</td>
<td>141</td>
</tr>
<tr>
<td>4. Index of Exports for the Years 1953-1961</td>
<td>142</td>
</tr>
<tr>
<td>5. Index of Imports for the Years 1953-1961</td>
<td>143</td>
</tr>
<tr>
<td>6. Index of the Ratio of Exports to Imports for the Years 1953-1961</td>
<td>144</td>
</tr>
<tr>
<td>7. Index of the Circulation of Currency for the Years 1953-1961</td>
<td>145</td>
</tr>
<tr>
<td>8. Index of the Government Budget for the Years 1953-1961</td>
<td>146</td>
</tr>
<tr>
<td>10. Index of Per Capita Income for the Years 1953-1961</td>
<td>148</td>
</tr>
</tbody>
</table>
LIST OF MAPS

<table>
<thead>
<tr>
<th>Map</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Iraq and Adjoining Territories</td>
<td>72</td>
</tr>
<tr>
<td>2. Pipe Line Systems (Iraq Industry Operations)</td>
<td>7¼</td>
</tr>
<tr>
<td>3. The Development of Iraq.</td>
<td>120</td>
</tr>
</tbody>
</table>
PART I
THE IRAQI ECONOMY IN GENERAL
CHARACTERISTICS AND TRENDS
CHAPTER I

INTRODUCTION

Iraq is the modern name of Mesopotamia. It has an area of 172,000 square miles, and a population of about 7 million.¹ The major two rivers, Euphrates and Tigris, are the source of life for the people and the economy of the country.

Iraq is an arid country, in general, receiving an average precipitation of 12 inches a year. In the north and northeast part of Iraq precipitation reaches 40 inches a year on the high slopes of the mountains while in the extreme west precipitation is about 3 inches where desert conditions prevail. This pattern of precipitation has characterized the economy of the country. In the north where rainfall is heavy, agriculture and forests are the dominant feature. A nomadic type of life predominates in the west and the southwest, with the exception of the valley of Tigris and Euphrates where water is abundant. There we find well-developed agricultural activities which have played a great role in the past economy of Iraq, for water is the potential factor in the basic economic development of the country.²

Topographically, Iraq is a country of low elevation descending from north to south except in the north and northeast where we find the high mountains of Kurdistan. The pattern of watershed and precipi-

tation characterizes the agricultural activity of a country, and we find that the topography of Iraq contributed to distinguishing the social and the economic life of the people of Iraq.¹

In the lowlands and the desert, the general picture of the life of the people is dominated by the nomadic activity which locally is called the "Bedouin" or tribal type of life. The mountainous area, also has a nomadic type of activity but a trans-human rather than Bedouin.² Sheep, goats, camels and cattle are raised in that sequence of importance. Barley, wheat, maize and sorghum are cultivated to supply the diet of the people along with the animal products. In addition to this self-sufficiency of the productive activity of the people, we find a very limited scale of trade and exchange among the tribes themselves and between the nomads and the city dwellers. In the major cities and towns in Iraq most of the people are engaged in light industry, handicraft and trade. This was the economic base of the Iraqi economy (it still is in some places) until the discovery of oil and the rise of petroleum production in recent years. Economic activity since then has leaned toward more complexity in the economic structure. The changes which accompanied petroleum development in Iraq will be considered in more detail in the following chapters.

The People of Iraq

In general, the people of Iraq belong to the Caucasian race.

¹Ibid., p. 14.

²A geographical term which means the transferring of the nomadic people from one mountain to the other looking for pastures.
From the point of anthropology we can classify the people of Iraq into two major sub-races:1

1. The Arabs, who make up the majority of the people of Iraq, belong to the Mediterranean sub-race and also culturally they are considered a Semitic people.

2. The Kurds, who make up about one-fifth of the total people of Iraq, belong to the Indo-European sub-race.

Each group speaks a different language and has its own cultural background and social life. The Arabs live in the arid regions while the Kurds are a mountainous people. In addition to these two major groups of people, we find some other small groups but they are not of great significance. These insignificant groups of people are Persian, Turks, and Indians.2

Islam is the major religion in Iraq. Both Arabs and Kurds are generally Moslems. Also there is a good number of Christians in both groups. Before the creation of Israel there were about 140,000 Jewish people, but most of them have since migrated to Israel. At the present time we find only about 10,000 Jews left in Iraq. Also there are some pagans who are found in some isolated and limited communities in northern Iraq. The Yazidis are among those pagans who believe and worship the Devil in the shape of a golden statue of a peacock. The Yazidis are a sub-group of the Kurds.

The Moslem people of Iraq belong to two major sects:3

1Tbid., p. 56.
3Tbid.
1. **Sunni.** The Sunni sect, including a majority of whom are in agriculture engage in a wide variety of occupations. They are heavily represented in government, and most of the members of the economic, social, political elite are drawn from them.

2. **The Shia.** Constitute the largest single community in the country, and it is generally believed that they form between 50 and 60 per cent of the total population. They are concentrated in the central and the southern part of the country.

**Government and the Political System**

Iraq was part of the Ottoman Empire until World War I when Great Britain conquered Iraq in 1917.¹

On July 11, 1921, Emir Faisal Ibn-Al-Hussain was proclaimed King of Iraq. In 1924, the first nationalist government was established by the Premier Abdul Rahman Al-Naqib. During this period of independence Iraq was under British mandate, until 1933 when Iraq became an independent monarchy. The same year Iraq was accepted as a member in the League of Nations.

On September 8, 1933, King Faisal I died in Berne, Switzerland.² He was succeeded by his son, crown prince Ghazi, who was constitutionally proclaimed king of Iraq the same day. After King Ghazi's death by car accident in April, 1939, he was succeeded by his son, King Faisal II. Faisal II then was five years old, and his uncle Prince Abdul Illah was appointed Regent and later on Crown Prince.³

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² Ibid., p. 13.
³ Ibid., p. 16.
Iraq has had more than fifty cabinets since 1921, and there have been two revolts prior to World War II: one was in 1934 by General Bakir Sedqi and the second in 1941 by Premier Rasheed Ali Al-Ghaylani, a pro-German; both revolts failed.

On July 14, 1958, a group of nationalist army officers seized control of Baghdad. The King, Prince Abdul Illah and members of the royal family were killed: Nuri Al-Sa'eed, the Prime Minister, escaped but was killed the following day.

The revolution was planned and led by General Abdul Kareem Kassim. The aim of the revolution was to liberate Iraq from the domination of a corrupt clique installed by imperialists and to place the conduct of the government in more representative hands.

A sovereignty Council was formed on the morning of the 14th of July, and the latter decreed the abolition of the monarchy and establishment of a republic. A popular republic was formed to maintain Iraq's unity and to establish fraternal ties with other Arab countries.

The new government declared its intention of pressing on with national development and of raising the standard of living of the people. An agricultural reform project, including reform of land tenure, was given priority. Industry was to be encouraged by protection, and

2Ibid., p. 280.
4Ibid.
5See Chapter II concerning Agrarian Reform.
private capital was to be attracted from real estate activities to industrial investment.

Education

In 1920, there was no formal education in Iraq. Those families who could afford to do so sent their children to foreign schools, particularly to Turkish schools. In 1920, the country had only eighty-four primary schools, all for boys, with 363 teachers and 6783 students. There were also three trade schools, one secondary school, and one small law college.1 Higher studies were confined to a limited religious circle and students studied logic, philosophy, history, and Arabic literature and grammar. Education proceeded along the following lines. First, there was the elementary school lasting for a period of six years. From there students were sent to secondary schools at which there were two stages: the intermediate, lasting for three years and later a higher secondary school stage, lasting for two years.

Between 1932 and 1950 the number of schools rose from 262 to 1100; the number of pupils rose from 32,750 to 175,000, and the number of school teachers increased from 1,325 to 6,588.2 The number of students rose in 1956, 1957 and 1958 to 430,086, 492,875 and 577,885, respectively. And the number of the teachers in the same years increased to 15,207, 16,591 and 20,783, respectively.3 At the present time there are

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two universities; one is a state university and the other a private university conducted by the American Catholic Society.

**Agriculture**

Agriculture has always been the principal economic activity of the country and still employs over 65 per cent of the workers. It supplies the nation with the staples of life and provides local industry with primary raw materials. Agricultural productivity in Iraq is low because of the land tenure system, the lack of irrigation facilities, and the limited use of fertilizers and machinery which necessitates allowing part of the land to lie fallow each year. The Mission of the International Bank to Iraq in 1950 emphasized in their report that "any development program for Iraq must obviously put primary emphasis on agriculture."\(^1\)

During the period from 1920 to 1952, agriculture in Iraq could hardly be considered developed. Crop yields were generally low. The water supply was frequently inadequate because of the absence of irrigation projects. Agricultural methods were the same as thousands of years ago. Poor drainage had caused salinity, which in turn had lowered the productivity of the land in the irrigated zone.\(^2\)

**Agricultural products.** Rice is the main summer crop and is grown principally in the river basin and marsh areas. Exports have hitherto been small, as almost the total production is locally consumed in Iraq.\(^3\)

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\(^1\)International Bank, *Economic Development in Iraq*, p. 4.

\(^2\)See Chapter V concerning the development of agriculture and irrigation projects.

Tobacco is an important summer crop in Iraq. Tobacco production is a major factor in the economy of the north. Production of Iraqi tobacco increased from 2,000 tons in 1937 to 8,816 tons in 1954. Local consumption is currently about 6,000 tons a year and the surplus is exported.

Vegetables are grown in proximity to large towns but are not an important item of diet in the countryside. The amount of vegetables grown in Iraq is not sufficient for local consumption. The main ones are watermelons, tomatoes, cucumbers, spinach, eggplant, okra, turnips, carrots, cabbage, lettuce, and cauliflower.

A variety of fruits are grown in Iraq, mostly in Sulai-maniya, Baghdad, Diyala, Karbala, Hilla and Mosul provinces. They include pomegranates, oranges, apples, apricots, sweet and sour lemons, pears, almonds, olives, and pistachio nuts. In general, they are consumed locally and are not of the highest quality.

Iraq has long been the foremost grower of dates and exporter of dates in the world. It has about 31,206,000 palms and provides about 80 per cent of the world's dates. The annual date crop had averaged about 350,000 tons. This was increased to about 500,000 tons by 1958. The main markets for good quality Iraqi dates are the United Kingdom, Western Europe, North America and Australia. Lower quality dates are sold in India, Egypt, Syria, Saudi Arabia, South America, and other countries of the Far East.

1 Ibid., p. 201.

The largest and most generally grown crop is barley, followed by wheat. These are grown in rain-fed and marginal areas and in irrigated lands. Barley is the only cereal now exported in large quantities. The five principal buyers of Iraqi barley are the United Kingdom, West Germany, the Netherlands, Denmark, and Belgium. There was normally a surplus of wheat for export before World War II, sometimes reaching 100,000 tons. Since the end of the war, however, exports, except in 1950, have been negligible. As a result of bad harvests in 1948, 1949, 1952 and 1958, Iraq has imported wheat for local consumption.

Animal products. Principal animal products exported are wool, hides and skins. Sheep are the main source of these products. Quantities exported vary greatly from year to year. This is due to the fact that sheep are vulnerable not only to disease, but also to extremes of winter cold and summer drought. The greater portion of all animal products is consumed locally.

Soil

The land between the Tigris and Euphrates rivers is regarded as one of the most fertile land areas in the world. Historically, the ancient peoples settled in this valley because of the fertile land. Arable land in the northern part of Iraq depends mainly on rainfall. The other areas depend upon river flow and pump irrigation. Water wheels and high-lift water devices are used in Iraq. At the present time, the cultivated area is very small as compared with the total area, and even with the total arable area.
Water

Iraq has two great rivers, the Tigris and the Euphrates. They start in Turkey and flow southward and meet each other at Qurna, a city, where they form the Shat El-Arab river which empties in the Persian Gulf. The south lowland of Iraq is dominated by many marshes; the largest one is Hor-El-Mammar. The central and eastern plains of Iraq are dependent mainly upon the Tigris and its tributaries: the Great Zab, the Lesser Zab, Al-Adaim and Diyalah.¹

The important point in respect to these rivers is the relationship between the agricultural crop cycle, floods and periods of low water. Better agricultural returns will result from development of storage dams, irrigation projects, land reclamation and a general flood control policy.²

Capital

Iraq is an underdeveloped country. Domestic savings are very low owing to the poverty of the vast majority of the population and the very low productivity per capita. Those with savings tend to hoard or invest them in real estate and commerce, which promise much quicker and higher returns, rather than in industry or agriculture. In addition to the shortage of domestic capital, inadequate and inefficient financial institutions add to the problem of financing economic development from domestic and governmental sources. At the present time, however, a

² See Chapter VI, Development Board, Irrigation Project.
generous share of profits from the operation of the Iraq petroleum company and its subsidies provides a fund of capital available for economic development.1

In this respect, it seems safe to say that Iraq has more money than it can spend.2 The country has enough foreign exchange derived from oil revenues for capital investment. External loans also can be considered as a potential source of capital. For example, on June 15, 1950, Iraq contracted with the International Bank for loans of $12.8 million for the completion of the Tharthar Projects.

The Point Four Program of President Truman played an important role in providing funds to Middle Eastern countries, including providing funds for financing some of the developed projects in Iraq. Other financial loans may be forthcoming from the United Nations and from other friendly countries and organizations or from bilateral and regional agreements.

Land Tenure System

The land tenure system in Iraq is a dominating force affecting income distribution, because of the large proportion of the population engaged in agriculture still largely feudal in character. This system is based on large-estate holdings by the Sheikhs, Aghas or the city notables.3 Usually the owners are either engaged in some political activity,

1For details, see Oil Agreement, Chapter IV.

2Doreen Warriner, Land Reforms and Development in the Middle East, A Study of Egypt, Syria and Iraq (London: Royal Institute of International Affairs, 1957), p. 131.

3Sheikh means landowner in the Arabic language and Agha also means landowner in the Kurdish language. Also, see International Bank, op. cit p. 137-1114.
or use the income from the land for living purposes, without contributing to the national economy. Consequently, this system is keeping the major portion of the population ill-fed, ill-housed and ill-cared for in every way.

The Sheikhs and rich landlords, by the nature of their socio-political power, impose some influence and interfere in the affairs of state, especially against contemplated reforms.¹

Following a report prepared by Sir Ernest Downson, the Iraqi Government enacted the Land Settlement Law No. 50 of 1932.² The important provision of the Law was the establishment of a number of so-called Land Settlement Committees to carry out agricultural surveys. By the end of 1953, titles to 16,126,000 hectares (hectare: 0.62 acres) had been settled. As to the distribution of the settled land, the agricultural census of 1953 showed that eighty-five thousand holders had received titles of their land. Generally speaking, this Law did not solve the agricultural problem, and still the majority of the agricultural population is landless.³

Since 1945, the government has been attempting to remedy this situation by settlement schemes on government-owned land which accounts for nearly two-thirds of the settled area. In that year the Dujailla

¹Lord Salter, Development of Iraq (Baghdad: Middle East Export Press, 1955), p. 54.

²Sir Ernest Downson was called by the Iraqi Government to study the agricultural land problem in 1932.

Settlement Act Number 23 was passed and in 1946 was put into effect. Naturally, the big landlords opposed the Dujailla schemes and fought them bitterly. Mr. Baer described the situation in the Dujailla Settlement Projects in the following manner:

... The supply of local Farm workers was seriously endangered when 50,000 land hungry fellaheen (farmers) applied for the 1,200 Dujailla tracts. To still the clamor of the Sheikhs of five neighboring tribes, the government has title to 127,680 dunums earmarked for the project, while only the remaining 147,840 dunums were set aside for the original purpose. To create small holdings, the government had at the same time to create or consolidate some very large properties. Despite this, in 1946, local Sheikhs, in order to prevent a movement of fellaheen from their estates to Dujailla, threatened to break their dykes, which would have flooded the entire settlement.

However, the settlement schemes went on; at the end of 1954, there were six projects, and approximately 10,200 farmers had been settled on 510,000 hectares. Farmers were organized into supply and marketing cooperatives. They were given the land free of rent for ten years, after which those who made good were granted title without charge.

Industry

The textile industry has been the dominant industry in Iraq in the nineteenth and twentieth centuries. This industry has supplied almost all of the requirements of the Iraqi market and the Middle East markets.

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1The Dujailla Scheme was the first project for land settlement enacted by the Iraqi Government. These lands are located south of Baghdad in Kut province.


After 1927, when oil was discovered in Iraq, the oil companies started to establish the oil industry in Iraq. The first refinery supplying the local demand for petroleum products was built in Khanaqin city in 1927. Another small refinery was established in Kirkuk city after World War II.

New industries started to appear in the country after World War II; for example, cement, cotton ginning, silk and flax, building and construction, dates and cigarette manufacturing.

Generally speaking, industry in Iraq was limited and on a small scale. This resulted from the following factors:

1. Shortage of capital and the low level of domestic savings caused by poverty and the low productivity of the Iraqi people.

2. The general lack of industrial managers and lack of entrepreneurs.

3. The backwardness of agriculture.

4. The economic policies of the Iraqi Government did not encourage investment of foreign capital. (Especially significant was the high tariff tax which was imposed upon imported capital).

However, the situation was altered after 1932 when Iraq obtained independence and became a member of the League of Nations. In 1940, the Iraqi Government started to encourage domestic industry by exempting the industrial enterprises from tariffs and excise taxes, and by granting these enterprises a free plot of land on which to construct a factory. Also, in the same year, the government of Iraq created the Directorate of Industrial Research to guide and give advice for industrialization.

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In 1946, the government established the Industrial Bank, which has played an important role in developing industry since then. By 1954, there were 22,460 industrial establishments with 90,391 workers in Iraq.\(^1\)

Natural Resources

Iraq possesses vast deposits of oil, natural gas and salt which enter as raw materials into many industries.\(^2\) Geological surveys have, moreover, located outcrops of ferrous and non-ferrous metals in the mountainous area bordering Turkey and Iraq. Coal exists at several places in Iraq. The annual production has been estimated around one thousand tons. The best quality coal has been found at Shranish near Zakho city close to the Iraqi-Turkish borders.\(^3\)

Concerning water power, Iraq possesses an asset which can do much for the nation if it can be developed. There are many waterfalls in the north and northeastern parts of the country, at Akra, Amadia, Sulaimania and other places.

\(^1\) Landley, op. cit., p. 90.


\(^3\) Ibid.
CHAPTER II

THE ECONOMY AS OF 1952

National Income of Iraq

The first estimate of Iraqi per capita national income was made by the Statistical Office of the United Nations for 1950. The per capita income estimate was 30 dinars ($8.1). 1

The first figures available for the national income of Iraq are pioneering estimates developed by Dr. K. G. Fenelon, who was, until recently, Statistical Expert to the Iraqi Government in charge of the Principal Bureau of Statistics in Baghdad. Dr. Fenelon's estimates of the national income and national product of Iraq for the year 1956 are as follows:

TABLE I

<table>
<thead>
<tr>
<th>Items</th>
<th>Iraqi dinar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>65,150,259</td>
</tr>
<tr>
<td>Earnings in kind, sectors (monetary equivalent)</td>
<td>38,201,000</td>
</tr>
<tr>
<td>Rents</td>
<td>21,419,048</td>
</tr>
<tr>
<td>Profits and interests</td>
<td>98,769,780</td>
</tr>
<tr>
<td>Net oil revenue</td>
<td>68,843,000</td>
</tr>
<tr>
<td><strong>Net National Income</strong></td>
<td>292,383,087</td>
</tr>
</tbody>
</table>


### TABLE 2

**DR. FENELON'S ESTIMATE OF THE NATIONAL PRODUCTS, 1956**

<table>
<thead>
<tr>
<th>Items</th>
<th>Dinar</th>
<th>Per cent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added by agriculture</td>
<td>70,022,883</td>
<td>21</td>
</tr>
<tr>
<td>Value added by manufacture (including building and contracts)</td>
<td>33,711,427</td>
<td>12</td>
</tr>
<tr>
<td>Value added by oil industry</td>
<td>78,218,761</td>
<td>27</td>
</tr>
<tr>
<td>Value added by housing and other building</td>
<td>18,865,048</td>
<td>7</td>
</tr>
<tr>
<td>Value added by wholesale and retail trade</td>
<td>30,995,044</td>
<td>11</td>
</tr>
<tr>
<td>Value added by transportation</td>
<td>11,459,026</td>
<td>4</td>
</tr>
<tr>
<td>Value added by service</td>
<td>49,080,495</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>292,383,087</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: *Iraqi Federation of Industries*, p. 74.

Thus, according to Fenelon's estimates, the national income was 292,383,087 dinars (about $819 million) in 1956.

Concerning per capita income, Dr. Fenelon estimates for the years 1953-1956 were as follows:

### TABLE 3

**PER CAPITA INCOME, 1953-1956**

<table>
<thead>
<tr>
<th>Year</th>
<th>Dinar</th>
<th>Value in Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>41.9</td>
<td>$117.32</td>
</tr>
<tr>
<td>1954</td>
<td>46.3</td>
<td>129.64</td>
</tr>
<tr>
<td>1955</td>
<td>44.8</td>
<td>125.44</td>
</tr>
<tr>
<td>1956</td>
<td>46.6</td>
<td>130.48</td>
</tr>
</tbody>
</table>

Source: *Iraqi Federation of Industries*, p. 78.
TABLE 4

PERCENTAGE SECTION OF IRAQI NATIONAL INCOME FOR THE YEAR, 1960

<table>
<thead>
<tr>
<th>Item</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil product</td>
<td>29.1</td>
</tr>
<tr>
<td>Services, private and general</td>
<td>26.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>18.8</td>
</tr>
<tr>
<td>Industry</td>
<td>7.6</td>
</tr>
<tr>
<td>Trade</td>
<td>5.9</td>
</tr>
<tr>
<td>Buildings and construction</td>
<td>4.7</td>
</tr>
<tr>
<td>Transportation</td>
<td>4.2</td>
</tr>
<tr>
<td>Oil refining</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>


Haseeb's estimate of the Iraqi national income. Dr. Haseeb, an Iraqi statistician, has estimated Iraq national income also for the years 1953-1956.

Table 5 shows Haseeb's estimates of Iraq national income at current prices and at constant prices. Table 5 also shows that the average rate of increase of the per capita income between 1953 and 1956 was 8 per cent per annum at current prices and 3.7 per cent per annum at constant (1953) prices. The average rate of increase of the population (compound) during the period was 3.14 per cent per annum.

A third estimate of Iraq national income was made by Dr. F. G. Maniakin, who was called by the Iraqi Government to estimate the national income for the period 1956-1960. Dr. Maniakin estimated the Iraqi
**TABLE 5**

**HASEEB'S ESTIMATE OF IRAQ NATIONAL INCOME 1953-1956**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National Income (Net national income at factors) (in million dinars)</td>
<td>212.2</td>
<td>277.9</td>
<td>296.6</td>
<td>329.7</td>
<td>212.2</td>
<td>275.8</td>
<td>275.7</td>
<td>295.7</td>
</tr>
<tr>
<td>National Income (1953 = 100)</td>
<td>100</td>
<td>144.7</td>
<td>122.5</td>
<td>136.1</td>
<td>100</td>
<td>113.9</td>
<td>113.8</td>
<td>121.5</td>
</tr>
<tr>
<td>Population</td>
<td>5,782</td>
<td>5,962</td>
<td>6,116</td>
<td>6,310</td>
<td>5,780</td>
<td>5,962</td>
<td>6,116</td>
<td>6,310</td>
</tr>
<tr>
<td>Per Capita Income (in dinars)</td>
<td>41.9</td>
<td>46.6</td>
<td>48.2</td>
<td>52.0</td>
<td>41.9</td>
<td>46.3</td>
<td>44.8</td>
<td>46.6</td>
</tr>
<tr>
<td>Per Capita Income (1953 = 100)</td>
<td>100</td>
<td>111.2</td>
<td>115.0</td>
<td>124.1</td>
<td>100</td>
<td>110.5</td>
<td>106.9</td>
<td>111.2</td>
</tr>
</tbody>
</table>


National income as 433 million dinars ($1,212 billion), and the per capita income as 64 ($180) for the year 1960.¹

Dr. Maniakin also found the percentage of each sector of the Iraqi economy as related to the national income as shown in Table 4.

From the above estimates of Iraqi national income made by Drs. Fenelon, Haseeb, and Maniakin, respectively, we can observe that the Iraqi national income increased between 1951 and 1960. The per capita income also increased during this period. According to the Maniakin estimates, the increase of per capita income was from about 46 dinars (about $128.80) in 1953 to 50 dinars (about $140) in 1955 and then to

64 dinars (about $180) in 1960. This increase in per capita income resulted mainly from the increase in oil revenues to the Iraqi Government and to improvements in agriculture and industry.\(^1\)

**Productivity of Labor Force**

Iraq, with a total population of approximately seven million, and an area of 172,000 square miles, is one of the under-populated countries in the world.\(^2\) The density of its population is about thirty persons per square mile.\(^3\) Due to high mortality rates among the infants and young children, about half of the population is under the age of twenty. The population of Iraq increases at a rate of one to one and a half per cent per annum.\(^4\) Therefore, the labor force is small and thus the productivity of the labor force is low in relation to the total population.

The migration from the countryside to cities has recently been very heavy. Migrant movement from rural to urban areas is almost entirely confined to young males. These youthful migrants, who are potentially the main source of an industrial labor force, are unable to find jobs in the cities and towns. Hence, they are idle, searching for employment, living in misery, begging and stealing.\(^5\)

\(^1\) Ibid., p. 20.

\(^2\) The World Almanac, p. 356.

\(^3\) "Facts and Figures: Iraq," Middle East Affairs, III (December, 1952), pp. 392-394.

\(^4\) The International Bank, Economic Development of Iraq, p. 126.

\(^5\) The big migrants at the present time live in an area called "Sarifa" south of Baghdad. This area presented the first problem facing the Iraqi Government concerning the dwelling crisis.
The main source of the national productive power thus becomes the main source of unemployment. This represents the greatest economic loss in manpower for the country, for they do not produce, but they do consume.

The writer of this thesis believes that this internal maladjustment requires for its solution the establishment of a different equilibrium between agriculture and other occupations in order to reduce the number of persons now engaged in agriculture. The economic solution for this problem seems to rest in the industrialization of the country.

Agricultural manpower. According to the Mission of the International Bank which visited Iraq in 1950, about 90 per cent of the rural population, who constitute approximately two-thirds of the total population of Iraq, are living directly on the fruits of the land. Moreover, "many of the inhabitants of the small and even some of the larger towns are also engaged in agriculture."2

Non-agricultural manpower. The Mission of the International Bank estimates the non-agricultural labor force in Iraq at a total of 450 thousand laborers, thirty thousand of whom are women.3 They are distributed as indicated in Table 6.

Commerce is the largest occupational group other than agriculture. The majority of those engaged in commerce are engaged in the wholesale

1According to the Haseeb estimates, the rural population of Iraq at the present time represents about 65 per cent of the total population.

2International Bank, Economic Development of Iraq, p. 128.

3Ibid., p. 129.
TABLE 6
NON-AGRICULTURAL LABOR FORCE
(in thousands)

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerce</td>
<td>110</td>
</tr>
<tr>
<td>Personal and Public service</td>
<td>70</td>
</tr>
<tr>
<td>Manufacturing and handicraft</td>
<td>75</td>
</tr>
<tr>
<td>Transport</td>
<td>45</td>
</tr>
<tr>
<td>Government</td>
<td>55</td>
</tr>
<tr>
<td>Other categories, errors and omissions</td>
<td>95</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>450</strong></td>
</tr>
</tbody>
</table>

and retail trade of agricultural products. They can be included in the figures on agricultural manpower, for many of them are casual agriculturalists.

Personal and public service includes domestic services, catering and laundering. In these occupations, women have more opportunities to work.

Workers engaged in handicraft trades are either self-employed or are assistants. Complete data on their number are not available.

The transportation category includes all the government employees of the railways and the port of Basrah.

According to the last annual report of the General Department of Labor and Social Security for the year 1959, published in 1951, the total of the labor force registered in 2,817 industrial enterprises
(including government and oil enterprises) reached a figure of 69,130 persons. If we compare this figure with the industrial census of 1954, the total number of persons employed in industrial enterprises (including oil enterprises and excluding government) reached a figure of 105,540 employees in 1954 with a total of 22,450 establishments.

Income. In 1951, the Mission of the International Bank estimated the cash income of the farm families, accounting for over 80 per cent of the total population of Iraq, at 20 Iraq dinar or $56 per annum per family. The Mission expressed this point more fully and clearly by saying:

The total crop on 25 donums would then be 7.5 tons. Of this the fellah would probably get as his share two-fifths or three tons, out of which he has to retain seed for the next year and pay for some help with the threshing and harvesting, in all amounting to one-half to one ton more. The balance would thus be two to two and a half tons. His family might consist of five or six people, including himself, his wife and children and one or two other relatives, such as his parents or an unmarried sister. The minimum retained for food would be one ton and, in practice, it is probably more. He would thus have little more than one ton left to sell and he might even have to keep part of this for draft animals if they are unable to find enough stubble and other natural fodder.

The wholesale market price of grain in Basrah or Baghdad was 20 dinar or $56 per ton in 1950-1951. The fellah usually gets for his ton less than the wholesale price, for he has to pay transport, bagging, weighing and storage costs in addition to the merchant's profit and the Istihlak (consumption) tax, which is levied on the producer instead of

3 International Bank, Economic Development of Iraq, pp. 132-133.
"The fellah (farmer) usually agrees to sell his ton at a forward price of 10 dinars ($28) before the harvest. Thus, 10 dinars for the winter crop and perhaps another 10 dinars for a small summer crop . . . would constitute his total cash income for the year."

The real income of the fellah is much less than his cash income, for he had to pay indirect taxes on his purchases of sugar, tea, tobacco and textiles, the items which constitute almost all that he buys.

At the end of 1950, customs duties on sugar were about one-fifth to one-quarter of the Baghdad retail price; on tea, about one-sixth. Duties on textiles are also high . . ., while excise and other revenue collected on tobacco are also very large. In the case of barley, these indirect taxes on sale and purchase might reduce the fellah's real income from his salable surplus by as much as one-third.

On this account, the fellah's real income is thirty-seven dollars per year—the household's production for consumption being uncounted. Therefore, one might say that the majority of the people of Iraq, who are engaged in agricultural work, are living in a non-monetary economy.

The Mission of the International Bank in Iraq estimated incomes of the wage earner class at $140, or $175 average per year, and the earnings of the lower salaried officials with more than one child at $430 per year (the earnings of unmarried or married with less than two children are less than that).

Nearly one-half of this cash income is spent directly on the purchase of rice and bread, and on rent. Over one-eighth is taken by

---

1 This tax has recently been abolished.

2 Ibid., p. 132.

3 Ibid., p. 134.

4 Ibid.
direct and indirect taxes. The rest ($162), less than fifty cents a day, is spent on the other staples of life and on the improvement of the well-being of the family. The Mission stated:

Above these various classes is the small group of rich landowners and merchants. No estimate of the proportion of the national income accruing to this group is possible, but some indication can be gleaned from the fact that a landowner in the South normally gets at least half the net value of the output from the land, while in industry, profits may exceed the total payroll.¹

In Iraq, wages are computed per day, not per hour. The current rate of wages for casual unskilled and semi-skilled labor varies between two and eight cents per hour. The highest wage, being paid to meat storage workers of foreign companies, is 617 fils, or about $1.73 a day, or 20 cents per hour. The lowest wage paid to workers in the cotton pressing industry is 70 fils, or less than 20 cents a day, or 2 cents per hour. The average wage rate is 266 fils, or about 75 cents a day, or 8 cents per hour.²

Skilled labor is very scarce in Iraq; its wage rate is much higher than that of other kinds of labor. In modern industries, the wages of skilled labor may reach $3 a day, or 35 cents per hour.³ Therefore, the wage-scale and the per capita share from the national income, except that of the minority of landowners, merchants and entrepreneur class, are extremely low in Iraq. Even allowing for a lower price level in Iraq, the living standards are low.

¹Ibid., p. 135.
²Ibid.

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Rural Migration. If population in relation to area is scarce, labor for industry is abundant and cheap in Iraq. The migration of rural people from the countryside to towns and cities is a considerable source of cheap labor for industry if it is employed. These migrations are confined to adult males whose labor is more efficient for industry than that of the children, women and old-aged who are left behind to work on the farms.

Agriculture in backward countries cannot raise the living standard of people to the level of that of more advanced countries, but can only keep the people alive. The rise in the standards is a major task of industry. In this respect Mr. Jacob Viner said:

I want to examine the truth, and if true, to consider agriculture with poverty and industrialization with prosperity which the literature of "economic development" insists upon.

That agriculture is not necessarily associated with poverty becomes obvious when one considers Australia, New Zealand, Denmark, or Iowa and Nebraska. That industrialization is not necessarily associated with prosperity becomes obvious when one considers Italy or Spain.\(^1\)

The writer of this thesis is quite satisfied to set forth the statement of Mr. Nurkse as an answer to this:

Countries like Australia, Denmark and New Zealand are sometimes cited as highly prosperous agricultural countries, to disprove this statistical correlation between the degree of industrialization and the level of per capita income in different countries. It is true that their exports are predominantly agricultural. But when we look at their internal economies we find that agriculture employs only a minority about one-fifth to one-third of their working population. Their economic activity, considered as a whole, is more largely industrial than agricultural. A country's foreign trade does not always reflect the character of its national economy. The exports of Australia, for example, consist almost entirely of farm products, although

only 20 per cent of the population is engaged in agriculture. On the other hand, in a country like Bolivia the mining industry produces over 90 per cent of total exports but employees less than 3 per cent of the people; a large majority of the population is in agriculture; and yet the country has to import foodstuffs from abroad.¹

Then, what can be said about Iraq, where about 65 per cent of its population is engaged in agriculture and living in rural areas? Mr. Viner himself gave the answer:

It is undoubtedly true, however, that most of the poorest countries have largely rural population, and that in most countries the per capita money incomes of the rural population are lower than those of the urban population.²

But Mr. Viner overlooked farmers' subsidies in the United States of America.

Anyway, people do not want only to live, but they also want to live well. Since the good life is not in the reach of agriculture in Iraq, ambitious young people abandon farms and move into cities searching for the good life of modern industry.

**Migration's effect on national income and income distribution.**

As unemployment of those migrants is avoided by the establishment of new industries and the expansion of the old ones, national income will increase, though unproportionally with real personal income. The economic and social link between agriculture and industry should be strengthened thereby. An internal adjustment of labor and a more equitable distribution of income can be achieved. Concerning labor unionism, this subject will be discussed in Chapter V.

²Viner, op. cit., p. 64.
Industrial Productivity

In the fields of manufacturing industries and handicrafts, less than half of the man-power employed is engaged in handicrafts proper.\textsuperscript{1} Within the industrial sector, the petroleum industry dominates, but a rather large number of people—say 10-15,000—are employed in the textile and leather industries. About 6,000 are engaged in the production of building materials, while roughly 4,500 are in the food and beverage industries.\textsuperscript{2} The oil industry alone employed about 12,000 workers in 1952,\textsuperscript{3} and this figure increased tremendously until it reached about 17,000 workers in 1940.\textsuperscript{4}

According to the Industrial Department of the Iraqi Ministry of Economics in its report for the fiscal year 1951-1952, the "most important industries prior to 1951-1952, in order of invested capital, were cotton spinning and weaving, tanning, beer, alcohol, and vegetable oils."\textsuperscript{5}

The Industrial Census of 1954 gave statistical expression to the country's industrial status. The census consisted of fairly accurate and comprehensive information on production, maintenance, and repair facilities that occupied fixed places of business. The total number of persons employed in the non-oil sector was 90,291, while the oil industry

\begin{itemize}
\item\textsuperscript{2}Ibid., p. 70.
\item\textsuperscript{3}Ibid., p. 100.
\item\textsuperscript{5}Iverson, op. cit., p. 72.
\end{itemize}
alone employed 15,249; thus, total Iraqi industrial employment was 105,540.\(^1\)

**TABLE 7**

**SIZE DISTRIBUTION OF INDUSTRIAL ESTABLISHMENT, 1951**

<table>
<thead>
<tr>
<th>No. of Workers</th>
<th>No. of Establishments</th>
<th>Per cent of total</th>
<th>No. of Workers</th>
<th>Per cent of Total employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10,157</td>
<td>35.6</td>
<td>10,157</td>
<td>11.5</td>
</tr>
<tr>
<td>2</td>
<td>5,651</td>
<td>25.1</td>
<td>11,302</td>
<td>12.2</td>
</tr>
<tr>
<td>3</td>
<td>2,805</td>
<td>12.4</td>
<td>8,151</td>
<td>9.3</td>
</tr>
<tr>
<td>4</td>
<td>1,383</td>
<td>6.1</td>
<td>5,532</td>
<td>6.1</td>
</tr>
<tr>
<td>5</td>
<td>804</td>
<td>3.5</td>
<td>4,020</td>
<td>4.5</td>
</tr>
<tr>
<td>6-9</td>
<td>933</td>
<td>4.1</td>
<td>6,455</td>
<td>7.2</td>
</tr>
<tr>
<td>10-19</td>
<td>433</td>
<td>2.0</td>
<td>5,718</td>
<td>6.3</td>
</tr>
<tr>
<td>20-99</td>
<td>199</td>
<td>0.8</td>
<td>8,185</td>
<td>9.1</td>
</tr>
<tr>
<td>over 100</td>
<td>95</td>
<td>0.4</td>
<td>30,507</td>
<td>33.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22,160</strong></td>
<td><strong>100.0</strong></td>
<td><strong>90,291</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


This table shows that in 1951, Iraq had 22,160 industrial enterprises; of these, 35 per cent were one-man businesses. The table also shows that 30,500 people were working in plants employing 100 or more people. The Industrial Census of 1951 shows 39,000,000 dinars as the total receipt of all industrial enterprises other than oil during 1951.\(^2\)

\(^2\)Ibid., p. 102.
It should be mentioned that the published data are not detailed enough to permit a complete analysis by type of industry of the 294 plants employing 20 or more workers. The industrial census shows that Baghdad's industries employed 33,367 workers. The large firms account for 24 per cent of Iraq's non-oil employment and 40 per cent of the country's industrial receipts.\footnote{Ibid., pp. 27-29.}

The average gross horsepower utilized by machinery was less than nine per establishment. The annual payrool of all the enterprises gave an average of 64 dinars, or $180, to each worker in 1954.

Generally speaking, spinning, weaving, tailoring, metalwork and carpentry are the most common types of establishment. Thus, as is the nature of the underdeveloped economy, the most important industries in Iraq are those supplying foods, clothing, and shelter.\footnote{Ibid., p. 31.} Thus, we can say that the low per capita industrial productivity contributes to the low per capita income.

**Domestic and Foreign Trade**

Next to agriculture, domestic trade is the second most important occupation in Iraq. The system of distribution of goods is extremely wasteful. In the small towns and the larger cities, there are numerous traders and peddlers with very small stocks of goods who cannot possibly earn more than a meager income even when the margin of profit is high. Commerce employs more than 100,000 people.\footnote{International Bank, *Economic Development in Iraq*, p. 155.} The Mission of the International Bank reported in their studies about the Iraqi economy that:

\[\text{\footnote{International Bank, *Economic Development in Iraq*, p. 155.}}\]
Iraq produces most of its food, but apart from fuel, tobacco and some building materials, most of its other requirements must be imported. Even the small local industries and handicrafts depend to some extent on imported raw materials. Much of the trade is therefore foreign trade.\(^1\)

Concerning the "Iraqi foreign trade," it can be noted that like many underdeveloped countries, Iraq's imports consist mainly of manufactured products, while its exports consist almost entirely of primary products. In recent years the most outstanding feature of Iraq's foreign trade has been the growing importance of oil exports which, through the payment of royalties, have helped to meet the deficit in the balance of payments.

**Imports.** Table 8 shows the value of the principal imports of Iraq for the years 1938, 1952, 1953, 1954, 1955, 1958, 1959 and 1960. The table indicates that, up to 1955, more than half of the imports were consumer goods of which textiles, sugar and tea were the most important.

Both soap and matches are made in Iraq, but their manufacture was, until recently, a "backyard" industry and the quality of the product was poor.

We should mention that the development expenditures on the importation of capital goods is quite clear, since in 1954 these imports, excluding the oil companies' imports, for the first time exceeded the imports of consumer goods. The value of these goods in 1954, for example, increased by 32.1 per cent over the previous year.

Among the leading categories of machinery are irrigation pumps and agricultural machinery; imports of the latter have greatly increased since the war.

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\(^1\)Ibid.
TABLE 8

VALUE OF IRAQ's PRINCIPAL IMPORTS
(Excluding Imports by Oil Companies)

(In Million of Dinars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td>0.6</td>
<td>6.3</td>
<td>5.1</td>
<td>5.3</td>
<td>5.3</td>
<td>7.9</td>
<td>6.6</td>
<td>8.0</td>
</tr>
<tr>
<td>Tea</td>
<td>0.4</td>
<td>3.5</td>
<td>4.8</td>
<td>6.4</td>
<td>8.1</td>
<td>5.7</td>
<td>6.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Foods, Beverage and Tobacco</td>
<td>0.4</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>1.0</td>
<td>1.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Piece Goods</td>
<td>1.3</td>
<td>8.1</td>
<td>7.7</td>
<td>8.5</td>
<td>8.6</td>
<td>12.0</td>
<td>11.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Clothes</td>
<td>0.9</td>
<td>2.2</td>
<td>2.0</td>
<td>2.6</td>
<td>3.0</td>
<td>1.4</td>
<td>2.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Soap and Matches</td>
<td>0.1</td>
<td>0.9</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>1.0</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Electric Products</td>
<td>-</td>
<td>1.6</td>
<td>1.4</td>
<td>1.9</td>
<td>2.6</td>
<td>3.0</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Capital Goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cement and Timber</td>
<td>0.5</td>
<td>1.3</td>
<td>1.1</td>
<td>1.5</td>
<td>3.1</td>
<td>2.5</td>
<td>2.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>1.1</td>
<td>8.7</td>
<td>5.6</td>
<td>6.8</td>
<td>11.1</td>
<td>9.0</td>
<td>8.9</td>
<td>9.1</td>
</tr>
<tr>
<td>Trucks and Parts</td>
<td>0.5</td>
<td>3.8</td>
<td>4.0</td>
<td>5.8</td>
<td>9.1</td>
<td>8.1</td>
<td>6.2</td>
<td>10.1</td>
</tr>
<tr>
<td>Equipment</td>
<td>1.7</td>
<td>9.2</td>
<td>10.1</td>
<td>11.2</td>
<td>15.5</td>
<td>17.1</td>
<td>12.4</td>
<td>16.7</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td>2.0</td>
<td>15.8</td>
<td>12.2</td>
<td>15.6</td>
<td>27.9</td>
<td>15.7</td>
<td>15.9</td>
<td>18.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9.4</td>
<td>61.8</td>
<td>55.2</td>
<td>67.2</td>
<td>90.2</td>
<td>84.6</td>
<td>78.1</td>
<td>93.0</td>
</tr>
</tbody>
</table>


The miscellaneous category includes such items as raw materials or other products used in industry, glassware and ceramic products.

The United Kingdom has been and still is by far, the most important source for Iraq's imports. She is followed by the United States, Japan, Ceylon and West Germany. The United Kingdom in 1955 claimed 24.5 per cent of Iraq's imports, the United States, 15.5 per cent; Japan, 9 per cent; Ceylon, 8.4 per cent and West Germany, 8.3 per cent.\(^1\) It is

\(^1\)Ibid., p. 22.
worth mentioning that although Japan was the second largest supplier of imports to Iraq prior to World War II, the United States has now taken its place.

Generally speaking, the value of imports of consumer goods reached a peak level in 1959, amounting to $45.4 million dinars, against $39.2 million dinars in 1958 and an annual average of $42.4 million dinars for the preceding three years, or increases of 19 per cent and 10 per cent, respectively.¹

Imports of foodstuffs had the largest share of this increase. Their value in 1959 amounted to $21.6 million dinars more than the annual average of the previous years level. The chief increase occurred in imports of grains, whose domestic output deteriorated in the 1959 season; the value of such imports amounted to $5.9 million dinars, as against only $0.2 million dinars for the previous year and an annual average of $2.1 million dinars for the preceding three years.²

The value of the principal capital goods continued to fall during 1959, reaching $37 million dinars, compared with $44 million dinars for the previous year, a decrease of 16 per cent.

Concerning the oil companies' imports, the value of imports in 1959 amounted to $17 million dinars, compared with $10 million dinars in 1958 (an increase of 70 per cent) and with an annual average of $9.3 million dinars for the years 1956-1958. The proportion of these imports to the total imports was 14.6 per cent, compared with 9.1 per cent for 1958 and an annual average of 8 per cent for the year 1956-1958.³

²Ibid., p. 11.
³Ibid., p. 12.
these imports were capital goods employed for the purpose of increasing the productive capacity of the oil companies.

Exports. Generally speaking, the export trade of Iraq has suffered a depression since 1952. This has been mainly due to the slack in world demand for her products and the consequent fall of price in foreign markets. In addition, exportable surpluses of certain products have been very small, especially after the expansion of domestic consumption. The three predominant groups of exports are dates, cereals and animal products.

Cereals. The largest most generally grown crop is barley, followed by wheat. These crops are grown in rain-fed and marginal areas as well as in irrigated lands. Summer crops, except for tobacco, i.e., rice, cotton, maize, grains, are much smaller and depend very largely on the amount of irrigation water from the canals. The largest markets for Iraqi barley are India, Holland, Denmark and Saudi Arabia. Table 9 shows the quantities of barley exported and their value in Iraqi dinar for the years 1953-1960.

**TABLE 9**

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity (ton)</th>
<th>Value in dinars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>289,823</td>
<td>8,567,033</td>
</tr>
<tr>
<td>1954</td>
<td>489,837</td>
<td>8,823,671</td>
</tr>
<tr>
<td>1955</td>
<td>320,756</td>
<td>5,951,063</td>
</tr>
<tr>
<td>1956</td>
<td>289,491</td>
<td>4,984,924</td>
</tr>
<tr>
<td>1957</td>
<td>193,501</td>
<td>2,951,445</td>
</tr>
<tr>
<td>1958</td>
<td>313,876</td>
<td>4,759,535</td>
</tr>
<tr>
<td>1959</td>
<td>43,309</td>
<td>814,461</td>
</tr>
<tr>
<td>1960</td>
<td>437</td>
<td>8,272</td>
</tr>
</tbody>
</table>

Source: Al-Habeeb, Trends of Iraq Foreign Trade, p. 20, Table 10.
Dates. Iraq has long been the foremost grower and exporter of palm dates in the world. It has about 31,260,000 palms and provides about 80 per cent of the world’s dates.\(^1\) Dates have shared with cereals the leading place in Iraq’s list of exports. The annual date crop is about 250,000 tons. Date exports, as shown in Table 10, have been fluctuating between 200,000 and 280,000 tons during the years 1953-1960. This is due to the variation in the crop from year to year.

**TABLE 10**

**DATE EXPORTS, 1953-1960**

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity (tons)</th>
<th>Value in Iraqi dinar</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>252,493</td>
<td>1,227,157</td>
</tr>
<tr>
<td>1954</td>
<td>217,887</td>
<td>3,525,669</td>
</tr>
<tr>
<td>1955</td>
<td>248,969</td>
<td>2,817,923</td>
</tr>
<tr>
<td>1956</td>
<td>263,968</td>
<td>2,167,807</td>
</tr>
<tr>
<td>1957</td>
<td>238,085</td>
<td>3,446,219</td>
</tr>
<tr>
<td>1958</td>
<td>239,285</td>
<td>2,858,088</td>
</tr>
<tr>
<td>1959</td>
<td>281,751</td>
<td>3,819,565</td>
</tr>
<tr>
<td>1960</td>
<td>250,611</td>
<td>4,048,304</td>
</tr>
</tbody>
</table>


Live Animals. The export of live animals is composed of sheep, goats and other animals. The largest consumer markets for Iraqi live

animals are Syria, Saudi Arabia, Denmark and United Arab Republic. The following table shows the number of live animals which were exported abroad during the years 1953-1960.

**TABLE 11**

**LIVE ANIMALS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>1,583,469</td>
</tr>
<tr>
<td>1954</td>
<td>1,562,637</td>
</tr>
<tr>
<td>1955</td>
<td>1,469,509</td>
</tr>
<tr>
<td>1956</td>
<td>1,430,211</td>
</tr>
<tr>
<td>1957</td>
<td>1,416,676</td>
</tr>
<tr>
<td>1958</td>
<td>1,637,014</td>
</tr>
<tr>
<td>1959</td>
<td>55,906</td>
</tr>
<tr>
<td>1960</td>
<td>18,312</td>
</tr>
</tbody>
</table>

Source: M. A. Al-Habeeb, *Trends of Iraqi Foreign Trade*, Table 14, p. 22.

The following tables show the quantities of cotton and wool exported abroad for 1953-1960.

**TABLE 12**

**COTTON EXPORTS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity (tons)</th>
<th>Value in Iraqi dinar</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>1372</td>
<td>339,942</td>
</tr>
<tr>
<td>1954</td>
<td>1186</td>
<td>289,989</td>
</tr>
<tr>
<td>1955</td>
<td>3313</td>
<td>648,878</td>
</tr>
<tr>
<td>1956</td>
<td>3868</td>
<td>762,350</td>
</tr>
<tr>
<td>1957</td>
<td>1529</td>
<td>959,112</td>
</tr>
<tr>
<td>1958</td>
<td>7351</td>
<td>1,320,119</td>
</tr>
<tr>
<td>1959</td>
<td>10,163</td>
<td>1,519,392</td>
</tr>
<tr>
<td>1960</td>
<td>1793</td>
<td>266,365</td>
</tr>
</tbody>
</table>

TABLE 13
WOOL EXPORTS

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity</th>
<th>Value in Iraq dinar</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>5545</td>
<td>1,123,593</td>
</tr>
<tr>
<td>1954</td>
<td>4783</td>
<td>911,118</td>
</tr>
<tr>
<td>1955</td>
<td>783</td>
<td>1,294,302</td>
</tr>
<tr>
<td>1956</td>
<td>911,118</td>
<td>1,608,725</td>
</tr>
<tr>
<td>1957</td>
<td>5635</td>
<td>1,490,519</td>
</tr>
<tr>
<td>1958</td>
<td>8933</td>
<td>1,627,476</td>
</tr>
<tr>
<td>1959</td>
<td>4987</td>
<td>924,128</td>
</tr>
<tr>
<td>1960</td>
<td>4697</td>
<td>913,622</td>
</tr>
</tbody>
</table>

Source: M. A. Al-Habbeb, Trends of Iraqi Foreign Trade, Table 16, p. 24.

Finally, we can conclude that the decade from 1950 to 1960 witnessed a remarkable increase in the national income in the budget of the Iraqi Government. This increase resulted from petroleum revenues received after the signing of the 1951-1952 agreement between the Iraqi Government and the Petroleum Companies which was based on 50-50 profit sharing.

In 1951, the increase in revenue led to an increase in the importation of equipment and consumer goods including steel products, machines, automobiles, trucks, lumber, paper and chemical products. On the other hand, a big deficit in the balance of payments occurred in the year 1952-1953 due to the growth in the operation of the Development Board projects. Also, during the same period of time, a gradual increase occurred in the imports which were multiplied in 1957 from those of 1950 (see Table 14).

The period from 1958-1960 was distinguished by an increase of trade agreements with the socialist countries. Those agreements were supposed to serve the purpose of the economic development in the field.
### TABLE 14

**TOTAL OF IMPORTS, EXPORTS AND TRANSITS OF THE IRAQI FOREIGN TRADE FOR THE YEARS 1950-1960**

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Transits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>37,595</td>
<td>20,051</td>
<td>4,281</td>
</tr>
<tr>
<td>1951</td>
<td>50,871</td>
<td>27,010</td>
<td>5,716</td>
</tr>
<tr>
<td>1952</td>
<td>61,795</td>
<td>18,775</td>
<td>6,585</td>
</tr>
<tr>
<td>1953</td>
<td>68,709</td>
<td>19,069</td>
<td>7,339</td>
</tr>
<tr>
<td>1954</td>
<td>72,683</td>
<td>17,973</td>
<td>6,161</td>
</tr>
<tr>
<td>1955</td>
<td>97,159</td>
<td>15,915</td>
<td>6,110</td>
</tr>
<tr>
<td>1956</td>
<td>113,426</td>
<td>13,168</td>
<td>5,676</td>
</tr>
<tr>
<td>1957</td>
<td>121,785</td>
<td>12,880</td>
<td>7,947</td>
</tr>
<tr>
<td>1958</td>
<td>109,959</td>
<td>11,148</td>
<td>8,057</td>
</tr>
<tr>
<td>1959</td>
<td>116,483</td>
<td>11,465</td>
<td>1,669</td>
</tr>
<tr>
<td>1960</td>
<td>138,913</td>
<td>7,976</td>
<td>1,791</td>
</tr>
</tbody>
</table>

Source: M. A. Al-Habeeb, Trends of Iraqi Foreign Trade, Table 23, p. 31.

of industry and agriculture. These economic development projects created more need for importation of primary materials and equipment from the socialist and the western world.

In addition, Iraq's claim that Kuwait is an Iraqi territory created a series of crises between Iraq and many countries, especially with those who recognized Kuwait as a sovereign state. This new situation affected the trade relationship and the size of the Iraqi trade with the
countries concerned in the dispute.\(^1\)

In 1959 Kuwait ranked respectively among the countries importing Iraqi commodities to the point where its trade with Iraq reached 9.81 per cent of the total Iraqi export. In 1960 this was increased to 10.6 per cent, but after Iraq claimed Kuwait in 1961 the percentage dropped greatly and later stopped entirely.

Iraq's exports in general dropped 37 per cent in 1959 from the 1957 level. This was a result of the decrease in the Iraqi agricultural production which in turn resulted from bad harvest and drought. Another factor was the government's difficulties in applying the Agrarian Reform Law.\(^2\)

**Agricultural Productivity**

The agricultural economy of Iraq. Iraq is predominantly an agricultural country. About 65 per cent of its people derive their livelihood from farming or animal husbandry. With a total population of about seven million and an area of 172 thousand square miles, Iraq is sparsely populated in relation to its natural resources and has a great potential for development.

Table 15 shows the land use in Iraq in 1956.

**Agrarian structure.** Generally speaking, land ownership in Iraq was very complicated and confused, until the Revolutionary Government's enactment of the Agrarian Reform Law in 1958 organized and simplified

\(^1\)M. A. Al-Habeb, *op. cit.*, p. 23.

\(^2\)Ibid., p. 32. Also, see Chapter II concerning the Agrarian Reform Law.
### TABLE 15

**LAND USE: IRAQ, 1956.**

<table>
<thead>
<tr>
<th>Use</th>
<th>Area</th>
<th>Per cent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Land</td>
<td>1000 acres</td>
<td></td>
</tr>
<tr>
<td>Arable lands</td>
<td>15,646</td>
<td>14.3</td>
</tr>
<tr>
<td>Fallow and orchard</td>
<td>13,484</td>
<td>12.3</td>
</tr>
<tr>
<td>Permanent pastures</td>
<td>2,162</td>
<td>2.0</td>
</tr>
<tr>
<td>Forest and woodlands</td>
<td>4,374</td>
<td>4.0</td>
</tr>
<tr>
<td>Unused but potentially cultivatable</td>
<td>29,899</td>
<td>27.2</td>
</tr>
<tr>
<td>Wasteland, and other</td>
<td>59,793</td>
<td>54.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>109,712</strong></td>
<td>100.0</td>
</tr>
</tbody>
</table>


The following table shows the percentage of land surveyes and the ownership of land for the year 1951.

### TABLE 16

**PERCENTAGE OF LAND SURVEYED AND OWNERSHIP OF LAND FOR THE YEAR 1951**

| Land held in absolute private ownership (Mamloka) | 0.3       |
| Land reserved for public purposes (Matrouka)     | 3.4       |
| Land held in trust for benefit of religious institutions (waqf) | 1.2 |
| Land held in permanent tenure for state with holder able to sell (Miri-Tapu) | 18.0 |
| Land held in permanent tenure for state          | 16.0      |
| Land belonging absolutely to the state          | 61.1      |

In 1952-1953, Agricultural Census gave the following distribution of holdings by size in Iraq:

**TABLE 17**

**DISTRIBUTION OF HOLDINGS BY SIZE IN IRAQ**

<table>
<thead>
<tr>
<th>Size (in Mishara)*</th>
<th>No. of Holdings</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 4</td>
<td>21,270</td>
<td>19.4</td>
</tr>
<tr>
<td>4-20</td>
<td>25,819</td>
<td>20.7</td>
</tr>
<tr>
<td>20-100</td>
<td>41,905</td>
<td>33.6</td>
</tr>
<tr>
<td>100-600</td>
<td>27,555</td>
<td>22.0</td>
</tr>
<tr>
<td>600-2000</td>
<td>3,519</td>
<td>2.8</td>
</tr>
<tr>
<td>2000-20,000</td>
<td>1,813</td>
<td>1.4</td>
</tr>
<tr>
<td>Over 20,000</td>
<td>104</td>
<td>0.1</td>
</tr>
</tbody>
</table>

*Mishara equals 1/4 hectare.

Source: U. S. Department of Agriculture, Agriculture Development in Iraq, Iran and Sudan, p. 28.

Before the enactment of the Agrarian Reform Law by the Revolutionary Government in 1958, a high per cent of the agricultural land (excluding the state-owned land) was owned by rich landowners, who employed the entire village population as laborers and shepherders to cultivate their land. The landlords in return gave their subjects only little of their total agricultural output. Thus standards of living and the general health of the peasants were very much lower than in the neighbouring countries.¹

The income of the Iraqi farmer (fellaḥ) was extremely low since he must share his meager harvest among many persons.¹ Not only does the landowner take a lion's share of his yields, but he has further to make contributions to the state and to numerous people, partly self-installed, partly representative of authorities and of landowners. The share which the farmer ultimately retains for himself and his family, expressed in money terms, works out at 6 dinars to 10 dinars annually in the northern part of the country, and about one and a half to twice these amounts in the central and southern parts of the country. Thus, we can say that under these conditions, the standard of living cannot be other than extremely primitive.

In addition, agriculture in Iraq lacked farm management. Livestock, on the other hand, were raised with little or no medical attention or special feeding. Fruit trees are not a dominant feature in Iraq and the few fruits grown are not of good enough quality for exportation. Thus, we can say that according to the above situation, the agriculture productivity of the Iraqi farmer was low, and this constituted his low standard of living. This situation began to change in 1952 when the Government of Iraq adopted the economic development program regarding the development of the agriculture sector.² The Government began to settle a large number of peasants in the newly prepared land for settlement and building barrages, and started drainage projects for the low lands.

¹Among the many persons the Iraqi farmer shares his meager harvest with is the "Sarkal" who manages the farm.

²See Chapter VI concerning the Development Board Irrigation Projects.
The Agrarian Reform Law. Prior to and during the Revolution of July 14, 1958, the predominant opinion was that the land system in Iraq contributed to the shortage of capital in the hands of farmers and prevented investment by raising incomes which were not going to be used in agricultural improvement. Should land reform be undertaken, the extra money would be left in the possession of the peasant to improve both his living standard and his agricultural production. The prevailing hypothesis, moreover, was that land reform alone could increase agricultural output even without need for investment. If the farmer owned the lot which he cultivated, this ownership would provide him with greater incentive to improve the land and he could look forward to higher production.

In response to this general attitude, the government of Iraq enacted the Agrarian Reform Law of October, 1958. The main points of this Law call for the creation of a new state agency empowered to limit the agricultural landholding of the feudal landowners to 1,000 dunums (618 acres) of irrigated land and 2,000 dunums (1,236 acres) of rain-fed land. The government promised to redistribute both the lands seized and the state-owned lands among small peasants in parcels of "not less than 30 dunums and not more than 60 dunums of the lands irrigated by free flow or by artificial means," and double the area if the land is irrigated only by rain. The distribution is to be completed within five years. Estimation price of the distributed land "shall be paid off in equal installments within a period of 20 years."²

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²Ibid., p. 2.
propriated owners shall be compensated in twenty-year government bonds.

Some observations should be mentioned about the results of the Agrarian Reform Law of 1958.

Prior to the enactment of the Agrarian Reform Law, the agricultural economy was organized to benefit the landlords. After the enactment of the Agrarian Reform Law, unexpected circumstances have accompanied the Agrarian Reform. One of these circumstances was that the government hastily took over the land from the landlords without any previous study of agricultural problems. The landlords, on the other hand, were no longer able to furnish seeds or lend money to their farmers since there was no guarantee that they would receive anything back from the farmers.\(^1\) This decision by the landlords directly affected agricultural output which, instead of increasing, declined for the year 1959-1960.

The immediate effect of the law was that the peasants became able to seize a one-season crop for themselves and thereby enjoyed an increase in their disposable incomes which they spent instantly on improvements in their standards of living. They purchased clothes and furniture; they married more wives. Most farmers left nothing for the next season's farming expenses. Their action of course resulted from two causes: lack of education, and poor guidance from the government authorities. This situation (the period between 1958-1960) became the social, political and economical problem facing the new revolutionary

\(^1\)Hostility between the farmers and the landlords was raised, especially when the farmer felt that he was free and became the owner of the land. Some farmers attacked and burned some landlords' homes; the landlords then destroyed their water pumping stations and left their homes to go to the cities to work in estate and commercial business.
regime. The total agricultural output was not enough to satisfy the local demand. Finally, the Iraqi Government took the following steps to settle the agrarian problem:

1. The Government managed to have Turkey and Canada fill the gap of the Iraqi market in wheat and barley.

2. The Government was obliged by the status quo to set aside a sum of 3,000,000 million dinar ($3 million) to subsidize the farmers, 60 dinar ($168) a piece.

Also, one of the most important reasons directly affecting the delay in the distribution of the land to the farmers between the period 1958-1960 was that the Minister of Agrarian Reform decided to enact the Agrarian Reform Law according to Marxist theory. The Minister believed that after the farmers became owners of the land, they would belong to the bourgeois class. The Minister of Agrarian Reform also tried to convince the Prime Minister to hire the farmers to the government instead of to hold them the land. The Prime Minister, on the other hand, rejected the idea and at the same time discharged the Minister of Agrarian Reform. The Government gradually started to distribute the land to the farmers.

At the beginning of 1960, the Iraqi Government started to grant farmers agricultural machines and implements. The quantity of seeds supplied by the Ministry of Agrarian Reform was 20,000 tons, distributed among 75,000 farmers. The number of machines supplied by that Ministry consisted of 272 pumps, 224 tractors and 55 combines.

At the end of 1960, the area of land distributed among farmers

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2 Ibid.
(in accordance with the first distribution plan) amounted to approximately 825,000 donums (donums equal to 1/4 hectares) distributed among 10,672 families.\(^1\) The total area of land proposed to be distributed (in accordance with the second distribution plan) amounted to 2.8 million donums (materials are not available for the years 1961-1962).

\(^{1}\)Ibid., p. 35.
CHAPTER III

OBSTACLES TO ECONOMIC DEVELOPMENT IN 1952

Generally speaking, Iraq has the potentiality for economic development. This potentiality is based upon the great revenues which come from oil. Oil revenue provides Iraq with an adequate source of capital formation and foreign exchange with which it can finance its industrialization without much reliance on foreign investment.

Iraq domestic capital is not scarce but is directed into unproductive purposes rather than to industry; in real estate, money lending, trade, hoarding, luxury consumption and other forms of investments.

Much of the domestic savings go into hoards of gold, jewelry and other precious metals and stones,\(^1\) partly due to the people's traditional customs—to let the neighbors know of their wealth, and to be prepared for the rainy day—and partly due to the lack of people's confidence in their local government and its fiscal policy.\(^2\) Fiscal reforms and the stability and progress of local government are bound to restore people's confidence in their government and induce them to use their hoards in productive enterprises.

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Limitation on Investment Capital

The domestic savings regarded as a source of development funds, arise primarily from taxation and borrowing. Since Iraq is an underdeveloped country with low income, productivity is low. So far, the incomes of the poorer classes are too low to provide a source of funds for investment. Consequently, taxing this class has deleterious effects upon both consumer demand and the incentive to work.

The government obtained the funds for economic development from domestic borrowing. But this source was not an effective factor in public finance in Iraq. The highest amount of public debt was reached at 5 million dinars in 1953. Doris Adams suggested that "domestic saving must be increased and directed into capital formation if a self-sustaining process of economic development is to be initiated."

Technological Factors

The modes of production, according to the Marxian economic interpretation of history, are the basic determinants of all social structure. The technology of modern industrialization consequently determines the structure of modern society. Modern technology produces at one stage in the historical process the capitalist and the working class. To put it in Schumpeter's words, "the forms or conditions of production are the

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1Adams, op. cit., p. 121.
2Ernest, op. cit., p. 34.
3Adams, op. cit., p. 123.
fundamental determinant of social structures which in turn breed attitudes, actions and civilization.\(^1\)

An important obstacle to economic development and social progress in Iraq and the other Arab states is the lack of technical know-how, and of proper knowledge to guide investment into the most appropriate and profitable fields.

Iraq lacks technology in its wide meaning including techniques of business organization, accounting, banking and commerce.\(^2\) Iraq lacks surveys, statistical data and output indices. Few trained and experienced surveyors, geologists, statisticians or statistical clerks are available. This deficiency has resulted in poor and inadequate policy making. Iraq needs a competent staff with the determination to develop the economy and with the ability to collect, analyze and evaluate all data relating to the economic potentialities and problems of the country. Lacking trained researchers and extension workers, Iraq has inadequate administrative, managerial, professional and technical personnel.

Iraq lacks managerial groups able to synthesize the values of economic productivity and technical efficiency. The shortage of technicians, experts, specialists, skilled and semi-skilled labor and the backward and primitive methods and techniques and equipment used have their adverse effect on economic development and social change. Backward methods of cultivation and husbandry, inadequate irrigation methods, inefficient plows, inefficient rotation of crops, and a lack of mechanical equipment, tools, improved and classified seed and fertilizer are

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\(^1\) Ibid., p. 12.

all crippling the economy.¹

The lack of mechanization has its important impact on the economic progress of agriculture and production of handicrafts. Irrigation, agriculture, mining and many of the other operations are still largely performed by primitive methods involving the use of human energy and draft animals. Men usually carry heavy loads on their backs for considerable distances. Donkey, mules and draft horses share with the porters the task of carrying goods.

The Weakness of the Taxation System

One of the characteristic features of the tax system in Iraq is the overwhelming importance of indirect taxes. They account for 70 to 75 per cent of the total tax revenues. The second characteristic feature is that "agriculture is hardly taxed at all in spite of the fact that 3 out of every 5 in the population of Iraq get their living from agriculture."² In principle, indirect taxes could be regarded as an advantage from the point of view of using taxation as an instrument of economic policy.³

Indirect taxes are easier to vary at short notice than direct taxes. Property and income taxes constitute only 15 per cent of the total tax revenue and a negligible percentage of government revenues. The income of the government is not only limited by the low national income, but also by the "large scale tax evasion and tax fraud which accord-

²Iverson, op. cit., p. 61.
³Ibid.
TABLE 18
PERCENTAGE DISTRIBUTION OF GOVERNMENT RECEIPTS

<table>
<thead>
<tr>
<th>Items</th>
<th>1938/1939</th>
<th>1950/1951</th>
<th>1951/1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs and excise</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Duties on animals and agriculture</td>
<td>11</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>4</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Post - telegrams</td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Stamps duties</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Property tax</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Other ordinary revenue</td>
<td>10</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Loans and royalties</td>
<td>26</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Iverson, Monetary Policy in Iraq, p. 61.

ing to all available evidence exist at present in Iraq.\(^1\)

Chief among the indirect taxes which bring high yields to the government have been the customs and excise duties, taxes on agricultural products: farm products, dates, cotton, vegetable, fruits and animal products locally consumed such as meat, wool, hides, butter and live animals.

The income tax has grown in relative importance in recent years. It accounted for about 13 per cent of the total income of the Government in 1951-1952, while it was 4 per cent in 1938-1939 and 7 per cent in

\(^1\)Ibid.
1950-1951. Ordinary income taxes and excess profit taxes were levied on a very limited number of income receivers. Law No. 67 of June 1, 1955, revised the Iraqi income tax laws. The new law provides for lowering the tax rate on residents' individual income. It increases the tax rate on non-residents' individual income in the lower brackets, but decreases it in the highest bracket. The new law is a stop-gap measure in the tax reduction plan announced as a part of the economic program of the government which took office in August 1954.¹

Professor Iverson, in his Report on the Monetary Policy in Iraq, stated that "a reform is needed as to tax incidence and rates. A more efficient tax collecting system is a necessary prerequisite for successful application of fiscal measures as instruments in the general economic policy of the country."²

Among the indirect taxes, customs duties and excise taxes are the most important. Import duties made up about 21.7 per cent of the total revenue of 1953 and about 30.3 per cent of 1954. Excise duties on alcohol, salt and tobacco about 7.1 per cent of the total revenue of 1953 and about 8.3 per cent of 1954.³

These duties rose from 14,861,516 dinars in 1952 to 18,593,485 dinars in 1953, an increase of 25.2 per cent. This increase is attributed to the expansion of imports and to the increase of the excise duty

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² Iverson, op. cit., p. 64.

on domestically produced beer. The duties are mainly specific rather than ad valorem, i.e., are calculated as a certain amount per ton, gallon or whatever the physical unit of the goods imported may be and not as a fixed percentage of the value of imports. This causes the duties to fall with increasing prices of imports and vice versa. The total revenues from duties are concentrated on a few commodities, namely: sugar, textiles, tea, automobiles, matches, rubber (and rubber goods) and paper.

The property tax is levied on dwellings, commercial buildings and non-agricultural land. The rental value of these properties is taxed at a rate of 10 per cent with a certain tax free minimum.

The Scale of the Domestic Market

The size of the home market fundamentally depends upon the demand of consumers for industrial goods rather than the size of the population. Demand, in turn, depends upon the per capita incomes and the standard of living. Income, in turn, affects the standard of living.

Professor Nurkse argues that "the limited size of the domestic market in a low-income country can thus constitute an obstacle to the application of capital by any individual firm or industry working for that market."²

At present, incomes in Iraq are extremely low. To increase incomes in general is to increase the returns of the 65 per cent of the population now engaged in agriculture. The rise in incomes and living standards of the growing number of industrial workers increases their

¹Ibid., p. 34. ²Nurkse, op. cit., p. 8.
demand for both industrial and agricultural products. The increase in
demand by poor people for agricultural products is much more than that
for industrial products. Poor people spend the largest part of their
income upon food and housing. They spend only between 5 and 10 per cent
of their income on manufactured goods.

Increasing demand will result in higher prices for vegetables,
fruits, eggs, milk, meat and the like. The increasing demand for food
will promote a good canning industry for local consumption with the sur-
plus to be exported. A proportion of the demand of canning industries
for foodstuffs can be added to that of industrial workers. Manufacturing
industries also demand raw material, agricultural or mineral. The
aggregate demand for primary products and foodstuffs will raise their
prices until they reach the level of the manufactures. At the same time,
the rising prices of primary products coupled with the potential increase
in population as a result of industrial development are probably great
enough to induce and force the utilization of large areas of land and
labor saving machinery. The result will be an increase in the national
income, especially for the people engaged in agricultural work. Thereby,
the demand for nearly all classes of commodities will increase; thus,
the home market will increase.

Internal Factors Affecting Capital Formation in Iraq

There is a scarcity of domestic capital for industrial purposes
in Iraq. This is partly due to the fact that the Iraqi investors expect
a high return on their capital. Hence, the lack of industrial adventure
accompanied by the high cost of capital has retarded the development of
industry and confined it to a small entrepreneurial class and to enter-
prises which yield high profits.

Domestic savings are lost to the country in several ways: through hoarding, depositing or investing abroad, (for example, in sterling balances), luxury consumption of the upper income group, losses of other kinds of investment, and the exodus of the Jews.

**Exportation of Domestic Capital**

While domestic enterprise suffers from an acute need for capital, some of the higher income groups deposit their savings in banks of foreign countries or invest them in foreign assets, especially in the United Kingdom, United States and Switzerland.¹ Mr. Singer has stated:

This raises two thorny problems for governments concerned: how to get hold of the savings of these upper income groups before they go abroad; and how to get hold of the accumulated balances already abroad.²

Mr. Singer states that "such assets may also add ... several billion dollars" to the capital of the Middle East.

**The Exodus of the Jews**

Another factor causing a drainage of domestic savings was the exodus during 1950-1951 of more than a hundred thousand Jews, who sold their properties and smuggled the money outside the country in different ways.³ According to an estimate made by the deputy Director of the Iraqi National Bank, they took with them capital between $20-30 million.⁴

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¹Singer, loc. cit.  
²Tbid.  
⁴Tbid.
Investment and Incentives

The inducement to invest is limited by the small size of the market in Iraq. The market is small because of the poverty and ignorance of the majority of the population. Their poverty limits their purchasing power, while their ignorance limits their knowledge of available goods especially in the rural areas.

The market could be enlarged and the purchasing power enhanced as a result of development programs which would induce more investment. Capacity to produce creates the capacity to buy which induces more production.¹

Professor Nurkse argues that the difficulty of small markets would vanish in the case of a more or less synchronized application of capital to a wide range of different industries: "people are working with more and better tools in a number of complementary projects become each others' customers."² He further says that an increase in production over a wide range of consumables, so proportioned as to correspond with the pattern of consumers' preferences, does create its own demands.

Currently, Iraqi industry depends mainly, sometimes exclusively, on the home market. The possibilities for expansion of industrial and agricultural production primarily depend on progress made outside the industrial fields in raising the volume of purchasing power of the largest number of the population.

Income from other sources such as trade, construction transit and tourism may rise also, but these contributions are not large enough to

¹Nurkse, op. cit., pp. 8-9. ²Tbid., p. 11.
to alter the prospects for the present relationship between industry and agriculture.

In Iraq, as was the case in Japan and Turkey, the state is assuming the task of the great innovator, and industrial and agricultural development is being planned and carried out in a large measure by the state. Later, however, when the main obstacles, including the initial market limitation, are overcome, the state should be able in many cases to turn over to private hands the projects it now starts.

Iraq has formulated, and is attempting to carry out, comprehensive development programs, which can hardly be carried out by private enterprise at the present time. In Iraq there are virtually no domestic savings; there is no tradition of private risk-taking; there is little managerial and technical skill. Due to the underdevelopment of the country and the lack of social over-head capital, there is small chance of attracting foreign capital for development projects. Therefore, the Government, fearing that the desired rate of economic development could not be carried out by private enterprise at present, decided that the state should take the lead in the development of the country, especially the large scale projects.

The Government of Iraq should co-operate, as soon as possible, its industrial undertakings with the private enterprises. This may accelerate the rate of investment in industrial undertakings. It would pave the way for exploiting small funds owned by those who do not know the techniques of establishing new industrial undertaking.

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PART II

THE ROLE OF PETROLEUM AS A RESOURCE

FOR ECONOMIC DEVELOPMENT
CHAPTER IV.

EVOLUTION AND HISTORICAL REVIEW OF THE PETROLEUM INDUSTRY IN IRAQ

The Struggle for Petroleum Concession During the Ottoman Empire Reign in Iraq.

During the Ottoman reign, it was believed that oil deposits were certain to be found in Iraq, particularly in the willayets (provinces) of Mosul and Baghdad. These deposits were a government monopoly in the Civil Lists of Sultan Abdul Hamid, the Emperor of the Ottoman Empire.

In 1904, the Anatolian Railways Company, a German company, obtained a concession for the Deutsche Bank of Berlin, and with it the privilege of surveying the Mesopotamian oil fields.

In 1906, another applicant for Ottoman oil, William Cox D'Arcy (who in 1901 had obtained a concession from the Shah of Persia for the exploitation of the Persian oil fields), asked the Sultan for a concession to explore the oil fields in the willayets of Mosul and Baghdad. These negotiations, however, were unsuccessful. In the meantime, the Young Turk Revolt broke out, and in 1909 the title to the Mesopotamian oil fields was transferred from the Sultan's Civil Lists to the Ministry of Finance.¹

Between 1908-1912, the Royal Dutch Shell Company, with the assistance of the personnel of Serkis C. Gulbenkian, an Ottoman Armenian, 

joined the concession seekers. The Anglo-Saxon oil company, owned by the Royal Dutch-Shell, a combination of three-fifths Dutch and two-fifths British ownership, was to obtain a claim for consideration in the award of Ottoman concession.¹

The American claims to Iraq oil commenced with the activities of Admiral Colby Chester, who, in 1908, was asking the Sultan for whatever concessions he could obtain. He first succeeded in obtaining broad concessions from the Sultan, which included interests in Iraqi oil, but the deposition of the Sultan by the Young Turk Revolt, and later the Balkan Wars delayed the actual grant of any concession.²

By 1912, then, four groups were competing with one another for the Mesopotamian oil: German (the Deutsche Bank); British-D'Arcy (Anglo-Iranian oil company); Anglo-Dutch (Anglo-Saxon oil company), and American (Chester).

In 1912, a German-born Englishman, Sir Ernest Cassel, founded the Turkish Petroleum Company (TPC) for the purpose of consolidating some of the conflicting interests under British control.

In 1914 a conference was held at the British Foreign Office, which was attended by representatives of the British and German Governments, the National Bank of Turkey (British), the Anglo-Persian Oil Company, and the Deutsch Bank.³ The result of the conference was the famous Foreign Office Agreement of 1914 by which the D'Arcy group (Anglo-

³Shwadran, op. cit., p. 195.
Persian) was to hold 50 per cent of the Turkish Petroleum Company interest. The remaining 50 per cent of the interests were divided equally between the Deutsch Bank and the Anglo-Saxon Oil Company and the D'Arcy groups.

The agreement also provided that:

The three groups participating in the Turkish Petroleum Company shall give undertakings on their own behalf and on behalf of the companies associated with them not to be interested directly or indirectly in the production or manufacture of crude oil in the Ottoman Empire in Europe and Asia, except in that part which under the administration of the Egyptian Government or of the Sheikh of Koweit or in the "transferred territorie" on the Turco-Persian frontier, other than through the Turkish Petroleum Company.¹

In June of 1914, both the British and German Governments requested the Turkish Government to grant the Turkish Petroleum Company a concession for the exploration of the Mesopotamian oil fields. The Turkish Government informed them that she would grant them such a concession subject to mutual agreement with regard to her share in the company. However, before a final settlement was reached, World War I broke out and the concession was never realized. The Turkish Petroleum Company "had been granted not a concession."²

The San Remo Agreement

On April 25, 1920, negotiations began between the French and the British Governments regarding their respective claims to the Arab areas of the dead Turkish Empire. The most important provision of the agree-

¹Ibid., p. 196.

ment covering Mesopotamia read:

The British Government undertakes to grant the French Government or its nominee 25 per cent of the net output of crude oil at current market rates which His Majesty's Government may secure from the Mesopotamian oil fields. In the event of a private petroleum company being used to develop the Mesopotamian oil fields, the British Government will place at the disposal of the French Government a share of 25 per cent of such company. The price to be paid for such participation to be no more than that paid by any of the other participants to the said petroleum company. It is understood that the said petroleum company shall be under permanent British control.1

According to the San Remo Conference, all the detached territories of the Ottoman Empire would be assigned as mandates to Britain and France.2 The League of Nations approved this resolution and gave Great Britain a mandate over Iraq in 1920. Britain, on the other hand, agreed to grant the 25 per cent of the German's share in the Turkish Petroleum Company to the French Government.3

France agreed "to the construction of two separate pipelines and railways necessary for their construction and maintenance and for the transport of oil from Mesopotamia and Persia.4

The American companies obtained a valuable concession from the British Government. The agreement provided that the American groups would be granted 23.75 per cent interest in Turkish Petroleum Company.5

2Ibid., p. 44.
4Shwadran, op. cit., p. 203.
The Red Line Agreement

The participating companies in the Turkish Petroleum Company pledged not to seek oil concessions in the territories of the Ottoman Empire except through the Turkish Petroleum Company. This was one of the major difficulties. Thus, on July 31, 1928, all the members of the Turkish Petroleum Company signed an agreement limiting the activities of each member in a specified area, "which was marked out on a map attached to the agreement by a red line, and hence became known as the Red Line Agreement."  

All the participating members in the Turkish Petroleum Company attempted to establish a new agreement to replace the Red Line Agreement and also to determine the pace of future development in Iraq. However, the American group desired to make good their entry into a Saudi Arabian concession without any restrictions.

During the summer of 1947, the four groups reached a new accord, but this agreement was rejected by Gulbenkian. According to this agreement, Socory-Vacuum and New Jersey were free to enter the Saudi Arabia enterprise.

The French Government, on the other hand, agreed to buy Gulbenkian's share at the World Market price. This agreement is an outstanding example of a restrictive combination attempting to control a large


2Shwadran, op. cit., p. 246.

3Longrigg, op. cit., p. 175.
portion of the world's oil supply. These companies could in turn dominate the world market price for this commodity.

The American companies did not favor the restrictive clauses of the Red Line Agreement, but they were forced on them by British and French interests as a condition of participation in the concession.

Citing a violation of the 1928 agreement, the French Government protested the proposal of Standard Oil of New Jersey and the Socony-Vacuum to buy a share of the Arabian-American Oil Company. But the British and the American participants contended that the Red Line Agreement was invalidated by the "British Trading With the Enemy Act" when France became allied with Germany during the occupation.¹

Finally, the four groups in Iraq oil concession agreed that stock participation in the company would be as follows:

<table>
<thead>
<tr>
<th>Company</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Near East Development (American)</td>
<td>23.75</td>
</tr>
<tr>
<td>Cie Francais des Petroles (French)</td>
<td>23.75</td>
</tr>
<tr>
<td>Royal Dutch Shell Group (British)</td>
<td>23.75</td>
</tr>
<tr>
<td>Anglo-Persian Oil Company (British)</td>
<td>23.75</td>
</tr>
<tr>
<td>C. S. Gulbenkian (British)</td>
<td>5.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Petroleum Companies in Iraq**

At the present time, there are three oil companies in Iraq. These companies are the Iraqi Petroleum Company (IPC), the Mosul Petroleum Company (MPC), and the Basrah Petroleum Company (BPC). These three companies are foreign private enterprises and are shared mainly by British, American, Dutch and French oil firms. They operate in most of the area of Iraq and their concessions cover about 95 per cent of the total area

of the country.\footnote{See Map No. 1.}

Iraq Petroleum Company is by far the largest: 79 per cent of the oil produced in 1954 came from its Kirkuk oil fields. Basrah Petroleum Company with its Zubair field produced 15 per cent of the 1954 output. The Mosul Petroleum Company produced 4 per cent of the 1954 output.

Iraq Petroleum Company headquarters located in Baghdad represent the central headquarters in London. Iraq Petroleum Company has full power over Mosul Petroleum Company and Basrah Petroleum Company.

\textbf{Iraq Petroleum Company.} While negotiations were going on among the prospective partners of the Turkish Petroleum Company (the latter in 1931 was changed to Iraq Petroleum Company), similar negotiations were being conducted between the company and the Iraqi Government for a concession agreement.

On March 14, 1925, a convention was signed whereby Turkish Petroleum Company was given a concession of over 192 square miles to be selected later by the company, in 24 rectangular plots eight square miles each. The Government of Iraq was to offer the remaining territory for competitive bidding.\footnote{Ibid.}

Six years later, on March 24, 1931, the convention was revised to provide the following:\footnote{Government of Iraq, Iraq Petroleum Company, Agreement Concluded on March 31, 1931 (Baghdad: Government Press, 1932.)}

1. The company has exclusive rights to exploit all lands situated east of the Tigris river, covering an area of about 32,000 square miles.
2. The company is to construct a pipeline with a minimum capacity of three million tons a year.

3. The company is to pay the Iraqi Government:
   a. Four gold shillings per metric ton for twenty years after the commencement of commercial export of oil.
   b. Until export begins, the company is to pay the government 400,000 (gold) pounds a year. Half of this amount is to be as rent, while the other half is to be recovered by the company from future royalties in excess of 400,000 gold pounds a year.
   c. The company is to be exempt from taxation in lieu of an annual payment of 9,000 gold pounds up to the commencement of commercial export. Thereafter, 60,000 gold pounds and 20,000 gold pounds on each additional million tons produced.

Mosul Petroleum Company. On April 20, 1932, the British Oil Development Company obtained a 75-year concession from the Iraqi Government. The important provisions of the concession agreement provided that:

1. The company has exclusive right to explore all lands in the Mosul and Baghdad provinces west of the Tigris river and north of the 33rd parallel, an area of about 46,000 square miles.

2. The company is to pay the Iraqi Government:
   a. Until oil is discovered in commercial quantities, the company is to pay the Iraqi Government as rent, 100,000 pounds (gold) in 1933, increasing this amount by (25,000) gold pounds annually but with an annual maximum of 200,000 gold pounds.
   b. The company is to pay a royalty of 4 gold shillings per metric ton produced.
   c. In lieu of tax exemption, the company is to pay one thousand gold pounds annually until the beginning of the commercial production. Thereafter, the Iraq Petroleum Company formula is to apply.

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1Government of Iraq, British Oil Development, Convention Made With the Government of Iraq on the 20th April, 1932 (Baghdad: Government Press, 1932.)

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3. The company is to construct pipeline (from Ain Zala to the Iraq Petroleum Company station) of a minimum annual capacity of one million metric tons.

4. The Government of Iraq has the right to buy 20 per cent of the crude oil produced (free of charge) for local consumption or to sell it to any buyer or to the company itself.

In 1932, the Mosul Oil Fields Company, with British, German, Italian, Dutch, French-Swiss and Iraqi interests, was organized to buy up the share capital of the British Oil Development Company. By 1935, the Italians were the majority shareholders, with 52 per cent interest in the company.

In 1936, Iraq Petroleum Company organized a subsidiary, Mosul Holdings Limited, for the acquiring of stock shares of Mosul Oil Fields Limited. By 1937, the Iraq Petroleum Company was in effective control. In 1941, British Oil Development assigned its 1932 concession to Mosul Holdings, renamed Mosul Petroleum Company.¹

Basrah Petroleum Company. On December 1, 1938, the Government of Iraq granted the Basrah Petroleum Company (a subsidiary of Iraq Petroleum Company) a concession for 75 years, covering all lands not included under previous concessions and including the Iraqi part of the Iraqi-Saudi Neutral zone, a total area of about 93,000 square miles. The terms of the concessions were identical with those of the Mosul Petroleum Company, except that in the case of Basrah Petroleum Company it was to pay 200,000 gold pounds in rent annually until petroleum was

¹Longrigg, op. cit., pp. 79-80.
produced and exported in commercial quantities.¹

**The 1952 Agreement.** The nationalization of the oil industry in 1951 in Iran was reflected in a strong popular demand in Iraq to follow the same steps. Responsible leaders, however, rejected the idea and instead approached the oil companies for a revision to the old agreements. Finally they negotiated the 1952 agreement.

The agreement of 1931 with the Iraq Petroleum Company stipulated that only after 1954 could the question of royalty payments be reconsidered, but in 1948 the Iraqi Government announced that Iraq Petroleum Company, Basrah Petroleum Company and Mosul Petroleum Company had agreed to increase the royalty from four to six gold shillings, per metric ton.²

Payment at the new rate was to be effective as of January 1, 1950. No agreement, however, could be reached on the evaluation of gold, and negotiations on this issue along with a few others, continued until 1951, when new developments in neighboring countries made the 1950 royalty agreement obsolete.

In December of 1950, the Government of Saudi Arabia signed an agreement with the Arabian American Oil Company (ARAMCO), introducing for the first time the fifty-fifty profit-sharing formula in the Middle East. On April 30, 1951, Iran nationalized the Anglo-Iranian Oil Company.³


³Longrigg, op. cit., p. 163.
Prime Minister of Iraq, Nuri El-Said, in a speech in the House of Deputies, threatened the oil companies, "that if they did not meet Iraq's demands for higher royalties equal to those paid to Saudi Arabia and Iran, and payment in the value of gold on a free market basis, they might lose their concessions." The following day, the government announced that the companies had agreed to raise the level of royalty payments to an amount similar to that paid in neighboring countries.

Evidently the Prime Minister's threat spurred the companies to immediate action. It would seem logical, however, to assume that with the fifty-fifty formula already introduced in Saudi Arabia, and with the dangerous situation in Iraq, the companies would have accepted the new basis without any threats.

On the 3rd of February, 1952, a new agreement between the Iraqi Government and the Iraq Petroleum Company and its associated Basrah Petroleum Company and Mosul Petroleum Company was signed on the basis of the fifty-fifty profit sharing formula. The new agreement, on the other hand, was retroactive to January 1, 1951. The major provisions of the new agreement can be summarized as follows:

1. The agreement is to be effective as of January 1, 1951.
2. The government and the companies are to share the profits on a fifty-fifty basis before the deduction of foreign taxes. In addition, the companies are to pay in lieu of tax commutation 20,000 a year.

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1Shwadran, op. cit., p. 259.
each (Articles 2 and 29).

3. The government has the right to take in kind as part of its share in the profit, 12.5 per cent of the net production of each of the companies. It can sell it on the open market, or re-sell it to the companies at current world prices (Article 3).

4. The oil companies guarantee the government's share in each calendar year not to be less than 25 per cent of the net production value at posted prices of the Iraq Petroleum Company and Mosul Petroleum Company and 33 1/3 per cent of the Basrah Petroleum Company (Article 4).

5. The companies jointly and severally guarantee that the government's share of the profits will be not less than 20 million pounds annually for the year 1953 and 1954 and not less than 25 million for 1955 and every year thereafter (Article 6).

6. The companies are to guarantee an annual production minimum as follows:

   The Iraq Petroleum Company 20.75 million tons of crude oil beginning with January 1, 1951.
   The Mosul Petroleum Company 1.25 million tons of crude oil beginning with January 1, 1951.
   The Basrah Petroleum Company 8.0 million tons of crude oil beginning with January 1, 1956.

These guarantees are to be in effect during the life of the agreement (Article 7).

7. The Iraq Petroleum Company is to supply the government refineries all the necessary crude oil for local consumption at 5.5 shillings per ton.

8. If production is halted due to an "act of God," the companies are to loan the government a minimum of 5 million pounds a year, provided...
the amount loaned does not exceed ten million at any one time (Article 8).

9. If, in the future, higher royalty levels are obtained in neighboring Near Eastern countries, the government has the right to ask for similar increases, and the company shall be willing to discuss the subject with the government.

10. Each of the companies is to appoint two Iraqi on its Board of Directors.

11. Payments of the companies to the government are to be in sterling.

12. The oil companies pledge to send 50 Iraqi students to the United Kingdom for higher diplomas in science.

Under the profit-sharing article (9) of the agreement, the profit of the government on Kirkuk oil on the Iraqi Syrian border was calculated at 35s.6d. per long ton in 1951, and 40s.6d. in 1953 and thereafter. The corresponding figures on the Persian Gulf at Fao were 29s.1/2d. and 31s.1/2d. per long ton respectively. This involved a discount of 17s.6d. per long ton for Kirkuk oil from its Iraqi-Syrian border value and 13s. for southern Iraqi oil from the posted prices on the Persian Gulf. An agreement signed in March, 1955, but retroactive to January 1, 1954, reduced this discount to a flat rate of 2 per cent, resulting in a rise of 7s. per long ton in revenue.1

Pipeline Projects

Due to the inland location of the oil fields, the production of oil in Iraq is conditioned to a considerable degree by the necessity of obtaining transport for the oil. Pipelines carry the crude oil to sea terminals from which it is exported to the world's markets. The amount that was spent to construct the pipelines is estimated to be $90 million.¹

Two 12-inch pipelines were established with an annual capacity of 2 million metric tons each, from Kirkuk oil fields to Haditha, a distance of 150 miles. From there they branch off: one taking a southern route and terminating in Haifa (a Palestinian port), a distance of 1470 miles; and the other branch taking a northern route and terminating in Tripoli (a Lebanese port), a distance of 380 miles.² These two pipelines were completed in 1934. Also, pump stations were erected alongside of the pipelines, known as K1, K2, K3 and H1, H2 and H3.³

The pumping of oil to Haifa was stopped in April, 1947, when the war began between Israel and the Arab states.⁴ In October, 1946, the oil companies began to construct a new pipeline with 16-inch parallels, to follow the same route of the previous 12-inch pipelines, and with an annual capacity of 8 million tons.

In April 1950, the oil companies started to construct a 30-32 inch single pipeline linking the Kirkuk and Mosul oil fields with Banians

¹U. N. Department of Economic and Social Affairs, Economic Development in the Middle East, 1945-1954, p. 90.
²Shwadran, op. cit., p. 253.
³(K) refers to Kirkuk stations, (H) refers to Haifa stations.
⁴Shwadran, loc. cit.
MAP NO. 2.
IRAQ OIL INDUSTRY
OPERATIONS

in Syria on the Mediterranean sea. This construction was completed in April, 1952, at a cost of 41 million tons.\(^1\) Also, another 12-inch pipeline was constructed, linking Ain Zalah (Mosul oilfields) with Baiji (K2 station).

The BPC constructed a new (2h-inch) pipeline linking the oil fields of Basrah area with Fao, a port on the Persian Gulf. In 1951, another 12-inch pipeline was completed, and in 1954, one more 2h-inch pipeline was completed.\(^2\)

In 1955 the Iraqi Government approached the oil companies with the idea of diverting the present non-operating Kirkuk-Haifa pipelines to Saidon-Lebanon. The oil companies agreed to the idea, but certain political events occurred among the Arab countries at that time and hindered the execution of the project. At the present time the project is still subject to consideration by both the government and the oil companies.

The oil companies erected a deep-water terminal, 2h miles offshore, in the Persian Gulf. Started in 1959 and completed in 1962, the terminal will raise loading capacity from 12 million to 22 million long tons a year.\(^3\)

Petroleum Production

The years from 1928 up to the present time can be regarded as an era of growth for the oil industry of Iraq. Treaties had to be negotiated,


\(^2\)Shwadran, op. cit., p. 252.

\(^3\)Al-Zaman Newspaper, November, 1962, p. 3.
agreements signed, geological surveys conducted, drilling started, pipelines laid, personnel from all over the world hired, and specialized equipment imported. Little towns with all the amenities of life had to be built at the fields and along the pipelines.

During World War II, drilling and exploration had to be cut down to minimum production for military reasons. In 1942, with the possibility of a southward advance by German forces in mind, the British military command took the precaution of destroying nearly all the production wells of the Kirkuk area. When World War II ended, the production of oil began to increase year after year until it reached 47 million tons in 1960.

Table 19 shows the crude oil production in Iraq for selected years. From 1928 to 1933, production remained low. In 1935 with the completion of the Kirkuk-Haifa-Tripoli pipelines, production jumped to over 3.6 million tons. With the outbreak of World War II in 1939, production began to decline and reached a low of a little over 2.5 million tons in 1940. With the danger of German occupation definitely removed, and due to the demands of British troops for oil products, production began again to pick up, reaching over 4 million tons in 1944.

In 1949, with the completion of the 16-inch pipelines to Tripoli, production was increased. In 1951 it jumped to over 8.4 million tons. In 1952, it rose to over 13 million tons. In 1956, after the completion of the 32-inch pipeline to Banias in Syria, the production increased to 29 million tons, but this figure dropped to 20 million tons as a result of destruction of the pipelines in Syria during the Suez crisis. In

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1Longrigg, op. cit., p. 12.
### TABLE 19

**OIL PRODUCTION AND OIL REVENUE FOR THE YEARS 1928-1960**  
(Selected Years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production in million tons</th>
<th>Revenue (dinars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>94,000</td>
<td>12,295</td>
</tr>
<tr>
<td>1933</td>
<td>115,000</td>
<td>768,248</td>
</tr>
<tr>
<td>1935</td>
<td>3,652,945</td>
<td>958,637</td>
</tr>
<tr>
<td>1940</td>
<td>2,513,866</td>
<td>1,840,596</td>
</tr>
<tr>
<td>1945</td>
<td>4,606,898</td>
<td>2,709,886</td>
</tr>
<tr>
<td>1951</td>
<td>8,402,795</td>
<td>14,710,400</td>
</tr>
<tr>
<td>1952</td>
<td>18,201,147</td>
<td>32,635,180</td>
</tr>
<tr>
<td>1956</td>
<td>29,469,147</td>
<td>58,858,777</td>
</tr>
<tr>
<td>1957</td>
<td>20,195,477</td>
<td>48,920,275</td>
</tr>
<tr>
<td>1958</td>
<td>35,492,000</td>
<td>79,876,384</td>
</tr>
<tr>
<td>1959</td>
<td>41,553,000</td>
<td>86,649,734</td>
</tr>
<tr>
<td>1960</td>
<td>47,280,000</td>
<td>95,092,006</td>
</tr>
</tbody>
</table>


1958 production jumped to 35.4 million tons, and in 1960 it rose to over 47 million tons. Thus as a result of increasing output of petroleum and the revision of the terms of payment, Iraq's oil revenues increased tremendously. They increased from $39.1 million in 1951 to $113.8 million in 1953 and to $260 million in 1960. These revenues have provided the financial means for development of the country's resources.

Prior to 1950, Iraq received the equivalent of $1.65 a ton, which
was increased to about $2.45 a ton according to the 1952 profit-sharing agreement.

Table 19 shows the oil revenue which was received by the Iraqi Government from the petroleum companies operating in Iraq for the period 1928-1960.

**Refineries**

**Alwand.** After the discovery of the oil in the "Transfer Territory" near Khanaqin, a small refinery was erected on the Alwand river outside Khanaqin city. This was completed in 1926, with an annual capacity of some 150,000 tons a year.

**Muftia.** The Muftia refinery was erected in Basrah on the Shat El-Arab river. It began production in September, 1952, with an annual capacity of 175,000 tons.

**Qaiyarah.** This refinery was built south of Mosul city. The oil-fields which surround this refinery contain a heavy crude oil which differs from that of the other oil fields. Thus, it was decided that this refinery would produce the bunker oil needed for local consumption.

**Daura.** The Iraqi Government decided to build a large refinery near Baghdad to satisfy the local consumption demand in that region;

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1"Transfer Territory": the border dispute between Turkey and Persia about the frontier territories. For a long time Turkey claimed the right over them. On December 17, 1913, the Persian Government and Turkey signed a frontier protocol. According to this protocol, the Qasri-Shirin area covered by the D'Arcy concession was awarded to Persia; the Khanaqin area, where the Anglo-Persian Oil Company had oil wells, was transferred to Turkey. This protocol became known as the "Transferred Territories."
therefore, in 1951, it signed a contract with W. W. Kellog of New York
to erect a refinery south of the vicinity on the Tigris river, with an
annual capacity of one million tons a year.

This refinery was put under American administration on June 6,
1955. It operated with 150 American oil experts.¹

Petroleum Industry and Labor Relations in Iraq

General overview of labor force in Iraq.

Indeed, information dealing with the Iraqi labor movement, labor
legislation, and social security schemes is almost non-existent in Eng­
lish and American publications. And there is no single, adequate source
of organized material in Arabic on these subjects. Hence, a careful
compilation of relevant material from original sources would appear
highly suitable to the purposes of this study.

The Iraqi labor movement is relatively new, and its development
and strength indicate the general advancement of the nation. In fact,
the importance of labor in the economy and social development of Iraq
has forced the government to regulate the labor movement laws.²

Due to the expansion of government and private investment during
the 1930's, the Iraqi Government began to take interest in labor problems.
The first Iraqi law, dealing with labor, its conditions, hours of
work, compensation in case of death, injury or disease, formation of
labor unions, and child labor, was enacted by the legislature in 1936

¹Government of Iraq, Government Oil Refineries Administration,

²R. A. Khadhiri, "Labor and Industry in Iraq," (unpub. Master's
dissertation, Department of Economics, University of Mississippi, 1957),
p. 8.

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with Law No. 72. In 1942, this law was amended by Law No. 36, and in 1950, the Iraqi Government amended Law No. 36 of 1942. The main motive for the new amendment was the larger role played by the labor situation in the country.

The oil industry, on the other hand, became the largest employer in the country, and by the year 1954, it was employing 14,000 workers.

The following are some of the most important items of the Labor Legislation Law of 1950:

1. The principle of the 8-hour day and 6-day week was established for the first time in Iraq.

2. The government recognized the right for labor organization in the form of trade unions. However, a trade union must obtain a license from the Minister of the Interior before it becomes legal.

   Article (8) of the law further emphasized the government's political authority in this respect by stating:

   In the event of its being proved that an association is conducting its affairs in a manner which would lead to a breach of public security, or of the safety of the state, which would prejudice the interest of the worker and the proper performance thereof, the Council of Ministers may, at the request of the Minister of the Interior, cancel the permit.

3. The law authorized the government to issue regulations concerning the contribution of houses by the industrial enterprises for

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4. Ibid., p. 255.
their workers.

In 1944, the Iraqi Government granted the license to five unions, and in 1945, eleven other unions were formed. Ten labor unions were located in the capital, Baghdad, the heart of the industrial center; three in Basrah city; two in Mosul and one in Omareh.

A few years later, the government forbade four unions from practicing their activities on the ground that their members were dangerous to the general interest and public security, since they were engaged in extra activities which were not directly related to the goals of unionism.¹

**Petroleum industry and its labor force.**

At the present time, the labor force in the oil industry in Iraq numbers about 17,000 workers.² It reached this great number by gradual development through the years since the discovery of oil in Iraq in 1927. When the oil industry started in Iraq, oil companies depended mainly on foreign workers for the technical jobs and skilled labor. At the same time, the oil companies depended on the local labor force to supply and serve the manual labor jobs. Wages paid to the local workers were very meager. The social welfare of the workers did not receive much attention from the oil companies. In 1932, after the construction of pipelines from the Kirkuk oilfields to the Mediterranean sea, the oil companies found themselves in great need for more local workers; therefore, the number of Iraqi workers in the oil industry started to increase. In

¹Khidhari, op. cit., p. 11.


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addition, the discovery of oil in the southern part of the Iraq-Zubair oil fields, and the establishment of the pipelines from this new oil-field to the Persian Gulf, added more local labor in the oil industry. In 1947, the number of Iraq workers had reached about 12,000 workers.

When oil production from Kirkuk oilfields started to increase and reached a point where the old pipelines could not carry all the produced oil to the Mediterranean sea, a need for larger pipelines developed. Therefore, the oil companies had new pipelines, 32 and 3½ inches in diameter, laid to carry the increased flow of oil. This construction created the need for local labor and in turn enlarged the number of Iraqi workers in the oil industry.

With the development of the whole Iraqi society and the increase of the number of educated Iraqi people, many Iraqis went abroad, where they educated themselves in various aspects of the oil industry. At the present time, many of these well-trained Iraqis are holding positions in the technical fields. The oil companies, going along with the growing national feeling to "Iraqinize" the oil industry, helped some of those Iraqis in obtaining their education and appointed them in various fields. Indeed, some of the conditions in the agreement clearly stated that the oil companies should help in educating Iraqis abroad. At the beginning of the 1950's, the oil industry in Iraq became the largest single industry in the country in number of workers. When the oil workers realized their great number and importance in the oil industry, they began to demand the establishment of a union to look after their affairs, wages, standard of living, health and economic situation.

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1See Chapter IV.
Because the government feared the infiltration of communist elements into the Iraqi labor force, it did not approve of the creation of a labor union for the workers of the oil industry. At the same time, the oil companies in Iraq did not encourage the establishment of the union because of the fear that workers would demand more rights, and also through fear of the infiltration of communist elements.

Accordingly, the relationship between the Iraqi workers in the oil industry and the oil companies worsened, and many strikes occurred which paralyzed production and all related activities in the oil industry. As a result of this grim situation, the government began to feel the necessity of the establishment of organized labor legislation and laws for the Iraqi workers in the oil industry to look after their welfare. In addition, the government in this move wanted to supervise their activities and their demands for the establishment of the union.

As a result, a government-supervised and controlled union for the oil industry workers was granted and established. This did not solve the problems, and many strikes continued to take place at various times.

The strikes of industrial workers, on the other hand, have been marked by demonstration and clashes, often accompanied by injury and occasionally by death. This, of course, is due in part to the weakness of the strike organizers and the unions, which are sorely lacking experience and qualified leadership. Full-time paid functionaries to lead the unions are hardly known. Only rarely will a union officer have had a secondary education. His services are available only in the evening hours after his working hours on his regular job. Furthermore, labor unions do not employ university or college graduates in positions as
union officials. Thus the area of approach between capital and labor is restricted. Unfortunately, men whose education and training qualify them for such positions do not seek them, too strong is the desire for government jobs, too poor are the union budgets; and too widespread is the hostility toward organized labor unions. Election of union officers are supervised by representatives of the Ministry of Social Affairs.

In 1942, the Iraqi economy had severe inflation, and as a result, the purchasing power was much lower than the rise in the prices of food, clothing and rent.

During this period of time and in the years following the wages which were paid to the Iraqi workers were considered good, but had not kept up with the rapid rise of prices. This situation created a labor immigration to neighboring Kuwait, which started to attract many foreign workers to work in the newly established oil industry of Kuwait.

Many Iraqis went to Kuwait looking for better wages, and the number of Iraqi workers in Kuwait working in the oil industry reached about 34,000 workers in 1958.

The oil companies, however, did not provide the oil workers with means of transportation, and the workers had to walk at least a mile in the hot sun from Kirkuk to the oil fields.

\[1\] Mohammed Aziz, Labor Economics (Baghdad: Al-Rabitta Press, 1953), p. 75.
On July 3, 1946, the oil workers in the Kirkuk oil fields struck against the oil company, and demanded formation of labor unions, better hours, and a wage increment. This strike ended without any tangible result. On July 14, 1946, the oil workers clashed with the police, who fired into a demonstration of 400 workers, killing about eight people.\(^1\) The burden fell on the shoulders of the Iraq Petroleum Company which had been criticized by many newspapers, especially by the extreme nationalist ones.

After this massacre (which was later called "Kawerbaghy," after the area where it occurred), the company agreed to improve the workers' living conditions and to comply with other demands. Thus the wages in some cases were raised from 16 to 75 per cent; daily allowance for rent was added; medical facilities were extended and housing plans were made.\(^2\)

Mr. Roth, a British journalist, described the situation in this way:

My trip to Kirkuk convinced me that while labor relations have improved, the company and the cooperating local authorities have no intention of allowing anything but a company union.\(^3\)

Also, another strike took place in one of the Iraq Petroleum Company pipeline stations in the western desert of Iraq, but it failed under strong pressure from the government and the company.

In 1950 another strike took place in the Zubair oil fields, and this one was of great importance. The strikers demanded the formation of a trade union, an increase in wages, medical services, and transportation facilities from Ashar to Makina Quarter, the headquarters of the

\(^1\)Ibid., p. 446. \(^2\)Ibid. \(^3\)Ibid.

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Basrah Petroleum Company. The strikers clashed with the local police, and the police fired at the demonstration, killing several workers. This action was personally supervised by the Minister of Interior (this Minister was executed in 1959 by the Revolutionary Government for his action against the oil workers in Zubair oil fields). Due to the bad situation in the Basrah area, the Iraqi Government declared marshal law in the Basrah area.\(^1\) The company accepted some conditions of their demands, with the help of the Minister of Social Affairs. But, on the other hand, the company refused to increase wages, on the grounds that they were above Basrah's level of wages.\(^3\)

After a long period of negotiation between the representative of the government and the workers, the government agreed to permit the oil workers to form a labor union. One observation that should be mentioned is that this strike, accompanied by massacres, forced the company to change its policy and look after the welfare of its workers.

Dr. Majid Khadouri, the Iraqi historian, described the political, social, economical and labor situation as follows:

The lack of stable domestic policies, the potent if generally indirect British influence which is consistently inimical to Iraqi interest, and the impact of other foreign interests on the nation's economy through exploitation of natural resources all combine to retard solution of the grave problems confronting the country. These unsolved problems in turn preserve low standard of living deriving largely from almost unbelievable low returns in purchasing power for labor performed. The cyclic economic repercussions inevitably resulting from abysmally low mass consumption are attended by grave social and hygienic problems. All of these tremendous factors add up into mass misery. It is, therefore, easy to comprehend why students and workers


\(^{2}\)Lenczowsky, op. cit., p. 268.

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are quick to participate in any and every political riot or street demonstration.\(^1\)

In conclusion, according to my observations, the labor unions in Iraq have failed to achieve their objective and programs. Such failure in due to the weakness of the labor union leadership, in which the latter have worked for the political objectives and neglected the economic objectives and the welfare of the workers. In addition, I should mention that these strikes have been inspired and guided by the Iraqi communist party.

The Iraqi worker, on the other hand, sincere in his attempt to educate himself, raise his standard of living and his social status, also needs deep understanding on the part of the authorities and the employers concerning his social and economic problems. Sympathy, guidance, and cooperation will contribute to the solution of such problems and progressively lessen hostility, strikes, boycotts and bloody clashes.

**Housing programs.**

The Iraqi Law No. 38, 1941, requires that the industrial projects provide housing at suitable places for their employees.\(^2\)

During World War II, the Kirkuk area had developed a dwelling crisis which caused an increase in rent until they were quite beyond the ordinary worker's capability to pay. The crisis, of course, was due to the rapid increase in the population of Kirkuk city, and was the

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most critical problem faced by the Iraq Petroleum Company. In July of 1946, the company agreed to give its employees a housing allowance and at the same time adopted a building program.¹ This program was later called the Home Ownership Scheme.

The scheme, however, requires a small deposit from the worker who has his choice of type, design and cost of house (subject to a maximum of 4,000 dinars (about $11,200), including the price of the lot. The company will supervise and take care of the formalities.²

By the end of 1952, the company had built 500 houses in Kirkuk city which are now called "the Arapha Housing Estate." The development has a shopping center, schools, a modern sewage disposal system and all the other facilities of modern life. These houses have three bedrooms, a kitchen, a store-room, and a bathroom. They are supplied with electricity and running water systems. By the spring of 1957, 519 houses had been built in Kirkuk city. In June, 1961, the Iraq Petroleum Company had built 1,200 houses in the Kirkuk area (data are not available for the years 1962 and 1963).³

In the Basrah area, the Basrah Petroleum Company by 1954 had completed more than 300 houses under the Home Ownership Scheme. The Home Ownership Scheme in Basrah was on a smaller scale than that of Kirkuk. The reason, as stated by Dr. Finnie was: "partly as a result of difficulties in acquiring suitable plots and partly also because Basrah Petroleum Company employees, having for the most part been employed for no more than six or seven years, have not yet amassed sufficient


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savings to meet the down payment."1 By June, 1961, the Basrah Petroleum
Company had built 475 houses.

Finally, the Home Ownership Scheme has made a distinct contribu-
tion to the modernization of Kirkuk and Basrah cities. It has improved
local building standards, and also provided employment for the local
labor force. These houses were constructed as much as possible from
local materials, and they were built by local contractors. As a result,
the number of small workshops grew tremendously, and the increase in
overall individual incomes has automatically strengthened the purchasing
power of the workers and the consumption of the local market.

Training of workers.

According to the revised 1952 agreement, the oil companies operat-
ing in Iraq pledged to send fifty Iraqi students each year to the United
Kingdom to study for degrees and diplomas in technical subjects. The
maximum students abroad were not to be more than 250 at any time.2

Iraq Petroleum Company planned to establish an industrial train-
ing institution in Iraq, and the first one was opened at Arapha in
Kirkuk city in 1952. This center was provided with modern laboratories,
classrooms and a drafting office. Its aim is to supply the growing de-
mand for skilled labor, technicians, and clerical and commercial staff.
Under this scheme, 15-18 year old boys who have completed at least their
elementary education are selected by the company for a five-year appren-
ticeship training. During this period each student receives from the
company about ten dinars a month ($28.00).

1Finnie, op. cit., p. 131.
2See Chapter IV, 1952 Oil Agreement, p. 68.
The training is divided into two periods. During the first one (two years), all students have to concentrate on English, mathematics, physics, chemistry, drafting, laboratory work, and workshop training in wood and metals. The center also carries out an adult education program in the evening. Instruction is in English, and the courses include commercial subjects and clerical office methods.

In 1952, 330 students were taking advantage of this opportunity. By 1956 the evening enrollment was around 1,500 students. The company employees who show ability and promise are sent to the United Kingdom for one or two years of practical industrial training in addition to part-time attendance at technical colleges. By 1953 the company had sent 25 students to the United Kingdom. This number was increased to 65 students in 1958.

Recreation and nutrition.

The welfare functions provided by the oil companies started during the early part of 1950. The oil workers now elect committees to direct and supervise their own welfare. The function of these committees is advisory and is restricted to discussions of housing, transportation, general welfare and sports.

Food is provided daily to the workers and personnel in most areas by contractors. The company supplies the contractors—free of cost—room space, equipment, electricity and water. In return, the company determines the meal prices, while the contractor specifies the kind of food he may serve and supervises the cleanliness of the mess. Iraq Petroleum Company and its associated companies offer the workers break-
fast and lunch at 30 fils (8.4 cents) apiece. In Kirkuk city, a swimming pool and a tennis court were added to the facilities of the employees' recreation center. Another amenity provided was a gymnasium at Arapha which opened in September, 1956. New installations were completed at pipeline stations for the welfare of personnel working there. At the Kirkuk pipeline station No. 3 (K3), an outdoor movie seating 245 people, and a swimming pool were built. At the Tripoli (TL) pumping stations, two new swimming pools were constructed. Also, the company provided the workers with transportation to and from work free of cost.

**Medical services.**

The first oil company hospital at Kirkuk was established in 1937. It began with 14 beds and later was expanded to 125 beds. This hospital was equipped with modern facilities: X-Ray, physio-therapy and radiology departments. The major aim is to serve the laborers of the oil industry in Kirkuk city, and to take care of the necessary major operations of the Mosul city and the pump stations. It is prepared to handle major operations of all kinds. In 1951, 1778 patients were admitted, of whom 606 were non-employees. The hospital performs an average of 1,200 operations a year.

Also, the company opened three dispensaries; one at Arapha, one at Camp No. 8 on Great Zab river, and the third in the new industrial area. These dispensaries are controlled by four medical officers.

In the Basrah area there were three small hospitals in 1952, with a total capacity of thirty beds.

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1Lenczswki, op. cit., p. 297.
In Mosul city two clinics and two dispensaries cater to the needs of Mosul Petroleum Company's labor force.

The oil companies, through their medical facilities, carry on, in cooperation with the local authorities, various campaigns to control disease in the areas in which they operate.¹

Effect of the Petroleum Revenue on the Iraqi Balance of Payments

The petroleum revenue, from the financial point of view, is regarded as the most important factor in the balance of payments and in the government budget.

The balance of payment which was published for 1939 by the International Monetary Fund (IMF) provides statistical reports about the oil investment in Iraq. Direct investment by the oil companies in Iraq is defined by the International Monetary Fund as: "The value of imported capital equipments plus advances by the oil companies to the government minus repayment to these advances."²

TABLE 20

EXPORT, IMPORT—EXCLUDING PETROLEUM—AND BALANCE OF TRADE
(millions of dollars)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
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<td>53</td>
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<tr>
<td>Import</td>
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<td>272</td>
<td>321</td>
<td>343</td>
<td>307</td>
</tr>
<tr>
<td>Balance</td>
<td>-151</td>
<td>-221</td>
<td>-282</td>
<td>-307</td>
<td>-259</td>
</tr>
</tbody>
</table>

¹Guide to Kirkuk, op. cit., p. 30.

Table 20\(^1\) shows the balance of trade, excluding petroleum. The balance shows a deficit of $151 in 1954; $224 in 1955; $282 in 1956; $307 in 1957, and $259 in 1958.

In 1957 Iraq's imports jumped from $204 million in 1954 to $343 million despite a 30 per cent fall in oil revenue (in 1956 petroleum revenue dropped from $193 million to $137 million in 1957) as a result of the destruction of the pumping stations in Syria by the Syrian army during the Suez invasion.\(^2\)

In 1957, Iraqi exports (including petroleum) dropped from $84 million in 1954 to $65 million in 1957, which represented 29 per cent of the total export. Also, the local expenditures on development exceeded the oil revenue, which raised the trade deficit substantially.\(^3\)

Indeed, since 1950 the Iraqi balance of payment has been accompanied by deficit in current accounts, which rose outside the oil sector from $252 million in 1956 to $282 million in 1957.\(^4\) This deficit was covered by borrowing $25 million from the oil companies and by "drawing on foreign assets to the extent of $67 million."\(^5\)

In 1958 the Iraqi Government received $224 million plus $11 million in back payments, which enabled her to reduce the deficit and build her assets of gold and foreign exchange.

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\(^3\)U. N. Department of Economics and Social Affairs, Economic Development in the Middle East, 1957-1958, p. 46.

\(^4\)Ibid., p. 47.

\(^5\)Ibid., p. 48.
If we compare this situation with the balance of payments of 1939-1938, we can see that the latter was accompanied by deficits of $20 and $28 million, respectively. This deficit was covered by receipts from tourist and pilgrim traffic.\(^1\)

The International Transaction of Iraq and the Role of Petroleum

Table 21 shows how petroleum played an important role in the balance of trade. In 1950 the value of the petroleum export was 28.6 million dinars (about $72,400,000) and in 1953 this sum was multiplied due to the signing of a new agreement between the oil companies and the Iraqi Government. In 1955 it rose to 168.1 million dinars (about $470,680,000), but this amount dropped to 113.2 million dinars (about $316,960,000), due to the destruction of the pipeline in Syria during the Suez crisis. In 1958 it rose to 185.5 million dinars (about $517,200,000). Thus, the petroleum represented about 90 per cent of Iraq's exports in 1958, as shown in Table 21. The petroleum companies, on the other hand, imported some supplies and equipment which were needed for their operations or employees.

One thing should be mentioned. After the establishment of the new regime in Iraq in 1958, a tight system of controls was imposed on the foreign trade of Iraq. This was aimed at keeping in check the over-all deficit in the goods and services account, that had developed for the first time in 1956-1957, mainly as a consequence of the drop in oil revenue that resulted from the Suez crisis.

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</thead>
<tbody>
<tr>
<td><strong>TOTAL EXPORTS</strong></td>
<td>50.2</td>
<td>65.2</td>
<td>99.3</td>
<td>139.9</td>
<td>174.2</td>
<td>185.3</td>
<td>170.6</td>
<td>128.8</td>
<td>202.1</td>
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<tr>
<td>Petroleum</td>
<td>28.6</td>
<td>36.1</td>
<td>79.3</td>
<td>120.1</td>
<td>155.7</td>
<td>168.1</td>
<td>156.6</td>
<td>113.2</td>
<td>185.6</td>
</tr>
<tr>
<td>Barley</td>
<td>8.7</td>
<td>12.5</td>
<td>9.0</td>
<td>8.6</td>
<td>8.8</td>
<td>6.2</td>
<td>5.0</td>
<td>3.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Dates</td>
<td>1.3</td>
<td>5.6</td>
<td>1.7</td>
<td>1.2</td>
<td>3.5</td>
<td>2.8</td>
<td>2.5</td>
<td>3.4</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>TOTAL IMPORTS</strong></td>
<td>37.6</td>
<td>51.0</td>
<td>61.8</td>
<td>68.4</td>
<td>72.8</td>
<td>97.2</td>
<td>113.4</td>
<td>121.8</td>
<td>108.8</td>
</tr>
<tr>
<td>By petroleum oil companies</td>
<td>8.4</td>
<td>8.8</td>
<td>14.4</td>
<td>13.2</td>
<td>5.8</td>
<td>6.3</td>
<td>7.4</td>
<td>10.4</td>
<td>10.0</td>
</tr>
</tbody>
</table>


It was intended to encourage local industries within the framework of the industrialization drive, which is one of the features of the economic policy of the new government. This restrictive system has been applied rather liberally. The surplus in the goods and services account, made possible by a large oil income which offsets the heavy deficit in the merchandise account, assures Iraq of a supply of foreign exchange more than adequate for imports of both consumer goods and capital goods for economic development.

Internal Spending and Its Effect on the Local Economy

Oil companies have contributed a great deal through their local spending to the economy of the country in the form of salaries and wages paid to the employees of the industry. The companies pay on the one hand
a direct payment to the government, and on the other hand, pay for their employees and operations. As was explained in Chapter IV, the oil companies provided the economy with skilled laborers who received their training and experience in the various fields of the oil industry. Some of them chose to leave the company and this created local entrepreneurs. In addition to the direct payments to the government under the terms of the concession and operations in Iraq in consuming local products, they helped the local productivity to enlarge and hence substantially increased the demand for local material and services. The increase of local expenditures by the Iraq Petroleum Company and its associated companies from 1938 to 1960 is shown in Table 22.

In 1938 the local expenditures were 525,000 dinars ($1,660,000). By 1946 the local expenditures rose to 2,067,000 dinars ($5,878,000), and by 1952 they reached a peak of 7,180,000 dinars ($20,104,000).

This increase was due to the erection of a 32-inch pipeline to the Mediterranean sea. Also, we observe from this table that in 1949 the local expenditure rose to 6,371 dinars ($17,838,000), but that this figure dropped in 1950 to 3,190,000 dinars ($8,932,000) due to the Arab-Israeli war and the shutdown of the pipeline from Kirkuk to Haifa in Palestine. The figure rose again from 8,468,000 dinars ($22,200,000) in 1955 to 9,160,000 dinars ($25,200,000) in 1959 and to 10,276,000 dinars ($28,700,000) in 1960.

The effect of local spending by the oil companies on the economic development of certain areas in Iraq is shown by the fact that the city of Kirkuk, situated near the important Iraq Petroleum Company oil fields of Baba Gurger, has had a three-fold increase in population.
### TABLE 22

LOCAL EXPENDITURES BY IRAQ PETROLEUM COMPANY, BASRAH PETROLEUM COMPANY, AND MOSUL PETROLEUM COMPANY - 1938, 1946 to 1960

(dinar = $2.80)

<table>
<thead>
<tr>
<th>Year</th>
<th>Local spending (in thousand dinars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>525</td>
</tr>
<tr>
<td>1946</td>
<td>2,067</td>
</tr>
<tr>
<td>1947</td>
<td>5,503</td>
</tr>
<tr>
<td>1948</td>
<td>6,941</td>
</tr>
<tr>
<td>1949</td>
<td>6,371</td>
</tr>
<tr>
<td>1950</td>
<td>3,190</td>
</tr>
<tr>
<td>1951</td>
<td>5,685</td>
</tr>
<tr>
<td>1952</td>
<td>7,180</td>
</tr>
<tr>
<td>1953</td>
<td>6,490</td>
</tr>
<tr>
<td>*1955</td>
<td>8,168</td>
</tr>
<tr>
<td>*1956</td>
<td>7,560</td>
</tr>
<tr>
<td>*1957</td>
<td>8,560</td>
</tr>
<tr>
<td>*1959</td>
<td>9,160</td>
</tr>
<tr>
<td>*1960</td>
<td>10,000</td>
</tr>
</tbody>
</table>

*Cumulated from *Iraq* Petroleum Magazine.*

in the past twenty-five years.  

Employment. The petroleum industry provides employment for the local labor force through its operations in Iraq. It opened in 1952 a training center for its workers in Kirkuk. This training program facilitated and increased the number of local workers in the oil industry and developed mechanical capability and industrial experience among the workers.

The employment of thousands of native workers in the oil industry involved not only their learning modern industrial techniques but also their acquaintance with western modes of living. The camel driver who used the desert as an environment for his living now became a worker. The oil companies provided him with housing, recreation facilities and sent his children to schools (built by oil companies) around the pumping stations across the desert.

The Basrah Petroleum Company's program, for example, created opportunities for regular employment in the Basrah area by means of building and transportation contracts. Other groups benefited were mechanical and electrical engineering, carpentering, tailoring, and motor vehicle servicing and maintenance. Thus we can say that the petroleum industry benefited the life of the Iraqi community.

Employment in the oil industries was increased as the industry expanded its operations. An annual average of about 1,200 workers were employed from 1929-1945; from 1946 to 1953 the average rose to about 12,700 employees and in 1960, the average reached 18,000 employees.  

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1Guide to Kirkuk (Iraq Petroleum Company Publications) op. cit., p. 35  
2Ahl-Nafit Magazine, op. cit., p. 17.
Direct Payment by the Oil Companies and Financial Help to Iraq

The direct payment by the oil companies to the Iraqi Government together with local expenditures (wages and purchases of materials) amounted to a fourth of the entire national income in 1961.\(^1\) The direct payment helped the government's financial status so that it could allocate annually 30 per cent of the oil revenue as a supplement item to its national budget for the purpose of meeting the regular expenses.

Table 23 shows the direct payment by the oil companies to the Iraqi Government from 1950 to 1960. In 1950 the direct payments were $19 million. In 1952 the revenue jumped to $91.2 million as a result of the profit sharing from the signed new agreement which was later called the fifty-fifty formula. In 1955 it reached $206.3 million, but this figure decreased to $136.9 million in 1957. This was due to the Suez crisis and the subsequent destruction of the pipeline and the pumping stations in Syria, but the revenue was multiplied in 1960 as a result of the increase of the production of crude oil.

In addition to the above financial helps carried on by the oil companies combined, we find that Basrah Petroleum Company alone has carried on certain economic activities resulting in the benefit of the workers and the country.

After the discovery of oil in Zubair oil fields in 1951, the Basrah Petroleum Company started to construct a pipeline linking the Zubair oil fields with Fao terminal on the Persian Gulf. It employed local workers and used local materials in construction of this pipeline.

\(^1\)Zalzala, op. cit., p. 34.  \(^2\)Ibid., p. 35.
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in million dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>19.</td>
</tr>
<tr>
<td>1951</td>
<td>39.1</td>
</tr>
<tr>
<td>1952</td>
<td>91.2</td>
</tr>
<tr>
<td>1953</td>
<td>143.8</td>
</tr>
<tr>
<td>1954</td>
<td>191.2</td>
</tr>
<tr>
<td>1955</td>
<td>206.3</td>
</tr>
<tr>
<td>1956</td>
<td>192.6</td>
</tr>
<tr>
<td>1957</td>
<td>136.9</td>
</tr>
<tr>
<td>1958</td>
<td>224.4</td>
</tr>
<tr>
<td>1959</td>
<td>242.2</td>
</tr>
<tr>
<td>1960</td>
<td>260.0</td>
</tr>
</tbody>
</table>


Indeed, Basrah Petroleum Company is considered as a pioneer in its economic activities in Iraq. In 1953, however, Basrah Petroleum Company fulfilled one of its main ambitions, namely, the establishment of local enterprises capable of performing specialized auxiliary services for the industry.¹

Basrah Petroleum Company, through its operation and activities, employed more than 3,000 Iraqi workers.² Thus, the company, through

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its activities, created employment for the local labor force. On the other hand, technical advice was given and much equipment for public utilities was loaned. For example, fire trucks were put under the local authorities in case of emergencies. The oil company started to encourage local merchants by purchasing some equipment required for their operations.

On the basis of this policy, the Basrah Petroleum Company created local entrepreneurs, which automatically created competition among the merchants.

Basrah Petroleum Company carried its economic activities through its purchases from the local groceries and was regarded as the largest customer. In 1956, thirty firms supplied food to the company's foreign employees, amounting to 100,000 dinars ($250,000).

The goal of the Basrah Petroleum Company is to increase employment for the local labor force. The company has started to build houses for its employees. These houses are furnished with modern furniture by the local contractors which employ hundreds of carpenters to make this furniture. Also, the company has started to build some roads linking the oil fields with Basrah city. These contracts were given to the local contractors and depend on local manufacturing for brick and tile.

An important point should be observed. These achievements and economic activities which have been provided by the company were to rebuild its reputation among the Iraqi people and especially the Basrah community. The people of the Basra area regarded the company as the

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1Ibid., p. 44.
2Ibid., p. 45.
responsible agent which cooperated with the government against the oil workers in the massacre of 1952 (see Chapter IV concerning the oil industry and labor relations). Thus, the company has tried to become a part of the community. Time will tell whether such policies can be effective in stabilizing the oil company's position in the country and in the community.
CHAPTER V.

OVERALL ECONOMIC DEVELOPMENT, 1952-1960

The Development Board and Its Program

With the increase in oil revenue and the expectation of a gradual increase in income, the government created a Development Board in May of 1950. It was intended that the Board should consist of experts and advisers, independent of politics, to initiate and carry out programs for Iraq's economic development. The duties of the Development Board were pointed out by the law as planning and executing; as it was stated in one of the items of that law, "a general economic and financial plan for the development of the natural resources of Iraq and the raising of the standard of living of people."\(^1\) The Board was entrusted with various development projects which would employ the services of local and foreign consultants, experts and contractors.

Structure and Function of the Development Board

The Board was composed originally of eight members, among whom were the Prime Minister, acting as president of the Board, the Finance Minister, and six other voting executive members appointed by the Council of Ministers for a term of five years, subject to extension. But


\(^2\)Salter, op. cit., p. 97.

103
the Finance Minister now sits on the Board as an ex-officio member. In 1953 the Minister of the newly established Ministry of Development was made an ex-officio member of the Board.

All members of the Board have equal voting rights. Three of the seven executive members are required to be experts. One of the experts must be a specialist in economics and finance, and another in irrigation. The specialty of the third is determined by the Council of Ministers.¹

The Board has two foreign executive members, of whom an American, Mr. Wesley Nelson, acts as an expert for irrigation, and a British member, Mr. M. G. Ionides, has replaced Sir Eddington Miller, who devoted his services to economics and finance. The law made it necessary that the two ministers of Development and Finance be present to make a quorum at the meetings of the Board. The legal quorum is six members.² Furthermore, the law states that, "in discussing projects having relation with a certain ministry, the Board shall invite the Minister concerned with a view to hearing his views."³

The administrative structure of the Board was composed of four technical committees, which are now responsible to the Minister of Development, but serve both the Board and the Ministry.⁴ The First Technical Section is concerned with the development of irrigation, flood control, water storage, disposal and drainage. Its duties are to make

¹Ibid., p. 106.


⁴Salter, op. cit., p. 106.
recommendations on the basis of priority of projects and the advice of consultants. The staff of this section works with the consultants on the presentation of proper specifications for a project so that contracts may be let and bids received from the contractors.

The Second Technical Section is responsible for (a) the development of communication by land, sea, and air; (b) the construction and improvement of bridges; and (c) the erection of public buildings, schools, clinics, hospitals and living quarters for low and middle income workers. This section deals with short term projects and works in much the same way as the irrigation section described above, except that many of its smaller contracts for buildings are awarded to local firms.\(^1\)

The Third Section is responsible for projects related to industry, electricity and mining. It is relatively small and has devoted much of its services to studying the possibility of establishing certain industries in Iraq.

The Fourth Technical Section is responsible for the development of agriculture, forestry and artesian wells.\(^2\) This section became increasingly important as the development program picked up speed. But most of the programs for which this section was responsible have been delegated to the Ministry of Agriculture for implementation with funds provided by the Board.

The technical sections of the Ministry of Development duplicates the activities of many departments in the various Government Ministries. In many cases, the technical section must work in close cooperation with its governmental counterpart. A good deal of the Board's work, particu-

\(^1\)Herbermann, op. cit., p. 183.  
\(^2\)Ibid.
larly on the smaller projects, is delegated to the regular ministries, to which funds are supplied by the Board through the Ministry of Finance.

Supplementary to these four technical sections of the Board, since the revision of 1953, are the seven functional General Directorate of the Ministry of Development: (1) Administration; (2) Accounting; (3) Legal Affairs and Contracts; (4) a Special Bureau, which acts as a watch dog for the Minister of Development; (5) an Economic Adviser, whose functions were filled by Lord Salter of Britain; (6) a Presidency for the development of state lands (Miri Sirf); and (7) a General Directorate of Summer Resorts.\(^1\)

The revision of 1953 made the four technical committees and the above sections directly responsible to the Ministry of Development. However, the 1953 revision of the Development Law brought about a serious change in its status, and political influence increased as the Development Board became part of the governmental bureaucracy. Also, the revision of the law placed the Development Board on a par with other government departments and ministries, thus causing great administrative difficulties in the over-all supervision and coordination of the development projects carried out by the various ministries. The transfer of all the technical committees and administrative departments from the Board to the Ministry of Development made the Iraqi staff subject to civil service regulations which resulted in lower salary scales and less favorable conditions of employment. This change also brought about the resignation of some personnel in key positions and lowered the over-all

\(^1\)Ibid., p. 184.
efficiency of the administration.\textsuperscript{1}

Finance of the Development Board

Law No. 23 of 1950 endowed the Development Board, which had a budget of its own, with all the oil revenues as well as the proceeds from any loans contracted by it or by the government in its behalf.\textsuperscript{2} Later, in accordance with Law No. 27 of 1953, 70 per cent of the oil revenue was allocated to the Board for financing development programs. The other 30 per cent of the oil receipts goes to the general budget, based on the argument that the government ought to be able to execute minor development works and improvements, independent from the Development Board.

The Board, according to Law No. 27, approved a sum of \$1,113,000 Iraqi dinars (about \$40 million) in loans to municipalities and semigovernmental institutions established by legislation.\textsuperscript{3} The law also explicitly gave the Development Board the possibility of financing some of its projects by issuing and selling bonds. The Board received its share of the oil royalties in sterling pounds by transfer from the Rafidain Bank to the National Bank's account in London. The Board maintained Iraqi dinar accounts and deposited the current account with the National Bank and the Rafidain Bank. The current account with the National Bank was used only for payments or transfers of five thousand dinars or more.\textsuperscript{4}

\textsuperscript{1}Ibid., p. 185.
\textsuperscript{3}Iverson, op. cit., p. 114.
\textsuperscript{4}Salter, op. cit., p. 119.
Development Board Planning

First Five Year Plan. During the spring of 1951, the Development Board submitted the First Five Year Plan with a total outlay of 65,674,000 dinars ($184 million) for the fiscal year of 1951-1952.¹

Table 2h shows expenditures for the five-year period as allocated by the Board; 29,401,000 dinars (about $82 million) were obtained from the oil revenue, and $12.8 million was loaned by the International Bank for the Wadi Tharthar flood control project. The expenditure for the five-year plan was allocated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water storage and irrigation schemes</td>
<td>30,041,000</td>
</tr>
<tr>
<td>Roads</td>
<td></td>
</tr>
<tr>
<td>Buildings, including hospitals and</td>
<td>15,826,000</td>
</tr>
<tr>
<td>schools</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous projects</td>
<td>6,216,000</td>
</tr>
<tr>
<td>Administrative expenditure</td>
<td>970,000</td>
</tr>
<tr>
<td>Unprogrammed reserve</td>
<td>29,401,000</td>
</tr>
</tbody>
</table>

Source: International Bank, Economic Development in Iraq, p. 170

From the above table we see that the Development Board allocated 30,041,000 dinars for water reservoirs and irrigation. This was spent for the Tharthar dam, to control the flood of the Tigris river. Also, 15,826,000 dinars were spent for the highways between Baghdad and the

¹International Bank, Economic Development of Iraq, p. 169.
northern cities.

Due to the hasty preparation of the above mentioned program, it was later modified. In spite of its small size in relation to all urgent needs of the country, this program was too big to be contracted with public expenditures in the past. Prior to 1951, the government had great difficulty in meeting its financial obligations because of the inflation which had been the prominent feature of the country.

When the increase in oil revenues started to be a certain fact, plans were changed and outlays increased; in accordance with Article 2 of Law No. 26 of 1952, plans were made involving the spending of some 155,371,000 dinars (about $515,017,200) over a period of six years. Expenditures under this plan for the six years (1951-1957) were allocated as is shown in Table 25.

**TABLE 25**

DEVELOPMENT BOARD'S EXPENDITURES FOR THE 1951-1956 PROGRAM

<table>
<thead>
<tr>
<th>Items of expenditure</th>
<th>dinars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration, studies and organizational expenditure</td>
<td>3,180,000</td>
</tr>
<tr>
<td>Irrigation project</td>
<td>53,374,000</td>
</tr>
<tr>
<td>Main roads and bridges</td>
<td>26,766,000</td>
</tr>
<tr>
<td>Buildings and housing</td>
<td>18,018,000</td>
</tr>
<tr>
<td>Land reclamation, surveys</td>
<td>22,986,000</td>
</tr>
<tr>
<td>Industrial development and mining</td>
<td>31,050,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>155,371,000</strong></td>
</tr>
</tbody>
</table>

Source: Iverson, A Report on Monetary Policy in Iraq, p. 111
The program, as it was formulated with great detail, made promises which could only lead to disappointment. At the time of its foundation, the program had its advantages, in terms of public relations, because it painted a concrete and rosy picture of benefits to come for the minds of the people. These apparent advantages, however, have proved to be far out-weighed by the disadvantages. The sums which were devoted for each project were not based on actual studies or surveys, which are essential for a program of this kind. As a result of the need for extensive studies, which had to be made before going ahead with any project, results were contrary to what the program promised. The expenditures of the Board lagged far behind its allocations year after year.

In April, 1955, the Six Year Plan was cancelled, and a new five-year program (1955-1959) was introduced to the Parliament.

Revenue estimated to be about 262,685,000 dinars (about $707,518,000) was allocated for the main projects and 38,126,000 dinars were allocated for small projects. Thus, the total for the new program amounted to 301,306,100 dinars (about $852,257,080).

In the Five Year Plans, irrigation, drainage and flood control still assume a major share of the expenditures. The transportation system, including roads, railways and airports has not risen to second place. Main buildings include seven million for hospitals, and health institutes; six million for technical schools, swimming pools and scientific institutes; ten million for public buildings such as a museum, a parliament building, a central prison, etc.

Industry includes the establishment of various plants, such as a Bitmen refinery, sugar plant, cement plants, utilization of gas, cotton spinning and weaving factory, and so forth. It also includes ten million
TABLE 26
IRAQI DEVELOPMENT BOARD 5-YEAR (1955-1959) PROGRAM

<table>
<thead>
<tr>
<th>Item of expenditure</th>
<th>dinars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chapter I, Main Projects</strong></td>
<td></td>
</tr>
<tr>
<td>Administration expenses</td>
<td>3,250,000</td>
</tr>
<tr>
<td>Redemption of Wadi Tharthar Loan</td>
<td>2,200,000</td>
</tr>
<tr>
<td>Irrigation, drainage, flood control</td>
<td>107,935,000</td>
</tr>
<tr>
<td>Roads and bridges</td>
<td>53,700,000</td>
</tr>
<tr>
<td>Airports</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Railways</td>
<td>15,500,000</td>
</tr>
<tr>
<td>Principal buildings</td>
<td>28,560,000</td>
</tr>
<tr>
<td>Industry, mining, electric power</td>
<td>43,571,000</td>
</tr>
<tr>
<td>Development of animals, plant and underground water resources</td>
<td>6,175,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>266,181,000</td>
</tr>
<tr>
<td><strong>Chapter II, Small Projects</strong></td>
<td></td>
</tr>
<tr>
<td>Buildings and establishments</td>
<td>35,250,000</td>
</tr>
<tr>
<td>Miscellaneous projects</td>
<td>5,875,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>38,126,000</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td>304,306,000</td>
</tr>
</tbody>
</table>


Dinars for electrification.

In 1951, the Iraqi Government allocated a sum of 566.1 million dinars for the Five Year Plans for 1961-1965, of which 315.8
($884.4 million) was financed by the oil revenue.¹

Implementation of the Agricultural and Irrigation Program

Great Musseeyeb Project. The Great Musseyeb Project, for which the sum of 1,203,000 dinars was allocated by the Development Board, included the construction of the main canals, major and minor regulators, and a drainage system. The project will make available for cultivation a new area of land, estimated at 246,000 mesharas (each meshara is equal to 0.25 hectare).

Among other irrigation projects was the expansion of the Latifyiyah canal, which was completed by the beginning of 1953. This project made possible the irrigation of an area of 25,000 mesharas of state-owned land, which was distributed among landless peasants.²

Remodelling of Shat El-Shamiya. Shat El-Shamiya included the erection of eight major and minor regulators on the branch canal of Mushkhab for water control and stoppage of the erosion effect of the nagarrat (soil erosion). The Development Board allocated 52,000 dinars for the execution of the project.³

Expanding and remodelling of the Gharraf Canal. Gharraf Canal will provide, through the construction of a regulator, adequate water for the already controlled area of 2,350,000 mesharas. In addition, the

³Ibid., p. 23.
project includes the erection of a canal, which is expected to provide water for the irrigation of an additional area of 1,100,000 mesharas of state-owned land. This project was begun in 1958 and by 1960, 10 percent of the new area was under irrigation.¹

Drainage projects. It is a policy of the Development Board to construct drainage systems in areas under irrigation whenever soil analysis reveals that such drainage is necessary. On new irrigation projects, drainage systems are to be erected alongside the construction of the irrigation projects.

In 1953, work on the construction of the following drainage system started:

Dujailah Drain. By 1954, work on the Dujailah project was completed, encompassing the drainage and reclamation of 25,000 mesharas. The completed project is expected to serve as a model for the installation of a drainage network throughout the Dujailah area. The cost incurred by the Development Board on the construction of this scheme was 40,000 dinars.²

Saqlawiya Drain. The Saqlawiya scheme is planned to provide a drainage system for 166,000 mesharas of land in the provinces of Saqlawiya and Abu-Ghurair. In December, 1953, a contract was awarded for the excavation of drains, supply of pumping plants, and the construction of a building for the pumping plant. The project was scheduled for completion in the beginning of 1956. About 500,000 dinars were earmarked for investment in it.³

¹Ibid., p. 24. ²Ibid. ³Ibid.
Baguba Drain. This project was erected in the Khoraisan canal area along the left bank of the Diyala river, for draining about 11,800 mesharas. The Development Board allocated 40,000 dinars for the project.¹

Tuwairij Drain. The Development Board allocated 61,000 dinars for Tuwairij Project. It will help to benefit about 41,000 mesharas at Hindiya Qadha.

Al-Udhaim Barrage. The purpose of Al-Udhaim Barrage is to raise the level of the water supplied from Dokan Reservoir to Al-Udhaim through the feeder channel for the irrigation of land situated on the right bank of Al-Udhaim. It will benefit 900,000 mesharas.

Habbaniyah Lake Project. Habbaniyah Lake Project is regarded as one of the most important projects constructed to control the water of the Euphrates river. The farms and towns lying along the river have been saved by this project from calamities brought on by floods which entail damages and losses every year. The construction of barrages across the Euphrates upstream near Ramadi city for the control of the river water, and for raising and diverting the water to Habbaniyah Lake through the Warrar regulator and channel, is considered. This will limit the water (discharge downstream from the barrage) to 2500 cumecs. This quantity of water can flow without affecting the river course, or threatening the barrage on the river banks downstream from the Ramadi barrage. The cost of this project was estimated at 1,395,413 dinars. In addition to water control, the Habbaniyah Lake serves another purpose: it allows for the storage of 3.2 millard cubic meters of water.

¹Ibid., p. 25.
for feeding the river in the drought season. This storage will cause an increase of agricultural produce in the Euphrates river basin since new arable lands will be reclaimed. The project was completed in April, 1956.¹

The Tharthar Project. The Tharthar Project is intended to give protection against the Tigris flood and store excess water for use in the Ishaqi and Nahrawan projects. The International Bank for Reconstruction and Development Mission, in its report on the economic development of Iraq, doubted whether the Tharthar depression was sufficiently water-tight to make possible the use of stored-up water for irrigation.² This project comprises the construction of a barrage on the Tigris near Sameerrah to raise the water of the Tigris and divert it into the channel, which in turn diverts the flood water to the Tharthar depression. In addition, the plant includes provision for electric power generation. The power to be generated is estimated at 105,000 kilowatts.³

Dokan Dam on the Lesser Zab River. The Kokan Dam on the Lesser Zab river was designed to have a length of 325 meters and a height of 108 meters. It will provide a water storage capacity of 6.8 milliard cubic meters. The dam will also utilize through irrigation an additional 1,300,000 mesharas of state-owned land, and the provinces of Makhmour, Hawijah, and Udaim. In addition, the dam provides protection against

¹ Ibid., pp. 4-7.
² International Bank, Development of Iraq, pp. 102-117.
floods and generates hydro-electric power. It was completed in 1957, with the cost of 8,819,000 dinars (about $25,000,000).

*Derbendi Khan Dam on the Divalah River.* Derbendi Khan Dam was designed with a storage capacity of 3,500,000 cubic meters. Complementary to the dam is the construction of Khan-Beni Sa’id barrage on the Dijalah river. The barrage will raise the water of the Dijalah river for use in irrigating new land in the Nahrawan area. The Nahrawan basin requires the irrigation of an area of about 1,117,000 mesharas. The dam was completed in 1960.²

*The Gharaf Project.* Another irrigation project which was included in the general development program was the remodelling and expanding of the Gharaf irrigation system. This project will provide, through the construction of regulators, adequate water for the area of 2,350,000 mesharas. In addition, the project includes the erection of a canal, which is expected to provide water for the irrigation of an additional area of 1,110,000 mesharas. This project was completed in 1960. Thus 10 per cent of the new area will be under irrigation.³

*Implementation of State Manufacturing*

*Mosul Cotton Textile Plant.* The Mosul Cotton Textile Plant is located near the city of Mosul. Construction began in 1954 and was completed in 1956. The total cost was 3.4 million dinars (about $8,927,000).


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It was financed by the Development Board. It has an annual production capacity of 20 million square meters of cotton materials. It is estimated that the production of this plant plus the production of the other private factories would meet most, if not all, of Iraq's consumption of cotton yard goods. The factory uses local cotton and employs 400 workers on one shift, but it is gradually raising the number to a total of 1,200 workers on three shifts.¹

Cement plants. There are only four privately owned cement factories in the country. Two are in Baghdad with output capacities of 1,400 tons and 600 tons a day, respectively; one is in Mosul with a capacity of 6,000 tons a day; and one is in Kerbala city with a capacity of 700 tons a day. These factories are not producing enough cement to meet the needs of the country.

Due to the country's broad construction program in both the public and the private sectors, a shortage of cement created a serious problem for the Development Board. For instance, for one dam alone, the construction required an average of 3,250 tons of cement a month for two years. Therefore, the Development Board constructed two cement plants with a capacity of 350 tons a day each. One is located near Mosul and is estimated to have cost 2.5 million Iraqi dinars; and the other at Sarchinar and is estimated to have cost 2.6 million dinars.² Also, two other plants were established in northeastern Iraq and another in the central part of the country. With all these plants, Iraq at the

²Salter, op. cit., pp. 159-160.
present time is producing enough cement to meet the local demands and also exports some to neighbouring countries.

Sugar factory. On May 9, 1956, a contract for two million dinars was awarded by the Development Board to a German firm (Salzgitter Industrie Bau) for the construction of a sugar plant near the city of Mosul, which was completed in November, 1957. The plant produces 10,000 tons of sugar a year from locally grown sugar beets. This capacity could be increased to 20,000 tons a year, if necessary, to meet the local needs. The Development Board also adopted the plan to construct a pipeline linking Kirkuk oil fields with Baghdad to provide the latter with natural gas, but this plan is still under construction.¹

Finally, Iraq, with its continuous flow of oil revenues and development programs, will no doubt be able to improve its economy. Every Iraqi dinar ($2.80) spent for development will have its repercussions on the economy. About 115 million dinars were earmarked for the six-year (1951-1956) development plan. About 304,306,000 dinars (about $852,257,080) have been allocated for a five-year plan (1955-1959) and about 566.4 million dinars (about $1,585 billion) has been allocated for a four-year (1961-1965) development program. A great deal of this money is spent abroad for the purchase of capital goods and other requirements needed by the contractors for the execution of the plans. To date there is no adequate record which may show the exact magnitude of the funds spent abroad, but it should be assumed that it is quite high, especially in the early stages of development. The rest of the expendi-

¹U.N. Department of Economic and Social Affairs, Economic Development in the Middle East, 1945-1951, p. 117.
tures are spent in Iraq. This includes sums spent on salaries, wages, domestic facilities, and public utilities rendered to the government. This amount of money going into the pockets of the Iraqis will no doubt increase their purchasing power, which may stimulate a demand for more goods and services. To satisfy this demand, goods will either be manufactured at home or imported.

Thus, agricultural improvement would be beneficial, because it would provide more and better foodstuffs and save that amount of foreign exchange which otherwise is spent on such imports as foodstuffs and raw materials. Furthermore, improvement of agriculture with a consequent rise of income for the rural population would expand the local market for industrial products. Consequently, agricultural development would facilitate the development of industry. On the other hand, the agricultural effect will increase the quantity and variety of foodstuffs available and make production less subject to nature. The diet of the local farmer will become adequate, and increased amounts of food will be available throughout the country. The industrial development, on the other hand, would also help to cut down the deficit in the balance of trade resulting from soaring imports of consumer and capital goods. Industries would utilize agricultural and animal products.

The Economic Situation in 1960 as Contrasted With 1952

The General Development. This section deals with the economic development for the period 1952-1960 (data are not available for 1961-1963).

In 1952, and after the signing of the new oil agreement between the Iraqi Government and the Petroleum companies operating in Iraq, the
The Development of Iraq


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Government of Iraq began to share its profits with the oil companies. The Government allocated 70 per cent of the oil revenue for the economic development of the country. A high percentage of the oil revenue was allocated for the agricultural sector (irrigation, drainage, dams, flood control). The remainder was allocated for industry, health, communication, education, electric power and housing programs.

The Government of Iraq established the Development Board and authorized it to execute the economic development projects in the country. The first plan adopted by the Development Board was the first five year plan for the years 1951-1956, from which development came the second five year plan for the years 1955-1959, for which $900 million was allocated to execute the plan.

The following discussion will concern the impact of these economic developments on the life of the Iraqi people and the country as a whole. Also, we shall contrast the economic development of 1960 with that of 1952.

The remarkable growth in 1960 was in the oil production (1.7 million tons in 1960 compared with 18 million tons in 1952) and the refining sector which led to the achievement of a new increase in the volume of the net national income during 1960. The per capita income increased due to the fact that the rate of growth in the total volume of production of the Iraqi economy was more rapid than the rate of increase in population.

The Ministry of Planning issued in 1961 a publication containing

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2Ibid., p. 4.
detailed statistics on the national income of Iraq in 1956-1960. This is the first time a government authority had undertaken to estimate the national income of Iraq. The report stated:

The average annual rate of growth amounts to about 12 per cent per annum, and the net national income (including all categories of services) continued its upward trend, thus achieving the record level of 422.1 million dinars at fixed prices, as compared with 329.7 million dinars in 1956.¹

To the writer of this thesis the above rate of growth (12 per cent per annum) is an unbelievable figure of growth; also, the amount 422.1 million dinars cannot achieve such a rate of growth. The unstable economical and political situation accompanying the years 1958 to 1960 had a direct effect on the growth of the Iraqi economy.

The report also emphasized that the growth of the net national income was mainly due to the expansion of industrial production, especially the expansion in the sector of oil production and refining.

The second course for the expansion of the net national income was both kinds of services, whether extended to the government or to the private sector. The value of these services rose during this year from 45 million dinar in 1956 to 109.7 million dinar in 1960 at fixed prices.²

The per capita income for the same period increased from 41.9 dinar ($117) in 1953 to 56.2 dinar ($146) in 1956 and this figure jumped to 64 dinar ($180) in 1960.³

Agricultural development. As was mentioned in previous chapters (see Chapter II), the Development Board allocated a high percentage of

¹A. H. Zalsala, op. cit., p. 9. ²Ibid., p. 10.
³Haseeb, op. cit., p. 144.
its expenditure for the development of agriculture. This attention to
the development of agriculture was due to the advice of the Interna-
tional Bank Mission and the Clapp Mission, which recommended that the
Iraq Government allocate the oil revenue into the rehabilitation of the
Tigris-Euphrates valley. This will be in the form of construction dams,
drainages, irrigation projects and flood control.

In 1961, the Development Board announced that since 1952 about
4 million acres of land were cropped each year under irrigation and that
this figure was increased by 30 per cent in 1960. Also, the Development
Board estimated that this figure will increase in 1965 by 45 per cent
and to 130 per cent in 1975.²

Part of this area comes from reclamation of new land, but much of
it comes from increased summer plantings where more water is available
throughout each season. Grains and cotton were the products most af-
fected by increased irrigation.

Table 27 shows the cultivated land in 1952 and the Development
Board's estimate of expansion for the years 1960, 1965 and 1975.

The United States came to an agreement with Iraq in 1951, "to
cooperate in the interchange of technical knowledge and skills and in
related activities designed to contribute to the balance and integrated
development of the economic resources and productive capacities of Iraq."³

¹Clapp Mission is a group of American engineering experts called
by the Iraqi Government in 1953 to study the agriculture, irrigation
and dam projects.

²U. S. Department of Agriculture, Agriculture Development, Iraq,

³Ibid., p. 46.
TABLE 27
CULTIVATED LAND IN 1952 AND THE DEVELOPMENT BOARD'S ESTIMATE
OF EXPANSION FOR THE YEARS 1960, 1963 AND 1973

<table>
<thead>
<tr>
<th>Items</th>
<th>Area in 1952 (in 1000 acres)</th>
<th>Estimate expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivated area</td>
<td>12,676</td>
<td>14,381</td>
</tr>
<tr>
<td>Irrigated area</td>
<td>6,647</td>
<td>8,152</td>
</tr>
<tr>
<td>Per cent increase</td>
<td>-</td>
<td>(26)</td>
</tr>
<tr>
<td>Rain fed</td>
<td>6,229</td>
<td>6,229</td>
</tr>
<tr>
<td>Area cropped annually</td>
<td>6,089</td>
<td>7,373</td>
</tr>
<tr>
<td>Irrigated area</td>
<td>4,062</td>
<td>5,347</td>
</tr>
<tr>
<td>Per cent increase</td>
<td>-</td>
<td>(32)</td>
</tr>
<tr>
<td>Rain fed</td>
<td>2,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

Source: U. S. Department of Agriculture, Agriculture Development in Iraq, Iran and Sudan, p. 44.

The technical assistance staff consists of 71 persons and the annual budget is about $2.5 million. Principal activities are to give technical advice on projects sponsored by the Development Board, to send Iraqi personnel to the United States for higher study, to improve the extension services, and to strengthen the education system.

The government, on the other hand, pressed ahead with the implementation of the Agrarian Reform Law, the corner-stone for the expansion of agricultural production, the increase of the purchasing power and the expansion of the domestic market which is necessary to absorb the domestic products until the end of 1960. The total area of lands owned by
those who acknowledged and who were declared to be subject to the law by the authorities concerned (this being the first of the initial stages of the application of the law) amounted to approximately 8.4 million donums (one donum is equal to 1/4 hectare) belonging to 1,327 persons. The government seized only 4.1 million donums (belonging to 621 persons) during the same period. Lands which were put under temporary administration attached to the Agrarian Reform (the second stage) amounted at the end of 1960 to approximately 5.6 million donums rented by about 202,000 farmers.\(^1\)

Up to December, 1960, the total area of lands actually distributed among farmers (the third stage) in accordance with the first Distribution Plan amounted to about 25,000 donums, distributed among approximately 10,672 families.\(^2\)

**Industrial growth and production.** Industrial production was characterized in 1960 by a noticeable expansion in the public and private sectors. This expansion and growth was due to many reasons, among which was the increase of the oil companies' investment in the foreign oil sector. The relative growth of the private and public sectors in the field of national industry was a result of the protection which the government offered to newly-established factories, and the starting of


\(^2\)The Government of Iraq in 1960 enacted Law No. 73 concerning industrial development. It aims at creating better conditions for the growth of the private domestic industries. This law also includes the exemption of factories from income tax, exemption from import duties on machine equipments, raw materials and packing materials; and exemption from property tax as well as stamps duty for ten years.
exploitation of productive capacities which had not been exploited before. Foremost among the Iraqi industries which achieved growth were the oil industries, the industries which extract, export and refine oil.

Oil production (crude oil) achieved a high increase in 1960 compared with 1952. The production was increased from 18,201,147 tons in 1952 to 47,280,000 tons in 1960. The value of the oil exports rose from 32.5 million dinar ($90 million) in 1952 to 95.1 million dinar ($266 million) in 1960.2

With regard to the national oil refining industry, the value of gross production increased from 3 million dinar ($10 million) in 1952 to 14.4 million dinar ($40 million) in 1960. The growth of the refining industries was reflected in the increase of production of gas, kerosine, and gas oil. This also, of course, is due to the building of a large, new refinery in Baghdad in 1955 and the enlargement of the other two refineries (Alwand and Al-Muftiya refineries).3 Thus, the gross value of industrial production in other than the oil sector increased from 32 million dinar ($90 million) in 1952 to 68.5 million dinar ($191 million) in 1959 and to 84.9 million dinar ($235.7 million) in 1960, respectively.4

Regarding industrial enterprises, the number of these enterprises was increased from 19,923 in 1952 to 35,256 in 1960.5

It should be mentioned that the increase in industrial production covered the cement, shoe-making, tanning, soap, cleaning materials, oil,

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1A. M. Ezet, op. cit., p. 2.  
2Ibid.  
3Government of Iraq, Oil Refineries, op. cit., p. 20.  
textile and other industries.

The government played an important role in the growth and expansion of the industry. In the public sector, the government built two oil refineries, a sugar plant, a textile plant and a cement plant (see Development Board projects, Chapter V).

In the private sector the government, through its institutions (e.g., the Industrial Bank), played an important role in encouraging and financing the private sector.

It is worth mentioning that a big increase took place in both private and public capital invested in industry. The highest capital invested in the public sector was in the oil industry. The cement industry took second place in private capital invested.

With regard to the "national income" since 1953, it increased from 242.2 million dinar ($678.2 million) in 1953 to 329 million dinar ($923 million) in 1957, and this figure jumped to 433 million dinar ($1,211 million) in 1961. This tremendous growth in the national income was due to the increase in the oil revenue, and the increase in the private and public services.\(^1\)

The per capita income increased from 30 dinar ($80) in 1950 to 41.9 dinar ($126) in 1953 and to 59.9 dinar ($139) in 1956. After the great increase in oil revenue and the expansion in the public services, the per capita national income jumped to 64 dinars in 1960 ($180).\(^2\)

It seems that the per capita income was multiplied in 1960 as it increased from 30 dinar ($80) in 1950 to 64 dinar ($180) in 1960. Certainly the standard of living was improved during the period 1952-

\(^1\)Ibid., p. 34.  
\(^2\)Ibid.
The growth of the net national income was mainly due to the expansion of industrial production, especially the expansion in the oil sector, both production and refining. The second source for this expansion of the national income was both kinds of services, whether extended to the government or to the private sector.\(^1\) The value of these services rose during this period from 49 million dinar ($137 million) in 1956 to 94.6 million dinar ($265 million) in 1959 and to 109.7 million dinar ($297 million) in 1960.\(^2\) It is worth mentioning that the services extended to the government increased several times during 1956, 1957, 1958, 1959 and 1960, respectively.\(^3\)

Development of financial institutions and credit. The central bank facilitated many of the credit terms and limits, both for the commercial and other state-owned banks.

The value of loans granted to the state-owned banks increased in 1960. The total for loans granted was 3.5 million dinar.\(^4\)

The value of commercial credit facilities granted by the commercial banks operating in Iraq rose during 1960, amounting to about 150.2 million dinar, against 135.3 million dinar in 1959, and against 72.5 million dinar in 1956. The increase in value of commercial operations is attributed to the stimulation of imports and the increase of domestic economic activity.\(^5\)

\(^1\) Central Bank, Annual Report, op. cit., p. 52.
\(^2\) Ernest, op. cit., p. 10.
\(^3\) Ibid., p. 11.
\(^4\) Central Bank of Iraq, Annual Report, op. cit., p. 27.
\(^5\) Ibid.
With regard to the state banks (Agricultural, Industrial and Mortgage banks), their nominal capital increased from 12 million dinar in 1956 to 20.3 million dinar in 1959 and to 23.2 million dinar in 1960. The value of credit facilities granted by the state-owned banks during 1960 amounted to about 13.1 million dinar against 6 million dinar in 1954.\(^1\) The number of commercial banks was increased from five principal banks with 18 branches in 1951 to ten head banks with sixty branches in 1960. Their paid capital also increased from 2.4 million dinar in 1951 to 11.7 million dinar in 1960.

### The Overall Economic Plan and Aims

The period between 1953-1961 witnessed a tremendous growth of the Iraqi economy with the exception of the year 1957, which was caused by the stoppage of the Iraqi oil to the European market. Also, the year of 1961 in which a high percentage of revenue from oil was allocated for military purposes. During this period, the national income increased five times more than the increase in population, while the oil revenues increased six times more than that of the population. The difference between the increase in national income and the increase in oil revenue was absorbed by the increase in imports and decrease in exports. The government budget increased two and a half times during the period concerned. The percentage of oil revenue allocated for the economic program was increased with the exception of the year 1960, which resulted from the reduction of oil prices by the oil companies.\(^2\)

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\(^1\)Ibid., p.28.

\(^2\)The reduction in the price of petroleum was 10 cents for each barrel and accordingly Iraq lost 5.1 million dinars. See Government of Iraq, Central Bank of Iraq, Economic Condition in Iraq (Baghdad: Government Press, 1961), p. 1.
TABLE 28

FACTS OF THE ECONOMIC GROWTH IN IRAQ, 1953-1961

(Value in million dinar; dinar = $2.80)

<table>
<thead>
<tr>
<th>Year</th>
<th>Population in Million</th>
<th>National Income</th>
<th>State Revenue</th>
<th>Export Total</th>
<th>Import Inc. Oil</th>
<th>Circulation of Gov't Companies</th>
<th>Budget</th>
<th>Develop. Program &amp; Economic Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>5.8</td>
<td>242.2</td>
<td>51.3</td>
<td>19.69</td>
<td>68.4</td>
<td>65.2</td>
<td>50.2</td>
<td>12.3</td>
</tr>
<tr>
<td>1954</td>
<td>6.0</td>
<td>277.9</td>
<td>68.5</td>
<td>17.98</td>
<td>72.8</td>
<td>67.0</td>
<td>53.8</td>
<td>20.9</td>
</tr>
<tr>
<td>1955</td>
<td>6.1</td>
<td>296.6</td>
<td>73.7</td>
<td>15.92</td>
<td>97.2</td>
<td>73.4</td>
<td>55.3</td>
<td>34.0</td>
</tr>
<tr>
<td>1956</td>
<td>6.3</td>
<td>329.7</td>
<td>68.8</td>
<td>13.20</td>
<td>114.6</td>
<td>84.6</td>
<td>70.3</td>
<td>43.0</td>
</tr>
<tr>
<td>1957</td>
<td>6.2</td>
<td>298.0</td>
<td>48.9</td>
<td>12.91</td>
<td>122.4</td>
<td>96.2</td>
<td>73.8</td>
<td>57.4</td>
</tr>
<tr>
<td>1958</td>
<td>6.2</td>
<td>318.6</td>
<td>79.9</td>
<td>114.45</td>
<td>109.8</td>
<td>115.5</td>
<td>79.2</td>
<td>52.2</td>
</tr>
<tr>
<td>1959</td>
<td>6.4</td>
<td>379.8</td>
<td>86.6</td>
<td>116.4</td>
<td>129.5</td>
<td>99.8</td>
<td>49.9</td>
<td>49.9</td>
</tr>
<tr>
<td>1960</td>
<td>6.5</td>
<td>431.0</td>
<td>95.1</td>
<td>7.97</td>
<td>138.9</td>
<td>130.0</td>
<td>102.8</td>
<td>46.2</td>
</tr>
<tr>
<td>1961</td>
<td>6.7</td>
<td>433.0</td>
<td>94.8</td>
<td>7.87</td>
<td>145.7</td>
<td>133.1</td>
<td>120.7</td>
<td>52.9</td>
</tr>
</tbody>
</table>


Examining Table 29 shows that the population increased 6.9 per cent in 1957; national income increased 23.0 per cent. The remarkable growth of the Iraqi economy was clearer in 1961 in which the population increased by 8.6 per cent while the national income increased 55 per cent. Looking to the oil revenue we find a steady increase since 1953 (base 100) up to 1961 (increase of 84.8 per cent) with exception of 1957 which decreased 38.8 per cent. This reduction in oil revenue had a direct effect on the national income which decreased 13.1 from 1956.

Let it be clear, that the year 1953 was taken as a base, the
TABLE 29

INDEX

FACTS OF THE ECONOMIC GROWTH IN IRAQ, 1953-1961

(1953 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>National Income</th>
<th>State Revenue</th>
<th>Export Oil</th>
<th>Total</th>
<th>Import inc.oil companies</th>
<th>Circulation of currency</th>
<th>Gov't Budget</th>
<th>Develop. Program &amp; Economic Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1954</td>
<td>103.4</td>
<td>114.7</td>
<td>135.5</td>
<td>91.3</td>
<td>106.4</td>
<td>102.8</td>
<td>102.2</td>
<td>169.9</td>
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<tr>
<td>1955</td>
<td>105.2</td>
<td>122.5</td>
<td>143.7</td>
<td>80.8</td>
<td>112.1</td>
<td>112.6</td>
<td>110.2</td>
<td>276.7</td>
<td></td>
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<tr>
<td>1956</td>
<td>108.6</td>
<td>136.1</td>
<td>134.1</td>
<td>67.0</td>
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<td>129.8</td>
<td>140.0</td>
<td>349.6</td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>106.9</td>
<td>123.0</td>
<td>95.3</td>
<td>65.6</td>
<td>178.9</td>
<td>147.5</td>
<td>147.0</td>
<td>466.7</td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>106.9</td>
<td>131.5</td>
<td>155.8</td>
<td>73.4</td>
<td>160.5</td>
<td>177.1</td>
<td>157.8</td>
<td>424.4</td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>110.3</td>
<td>156.8</td>
<td>168.3</td>
<td>59.1</td>
<td>170.2</td>
<td>199.2</td>
<td>198.8</td>
<td>405.7</td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>112.1</td>
<td>178.0</td>
<td>185.4</td>
<td>40.5</td>
<td>203.1</td>
<td>199.4</td>
<td>204.8</td>
<td>375.6</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>115.5</td>
<td>178.8</td>
<td>184.8</td>
<td>40.0</td>
<td>213.0</td>
<td>204.1</td>
<td>240.4</td>
<td>430.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Derived from Table 28.

Increase in oil revenue in 1956 by 34.1 per cent contributed to an increase in the national income to 36.1 while the decrease in oil by 38.8 in 1957 from that of 1956 contributed to a decrease to 13.1 per cent.

Looking at trade figures we find that exports were decreased from 100 in 1953 to 40 in 1961 with sharp contrast to imports which increased from 100 to 213 per cent in the same years. This phenomena shows that the increase in imports and the decrease in exports explained lack of domestic investment. This is caused by the bad harvest accompanying the years 1956-1961 and also resulted from the difficulties in the
implementation of the Agrarian Reform Law.

Table 29 shows that the money in circulation had doubled in 1961 from 1953. The increase in money in circulation had been derived from the fund supplied by the sources such as total central bank credit, monetary gold stock and treasury currency. This increase was absorbed by money in circulation and, therefore, the sources were not available for use as bank reserves. Thus, the increase in the volume of money in circulation tended to decrease the commercial bank reserves. Accordingly, this increase in money in circulation will affect the size of the investment.

As we discussed in a previous chapter (see Chapter III), savings are very low in Iraq. The Iraqi Government realized this point and accordingly started to use the budget as a tool for investment. However, the government recently has allocated a high percentage of the budget for military purposes. Thus, the role of the government through its budget became less effective in respect to investment.

Finally, the analysis of the above items shows us that petroleum played an important role in investment. The index shows also that the percentage of oil which was allocated for the economic program increased from 100 per cent to 430.1 per cent in 1961.

Statistically speaking, to show the importance of petroleum revenue in the Iraqi economic growth, the year of 1953 was taken as a base (100). The average yearly growth for the period 1953-1961, in population, national income and oil revenue were 1.7, 9.4 and 8.8, respectively; obviously this shows remarkable growth in the Iraqi economy. The items (population, national income and oil revenue) increased in 1956 by 8.6, 36.1 and 34.1 per cent respectively. In the year of 1956 the indices
were 106.9, 123.0 and 95.3, respectively, while in 1958 they rose to 106.9, 131.5 and 155.8 per cent. This increase and decrease in national income is due to the increase and decrease of oil revenue.

Generally speaking, since the per capita income is used as a measurement of growth for any given economy, Table 33 shows an increase of the per capita income indices for the period 1953-1961, of 54.5 per cent, representing substantial growth.

The oil revenue had a steady increase for the years 1954, 1955 and 1956, and the per capita income indices increased slightly by 10.8, 16.3 and 25.1 per cent, respectively. The oil revenue increased steadily also for the years 1958, 1959 and 1960; on the other hand, the per capita income was affected by these increases and rose by 23.0, 41.9 and 58.6 per cent, respectively.

However, 1957 was the only year in which oil revenue was decreased (by 13 per cent); this decrease was accompanied by a 10 per cent decrease in per capita income for the preceding year, which rose 7.9 per cent in the succeeding year.

Looking at Table 34, we find that throughout the period 1953 to 1961, there was a steady increase in the national income with the exception of the year 1957, which followed the Suez war. With regard to wholesale prices, we find that the increase in price was only 9 per cent during the whole period concerned. The annual average is less than 1 per cent and this per cent is smaller compared with the increase in national income (the national income increased 78 per cent and the wholesale price increased 9 per cent).

The per capita income indices increased 54 per cent during the year 1953 to 1961. The cost of living indices increased 14 per cent.
<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>28.8</td>
</tr>
<tr>
<td>1954</td>
<td>24.7</td>
</tr>
<tr>
<td>1955</td>
<td>16.4</td>
</tr>
<tr>
<td>1956</td>
<td>11.5</td>
</tr>
<tr>
<td>1957</td>
<td>10.5</td>
</tr>
<tr>
<td>1958</td>
<td>13.2</td>
</tr>
<tr>
<td>1959</td>
<td>10.0</td>
</tr>
<tr>
<td>1960</td>
<td>5.7</td>
</tr>
<tr>
<td>1961</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: Derived from Table 29.

Table 31

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>100.0</td>
</tr>
<tr>
<td>1954</td>
<td>85.8</td>
</tr>
<tr>
<td>1955</td>
<td>56.9</td>
</tr>
<tr>
<td>1956</td>
<td>39.9</td>
</tr>
<tr>
<td>1957</td>
<td>36.4</td>
</tr>
<tr>
<td>1958</td>
<td>45.8</td>
</tr>
<tr>
<td>1959</td>
<td>34.7</td>
</tr>
<tr>
<td>1960</td>
<td>19.8</td>
</tr>
<tr>
<td>1961</td>
<td>18.7</td>
</tr>
</tbody>
</table>

Source: Derived from Table 30.
TABLE 32
PER CAPITA INCOME (In Pounds)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sterling Pounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>41.8</td>
</tr>
<tr>
<td>1954</td>
<td>46.3</td>
</tr>
<tr>
<td>1955</td>
<td>48.6</td>
</tr>
<tr>
<td>1956</td>
<td>52.3</td>
</tr>
<tr>
<td>1957</td>
<td>48.1</td>
</tr>
<tr>
<td>1958</td>
<td>51.4</td>
</tr>
<tr>
<td>1959</td>
<td>59.3</td>
</tr>
<tr>
<td>1960</td>
<td>66.3</td>
</tr>
<tr>
<td>1961</td>
<td>61.6</td>
</tr>
</tbody>
</table>

Source: Derived from Table 29.

TABLE 33
INDEX OF PER CAPITA INCOME

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>100.0</td>
</tr>
<tr>
<td>1954</td>
<td>110.8</td>
</tr>
<tr>
<td>1955</td>
<td>116.3</td>
</tr>
<tr>
<td>1956</td>
<td>125.1</td>
</tr>
<tr>
<td>1957</td>
<td>115.1</td>
</tr>
<tr>
<td>1958</td>
<td>123.0</td>
</tr>
<tr>
<td>1959</td>
<td>121.9</td>
</tr>
<tr>
<td>1960</td>
<td>158.6</td>
</tr>
<tr>
<td>1961</td>
<td>154.5</td>
</tr>
</tbody>
</table>

Source: Derived from Table 32.
Table 3k

Wholesale Price Index and Cost of Living Index

For Unskilled Labor in Baghdad

(1953 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wholesale price General Index No. (Monthly average)</th>
<th>Cost of living General Index No. (Monthly average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1954</td>
<td>96.2</td>
<td>97.9</td>
</tr>
<tr>
<td>1955</td>
<td>93.7</td>
<td>97.8</td>
</tr>
<tr>
<td>1956</td>
<td>107.8</td>
<td>115.9</td>
</tr>
<tr>
<td>1957</td>
<td>102.8</td>
<td>110.9</td>
</tr>
<tr>
<td>1958</td>
<td>94.2</td>
<td>101.9</td>
</tr>
<tr>
<td>1959</td>
<td>111.3</td>
<td>120.4</td>
</tr>
<tr>
<td>1960</td>
<td>110.1</td>
<td>116.5</td>
</tr>
<tr>
<td>1961</td>
<td>109.0</td>
<td>114.6</td>
</tr>
</tbody>
</table>


During the same period,

Statistically speaking, the increase in per capita income was more than four times that of the increase in cost of living.

Examining Table 3k, we conclude that the real increase concentrated in national income. Thus, we find that the amount of the petroleum revenue is a major determinant of the volume of the investment and considered as the backbone of the Iraqi economy.

In 1961, the Government of Iraq adopted the new "Detailed Economic
Plan" for the year 1961-1966. The Government allocated for this plan $566.3 million dinar ($1,585,000 billion) subsidized as follows:¹

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>112,990,000 million</td>
</tr>
<tr>
<td>Industry</td>
<td>166,786,000 million</td>
</tr>
<tr>
<td>Communications</td>
<td>136,450,000 million</td>
</tr>
<tr>
<td>Works and Housing</td>
<td>140,114,000 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>566,314,000 million</strong></td>
</tr>
</tbody>
</table>

To give the general picture about this plan, important projects for each sector should be illustrated briefly as follows:

**Agriculture**
- Storage projects, irrigation and drainage projects
- Silos projects
- Underground projects

**Industry**
- Chemical industries
- Medical manufacturing projects
- Foodstuffs manufacturing
- Constructional industry projects
- Electrical industry project
- Metal industry
- Weaving and clothing industry
- Oil refining projects

**Communication**
- Roads and bridges
- Railways
- Port and navigation
- Civil aviation
- Broadcasting and television

Works and Housing Projects

- Building for government departments
- Building for health institutes
- Housing projects
- Water supply project
- Sewerage

Half of the above "Detailed Economic Plan" was financed by the oil revenue, and the other half was financed by loans and revenues from other sources.¹

¹Ibid., p. 48.
Figure 3. Index of State Revenue from Oil for the Years 1953-1961. Source: Derived from Table 29.
Figure 4. Index of Exports for the Years 1953-1961. Source: Derived from Table 29.
Figure 5. Index of Imports for the Years 1953-1961. Source: Derived from Table 29.
Figure 8. Index of the Government Budget for the Years 1953-1961. Derived from Table 29.
Figure 9. Index of the Dinar Value of the Development Program and Economic Plan for the Years 1953-1961. Source: Derived from Table 29.
CHAPTER VI.

CRITICAL EVALUATION AND CONCLUSION

Iraq, after its independence in 1932, faced many economic obstacles, including the limitation on investment and the lack of capital. This, of course, is due to the fact that productivity was low; per capita income was low; purchasing power was limited, and saving very small or non-existent.

Dr. John Ernest, Professor of Economics at the University of Baghdad, recently made the following statement about the Iraqi economy for the period 1920-1950:

For the period 1920-1950, the Iraqi economy was in absolute economic stagnation. The public investment, which was composed of 3 per cent of the total national income, plus the private investment, which was composed of 3 per cent, made a total of 6 per cent. The depreciation for the same period was 5 per cent; thus, the net investment was 1 per cent, which equalled the increase in the population. This situation led to the complete economic stagnation for that period and did not increase the productive capital.¹

Other economic obstacles were the small size of the domestic markets. The local market, on the other hand, played an important role in the economic development with regard to the industrialization of the country. Japan, for example, depended on its domestic markets for its industrialization, but the domestic markets in Iraq were small and did not help give incentive to industrialization as they did in Japan.²

¹John Ernest, op. cit., p. 3.
²Lockwood, op. cit., pp. 499-592.
addition to the above obstacles, the weakness of the taxation system and technological factors were among the most important factors which affected the economy in general for the period from 1920-1950.

The period 1952-1960 is considered one of the most notable periods in the modern history of Iraq's economic development.

In February, 1952, the Government of Iraq signed a new profit-sharing agreement with the oil companies operating in Iraq. Accordingly, the oil revenue to the Iraqi Government jumped from $39.1 million in 1951 to $91.2 million in 1952 (the agreement was signed in February, 1952, but it was retroactive to January 1, 1951). This increase in oil revenue encouraged the Iraqi Government to create the Development Board, and the latter invested 70 per cent of the oil revenue in the economic development of the country.

Several economists believe that the most direct obstacle to development in most of the underdeveloped countries is the "shortage of funds for capital formation." Therefore, oil revenue is considered as the key to Iraq's potentialities for rapid economic growth. According to the report by the Clapp Mission, "The economic problem of Iraq is one of translating oil revenue into the rehabilitation of the Tigris-Euphrates valley." The Iraqi Government heeded this advice and allocated a high percentage of the oil revenue to the agricultural sector (dams, irrigation, drainage system and flood control).

1Nurkse, op. cit., p. 2.

The period of 1952-1961 witnessed a remarkable development. The population increased by 3.4 per cent in 1953 (1953 was chosen as a base = 100); with increase in national income by 14.7 per cent. The remarkable growth of the Iraqi economy was more clear in 1961, in which the population increased by 8.6 per cent while the national income increased 55 per cent.

Iraq is regarded as an agricultural country, 65 per cent of its people being engaged in agriculture. The labor force in industry was increased from 66,000 workers in 1951 to 90,291 workers in 1954, and this figure increased to 160,000 workers in 1960. This, of course, is due to the creating of new factories and industrial enterprises, for example, cement, sugar, shoes, textiles, beer and extracting industries.

The expansion in the oil industry, especially oil refining, has had a direct effect in increasing the industrial workers. This branch of the oil industry alone employed 17,000 workers in 1960. On the other hand, the migration from the rural areas to the cities was increased during the period 1952-1960. This was a result not only of the low income the workers were obtaining in the agricultural sector, but also of the feudalistic system which was the dominating aspect in the farmers' life before the enactment of the Agrarian Reform Law by the Revolutionary Government in August, 1958. The government, in accordance with the new Agrarian Reform Law, seized the land from the landlords and distributed it to the peasants in small farms. After 1952, agricultural production decreased as a result of the bad harvest and drought, in addition to the difficulties in implementing the Agrarian Reform Law. But in the long run there is a good hope that Iraq will increase its agricultural production under the new agricultural system, especially when the farmer
feels that he owns the land and is given support by the government in the form of money, water, and management, according to the new Agrarian Reform Law.

Concerning foreign trade, exports were in 1961 only 40 per cent of the 1953 level. This decline was due to the bad harvest and drought which accompanied the years 1958-1961, as well as the restriction imposed by the government on the exportation of certain commodities. Also, the difficulties in implementation of the Agrarian Reform Law, owing to the unstable political, social and economical situation in 1959, had a direct effect on agricultural production.

Oil revenue, on the other hand, increased by 81.8 per cent compared with 1953. The increase was due to both the increase in production and the erection of a new pipeline to the Mediterranean Sea and the Persian Gulf.\(^1\)

With regard to financial institutions, the first step in the development of the banking system was the establishment of the Central Bank of Iraq in 1947, which became the financial and advisory institution to the Iraqi Government in the implementation of its agricultural, industrial and financial program. The second feature was the increase in the activities of the State banks, for example, the Agricultural bank, the Industrial Bank and the Mortgage Bank. These banks played an important role in the development of the agricultural, industrial and housing

\(^1\)Petroleum prices were fixed according to 1952 profit-sharing agreement. The profit of the Iraqi Government on Kirkuk oil on the Iraq-Syrian border was calculated at 35s. 6d. per long ton in 1951, and 40s. 6d. in 1953 and thereafter. The corresponding figure on the Persian Gulf at Fao terminal was 29s. 4\(\frac{1}{2}\)d. and 34s. 6\(\frac{1}{2}\)d. per long ton, respectively. Also, see U. N. Department of Economics and Social Affairs, Economic Development in the Middle East, 1945-1954 (New York: U. N. Publications, 1955), p. 98.
programs.

Commercial banks were increased tremendously during the period 1953-1961, from five principal banks with eighteen branches in 1951 to ten principal banks with sixty branches in 1960. It is worth mentioning that these banks played a remarkable role in developing foreign trade and in facilitating credit terms to the Iraq merchants.

The second part of this thesis is concerned with the development of the oil industry and its impact on the Iraqi economy.

The oil industry in Iraq contributes to the economy of the country in two ways: (1) directly, through oil companies and through their local spending, providing fuel for the local market and training of industrial personnel, and (2) indirectly, through government investment of oil royalties and foreign capital borrowed on the security of the steady inflow of oil royalties.

Local spending by the oil companies had a secondary impact on domestic business activities through the increased demand resulting from higher earnings of the company's employees. Thus the development of the new industries and business concerns facilitated the operation of some at a lower cost. It should be mentioned, however, that local spending in Iraq by the oil companies was limited and its impact localized mainly in the regions where the oil companies operated.

The oil industry, on the other hand, provides a major source of foreign exchange in the form of oil revenue to the government which enables the country to maintain commercial relations with the rest of the world. At the same time, a large share of the imports is for the use of the companies themselves, or for their employees.

Furthermore, the expectation of an increase in oil revenue has
made it possible for the government to obtain foreign loans for economic development. Prior to 1937 the Iraqi Government was reluctant to borrow from abroad; after that date and up to 1961 it did so for economic development. Since 1951 borrowing has not been necessary, due to the larger governmental receipts from royalties.

In 1947, the government, using oil royalties as a credit for its currency, obtained a total of 10.7 million dinars from foreign sources. At the present time Iraq has a good credit standing and could rely on foreign borrowing if and when needed.

In the field of investment the Development Board invests 70 percent of the oil revenue. The percentage of investment was increased from 100 in 1953 (1953 = 100) to 430.1 in 1961. Oil is helping to bring major changes in the economy of Iraq. The great dams which have been and are being built, the more extensive use of agricultural machinery, and the increasing use of more efficient methods of production should in the near future make Iraq a comparatively major producer and exporter of agricultural products. It is also not inconceivable that before the turn of the century, Iraq will become fairly industrialized.

The fields of transportation, communication, housing, education and public health have taken a high share of the investment in the capital works program in the first five-year plan (1951-1956) and in the second five-year plan (1955-1960). It has been allocated 136 million dinar ($381 million) for communication and 140 million dinar ($392 million) for works and housing programs in the detailed economic plan for the years from 1961-1966.

Iraq is not facing the problem of explosive population, and in the future, investment of oil royalties will contribute greatly to
economic development.

The oil industry has also provided other sectors of the economy with some entrepreneurs, skilled labor and other trained industrial personnel on a narrow scale. The fact that the oil industry is highly specialized and employs only a few Iraqis in executive positions, has, however, greatly restricted these contributions.

In the field of employment, petroleum represents the only modern industry in Iraq. It supplies the capital and provides the power and raw materials for several light industries for which there is even now a real need. It employs 18,000 workers whose cash wages generally exceed those paid to workers in other industries. Also, it has helped to raise the purchasing power of the local consumers.

Generally speaking, the oil industry has had two effects in terms of both direct and indirect economic and social benefits. All payments by the oil companies to the Iraqi Government and to individuals permanently residing in Iraq, as well as additions to the industry's gross savings used for general improvement and expansion of local industry, can be regarded as direct benefits. The indirect benefits from the operation of the oil companies include employment, education and training for local workers and housing programs. Thus, in this case, the industry has led to external economics which means such gains as accrue to individual firms from buying the products and using the services of the industry on the one hand, and on the other hand, from selling the industry their products and services.

Furthermore, the oil industry provides its own fuel and transportation, as contrasted to gold and iron mining in which cases fuel and transportation are usually supplied by external concerns.
Finally, in the long run, oil revenue will place Iraq in a very prominent position in the Middle East. Assuming that Iraq will be able to develop both its agriculture and its industry, it will mean that (1) it may become the wealthiest country in the Middle East; (2) it will not have to depend on oil as a primary source of national income; and (3) as a consequence, its foreign policy will not have to be dictated by this one factor alone, oil.
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