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Gulf War Reparations:

Iraq, OPEC, and the Transfer Problem

By RODNEY J. MORRISON*

ABSTRACT. On February 27, 1991, the government of *Iraq* accepted *United Nations* Security Council *Resolution* 674, a measure requiring it to pay reparations to the victims of its *aggression* in the *Gulf Crisis* of 1990–1991. The economic problems and consequences that may result as Iraq faces the provisions of Resolution 674 are discussed. This latest example of international economic compensation is placed in the context of the transfer problem and the economic debate engendered by the experience of *Germany* in dealing with its reparations burden after World War I. Lessons gained from this historical example of reparations are then applied to the case of Iraq, one of the world's major *petroleum* producers, a country that must rely on *oil exports* to make its *reparations* payments.

I

Introduction

THE COLLAPSE OF COMMUNISM has made all but obsolete the theories of containment and deterrence used to explain superpower relations during the Cold War.

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Now many analysts of world affairs speak of unipolar systems, the most famous of which is, of course, the New World Order. This latest model of international relations had its initial test in the Gulf War of 1990–1991, a conflict in which a United Nations coalition, led by the United States, drove Iraqi troops from Kuwait by force of arms. That the military dimension of the decision to confront and reverse Saddam Hussein's invasion of Kuwait captured world attention is indisputable. But there was another and far less visible dimension to the New World Order's intervention in the Gulf crisis: the United Nations directive that Iraq pay reparations to those who suffered from its acts of aggression. While less dramatic than high-tech warfare, this economic corollary of military action in the Gulf will nonetheless have serious long-term consequences for the nations of the Middle East and states bound to that region by commercial and economic ties.

Postwar reparations are not new. Indeed, the demand that Iraq compensate its Gulf War victims is simply the latest chapter in the continuing story of victors in international conflicts exacting economic compensation from the vanquished.[1] The purpose of this paper is to put this newest addition to the history of reparations in context. The paper begins by reviewing the most famous example of such payments, Germany after World War I. It then applies knowledge gained from this historical case to several issues that must be considered as the process of collecting economic recompense from Iraq unfolds.

II

Reparations: The Theoretical Debate

THE GOVERNMENT OF IRAQ, on February 27, 1991, after suffering intensive ground and air operations inflicted by a coalition of United Nations forces led by the United States, acceded to United Nations Security Council Resolution 674. This was a twelve-part motion holding it liable "for any loss, damage or injury arising in regard to Kuwait and third states, and their nationals and corporations, as a result of . . . [its] . . . invasion and illegal occupation of Kuwait. . . ." Consequently, Iraq found itself in a situation similar to what Germany faced in 1919 when it accepted Article 231 of the Versailles Treaty, the so-called "War Guilt Clause."[2] Its government had been widely condemned and its economy was about to be mortgaged to redress wartime wrongs. Thus, as a result of the Gulf War of 1990–1991, the world community readied itself for yet another replay of an oft-repeated drama, an international aggressor paying reparations to its victims.

Diplomats and historians are fascinated by reparations. Economists, however, regard them as simply a species of international financial transactions, little

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different from such seemingly diverse activities as foreign aid programs (the Marshall Plan), international construction projects (the Panama Canal), or provisioning one's troops in a foreign country (the Peninsular Campaign of 1810).[3] The element common to all these examples of what are ostensibly financial transactions is that each ultimately involves the movement of real resources across the borders of sovereign states.

Economists may consider reparations merely one form of international transfer, as mundane as supplying soldiers with wine and cheese or making bank loans to foreigners, but they are no less captivated by them than are historians. In fact, one of the most famous controversies in economics concerned reparations and the foremost name in twentieth-century economics, John Maynard Keynes, first came to international prominence in that debate. The issue, of course, was the Treaty of Versailles and the compensation Germany had to pay its Great War opponents.

The discussion attending Germany's World War I reparations centered on two closely related points: (1) how that country would pay its reparations; and (2) how those payments would affect its economy and polity in the post-war period. The first matter had both domestic and international implications. Domestically, Germany had to achieve a surplus in its national budget so that the financial aspect of reparations could be satisfied. This was known as the collection problem, and it was itself a subject of some controversy as observers differed over the size, capacity, and condition of Germany's tax schedules, revenue base, and levels of government spending.[4] Nevertheless, assuming a fiscal surplus was possible, once it was delivered to the agent representing those who were to receive reparations, the international dimension intruded. This related to the external accounts of Germany and its foreign creditors. For Germany had to give up more than money to meet its reparations obligations, it had to give up real resources. To do this, however, it had to have a surplus in its trade balance and those to whom it was paying reparations had to have deficits. How those imbalances in international trade were to be achieved precipitated one of political economy's most famous debates, the dispute over the transfer problem.

Theoretical arguments about the transfer problem were conducted in the context of a two-good, two-country model, with one country paying reparations to the other. It was assumed that initially each country's balance of payments was in equilibrium and that full employment and flexible prices obtained in both. The crux of the matter was the means whereby real resources would be transferred from the country paying reparations to the country receiving them.[5] The most famous commentator to offer an explanation of this process was John Maynard Keynes, who presented what was known as the classical view. Keynes

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had revealed his qualms about the collection problem in his controversial treatise, *The Economic Consequences of the Peace,* and in his *Revision of the Treaty.* Now he expounded on his reservations about Germany's ability to meet the real burden of its reparations obligations. Germany would not be able to earn a sufficiently large trade surplus, he asserted, nor would its creditors incur sufficiently large trade deficits to effect completely the real transfer, because the relevant import and export elasticities were too low. Thus, Keynes maintained, Germany's terms of trade would have to decline for the full real transfer to occur.[6] But a deterioration in a country's terms of trade can lead to a reduction in its real income. Which meant, by Keynes' reasoning, that Germany had to bear an additional or secondary burden: a further loss in real income caused by the decline in its terms of trade.[7]

The principal challenge to Keynes came from Swedish economist Bertil Ohlin. It is one of the ironies of the history of economic thought that Ohlin's thesis, a rebuttal of Keynes' classical argument, relied on a very Keynesian concept, aggregate demand. Ohlin claimed that when the country owing reparations met its financial obligations, its total purchasing power would decline, and this reduction in national income would lead to a decline in its imports. Conversely, national income in the country receiving the financial payment would increase, as would its imports. Assuming total purchasing power in the system at large remained constant, Ohlin asserted that the adjustments in imports triggered by changes in national income would be large enough to effect completely the real transfer. He concluded, therefore, that Keynes was wrong: the terms of trade did not have to shift; there would be no secondary burden; the real transfer would be accomplished through changes in national income.[8]

A third and final argument put forward in the theoretical debate over the transfer problem was known as the modern Keynesian case. Similar to Ohlin's thesis in its reliance on changes in national income, the modern Keynesian explanation broke with the assumption that full employment and flexible prices characterized the economies involved in the transfer. Thus it rejected the notion that the initial changes in national income would cause trade imbalances large enough to complete the real transfer without requiring any secondary burdens. In this model, an additional adjustment would be necessary, but contrary to the classical case, it would not come through changes in relative prices. It would be manifested in changes in national income and employment. That is, if the real transfer was not completely effected on the first round, further changes in national income would be required to produce the required trade imbalances in the countries making and receiving reparations. Having dispensed with the assumptions of full employment and flexible prices, this approach predicted

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that, absent devaluation or compensating policy changes, increased unemployment in the country paying reparations would be necessary if the full transfer were to be completed.[9]

The classical thesis, Ohlin's rejection of secondary burdens, and the modern Keynesian view dominated the discussion of the transfer problem for years. The initial debate was couched in terms of two-country, two-good model models, but the argument has been extended and modified to incorporate tariffs, transfers in-kind, traded and non-traded goods, transportation costs, and situations involving more than two countries.[10] Ultimately, the controversy surrounding the transfer problem was resolved by a compromise embodying both the terms of trade and changes in national income. The most general version of this solution includes a full multiplier analysis based on marginal propensities to import and save out of reparations payments and receipts.[11] It posits three possible outcomes. First, if the relevant marginal propensities sum to unity, the transfer can be completed without any secondary burden falling on any party. Second, if the sum of these propensities is less than unity, the real transfer will be undereffected and a secondary burden will have to be borne by the reparations payer. In this case, a classicist would argue, the terms of trade would move against the country paying reparations and it would suffer a further loss because of the international redistribution of real income. In the end, the transfer process would be completed through income and substitution effects. The Keynesian answer to this undereffected transfer denies that relative price changes complete the process. Instead, it maintains that further adjustments in national income and employment are required. The third possible outcome is when the sum of the relevant marginal propensities to import and save exceeds unity. In this instance, the transfer is overeffected and the terms of trade improve for the country paying reparations. Which means the reparations payer will benefit from an international redistribution of income, that is, there will be a reverse (some call it perverse) transfer.[12]

III

Reparations: The Historical Debate

THE SECOND CONTROVERSIAL ISSUE in the debate over Germany's post-World War I reparations—how those payments would affect its economy and political stability—was as contentious as the theoretical argument surrounding the transfer process. Germans (and many of their supporters in the international community) claimed their country could not make the payments demanded by its conquerers. Those seeking reparations were equally adamant in asserting Germany did have the capacity to meet their demands.

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The popularly accepted version of this aspect of the World War I reparations story began with the publication of Keynes' *The Economic Consequences of the Peace.* In that polemical work, Keynes estimated that the Versailles Treaty, an open-ended arrangement, required Germany to pay some $40 billion in damages, a policy that would, he claimed, reduce it "to servitude for a generation."[13]

During the first two years following the war Germany delivered reparations in-kind and made territorial concessions, but specific terms on what it would have to pay its conquerors were not arrived at until the Allies formulated the London Schedule of Payments (1921). That agreement demanded that Germany pay compensation totaling 132 billion gold marks ($33 billion in current prices), a sum equal to two years' output of the entire German economy.[14] Many observers, then and now, considered that amount exorbitant and impossible for Germany to meet.

Participation in the debate on how much Germany should or could pay was not limited to economists or politicians. In 1922, no less a figure than Ernest Hemingway, then a journalist writing from Paris, observed that the French, by trying to get as much from Germany as they could, "cannot see that they will only produce utter bankruptcy and get nothing."[15] Invariably, those who agreed with Hemingway (and Keynes) concluded that the hyperinflation that devastated Germany in 1923 resulted directly from the enormous reparations demanded by the Allies. Or they attributed the collapse of the Weimar Republic to inordinately large reparations. And some went so far as to claim that reparations and the War Guilt Clause had in fact paved the way for Adolph Hitler, National Socialism, and World War II.

That the Allies demanded too much of Germany is a view that has prevailed to the present. A recent article in *American Heritage* (1991) describes World War I reparations as "crushing" and "one more millstone hung around Germany's neck."[16] Whether such claims are valid is not just a debating point, not just a matter of interest limited to historians studying the interwar period. How economists and policymakers thought reparations affected reconstruction and the restoration of peace in Europe in the 1920s had serious practical significance some twenty-five years later.

At the end of World War II, Allied decisions regarding reparations were colored in large measure by what had happened in Germany during the 1920s.[17] This topic has surfaced again. Once more, lessons of the past, correct or not, are informing decisions of the present. In an article discussing Gulf War reparations, a major American publication, *Business Week,* noted, "Diplomats can't escape the ghost of post-World War I Germany, which, crippled by punitive reparations, turned to Hitler."[18]

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Not everyone agreed with the popular notion that the reparations demanded by the victorious Allies imposed a crushing burden on post-war Germany. A famous dissent from that belief was expressed in Étienne Mantoux's *The Carthaginian Peace, or The Economic Consequences of Mr. Keynes.* This contrary view has two major themes: (1) Germany's reparations burden was not as onerous as had generally been thought; and (2) the country did have the economic capacity to meet its post-World War I obligations.[19] Those who subscribe to these points charge that Germany's failure to meet its reparations payments in the early 1920s and the hyperinflation that crippled the German economy in 1923 did not result from economic weakness. Rather, these disasters were deliberate, inevitable outcomes of government policies willfully designed to evade the country's external obligations. As one researcher put it, the German government had a "single-minded determination to prove fulfillment [of reparations] impossible."[20]

Empirical support for the view that Germany's World War I reparations were not so oppressive has been provided by economist Fritz Machlup, who found that even at their peak, in 1929, Germany's reparations payments required a transfer of only 3.5 percent of that year's national income. Over a longer period, between 1925–1932, they claimed annually on average about 2.5 percent of the country's national income. Little wonder Machlup took issue with those who saw reparations as a "millstone" about Germany's neck. "It is hard to understand why some economists," he wrote, "made such a fuss about the supposed severity of the German transfer problem."[21]

That fuss was further undermined by additional information offered by revisionist critics. They contend, for example, transfers in-kind and territorial concessions aside, reparations payments flowing out of Germany exceeded foreign capital inflows in only two years, 1930 and 1931. In short, before 1929, capital flows from the rest of the world, particularly from the United States, were the means whereby Germany was able to meet its international obligations.[22] In effect, reparations payments made by Germany before 1929 were reverse transfers—from World War I's victors to its principal loser. The title of a major study of this period captures this irony rather well: *American 'Reparations' to Germany, 1919–33.*[23]

IV

Iraq and the Gulf Crisis

THE WORLD COMMUNITY is in the midst of yet another round of war reparations, this time in the Middle East, with Germany's post-World War I experience as

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its historical model and the theory of international transfers as its analytical base. When Iraq accepted U.N. Resolution 674, a means was put in place for its victims to seek economic compensation for the destruction suffered at the hands of Saddam Hussein. To initiate this process, the Security Council invited all aggrieved parties—individual, corporate, and governmental—to submit damage claims to a U.N. commission charged with overseeing such requests. There are historical parallels for what Iraq will face when those bills come due. It will have to address, for instance, the dilemmas of a collection process and a transfer of real resources. But the past will not be a perfect guide for solving these problems, for there are major differences between this case of war reparations and those of an earlier time. Iraq is a small country and it relies heavily on export earnings for much of its national income. But it not so small that it will not affect world prices and real incomes by what it does to meet its reparations burdens. Much more than just the state of the Iraqi economy will be at risk as this reparations process goes forward. Other Middle Eastern nations and countries bound by economic ties to this region will also be affected.

A major issue in the debate over Germany's post-World War I reparations bill was the base upon which those claims were imposed. Economists and historians investigating that question were at wide variance as to the size of German national income.[24] Assessing Iraq's ability to pay poses similar difficulties. Data on Iraq's GNP exist, but they are less than reliable for any number of reasons, not the least of which is the Iraqi government's reluctance to release such information because of national security considerations.[25] The Gulf War itself is another factor. According to U.N. observers, the bombing campaign of early 1991 reduced the country to a pre-industrial state. For what they are worth, the most recent estimates of Iraq's national income that are even remotely reliable are for 1986, a time when the war with Iran was still being fought. They put Iraq's nominal GNP at $55 billion. Distributional questions aside, with a population of about 16 million, per capita nominal GNP that year was somewhere in the neighborhood of $3400.[26] Since 1986, Iraq's population has grown and inflation and another war have hit that country. Clearly, caution must be exercised in interpreting data regarding the current state of Iraq's economy.

Reliable information about two aspects of Iraqi economic activity is, however, available. The first relates to structure; the second concerns oil. With respect to the former, in 1964 the regime then in power in Baghdad began an extensive campaign of economic nationalization. In 1983, that policy changed and the Baghdad government began to move away from state ownership toward an economy more dependent on market forces.[27] Observers claim that by 1987 this shift towards the market had begun "in earnest," but Iraq had still not moved

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very far along the road to privatization, particularly in one specific sector: oil.[28] By no means had privatization touched that source of Iraq's national income. Having been fully nationalized by 1975, Iraq's oil industry was and is firmly under government control.[29]

It is difficult to exaggerate oil's role in the Iraqi economy. Exports of this commodity have provided as much as 60 percent of the country's GNP, 90 percent of its foreign earnings, and 99 percent of its merchandise exports.[30] Before the war with Iran, Iraq's oil exports financed the imported capital goods and raw materials so critical to its ambitious development program and paid for the much of the nation's daily consumption—about two thirds of all food consumed in Iraq is imported.

Despite its large import bills, Iraq's oil exports in normal times were sufficient to produce current account surpluses and to enable the country to acquire foreign assets. The government had hoped to diversify its economy and reduce the nation's overwhelming dependence on oil. The war with Iran changed that. In the mid-1980s oil revenues declined markedly and Iraq faced current account deficits, and rather than accumulating foreign assets it found itself borrowing abroad. Again, because they are regarded as national security data, official statistics on net foreign indebtedness are unavailable. Unofficial estimates indicate, however, that Iraq owes approximately $35 billion to Western governments and banks, $10 billion to the Soviet Union, and $40 billion to a collection of Gulf States, about $85 billion in all.[31]

V

Gulf War Reparations

THE FINAL BILL on Iraq's reparations has yet to be determined; it is certain to be large. The principal claimant is Kuwait, which has asked for between $50 to $60 billion in damages. Private firms from around the world are expected to seek $5 billion. Other Gulf States, Israel, and countries affected by Iraq's disruption of the environment will demand recompense. Even Iran will submit a request for reparations.[32] Immigrant workers, survivors of private citizens and military personnel killed in the war, and civilians and combatants injured in the Gulf conflict will seek compensation. The United Nations Organization itself will be in line. It has and will continue to bill Iraq for expenses incurred by U.N. missions sent to inspect and monitor conditions in post-war Iraq. Broadly put, Iraq could face reparation demands totaling as much as $100 billion. Furthermore, Iraq has the foreign indebtedness of approximately $85 billion that must be serviced. In the face of these external obligations, Iraq finds itself in a situation

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in which U.N. sanctions have frozen its holdings of $5 billion in foreign assets and its foreign exchange reserves are all but exhausted. Given these constraints, Iraq has but one means of meeting its external liabilities: oil.

Revisionist critics of World War I reparations contend the German government never raised taxes and/or reduced its spending sufficiently to produce the domestic fiscal surplus required by the collection process.[33] Keynes, and those who shared his opinion of those reparations, claimed Germany did not have the capacity to do so, at least not without forcing its standard of living to subsistence levels. As the collection problem applies to Iraq, the source of its reparations payments will most certainly be its oil revenues. However, because the oil industry is completely nationalized, those earnings do not flow into the treasuries of private firms and the hands of private individuals; they are taken directly by the government. Thus Iraq will not have to face one painful duty usually associated with reparations. Its government will not have to raise taxes, at least not explicitly, in order to deposit with a transfer agent the domestic currency that will be used to buy the foreign exchange earned in trade surpluses by private entities. Once it sells its oil abroad, the government will have in hand immediately the foreign exchange needed to effect the actual transfer.

Implicit taxation is another matter entirely. If Iraq's oil exports return to prewar levels and there is no change in petroleum prices, two rather strong assumptions, in order to have a surplus in its trade balance, Iraq will have to reduce its imports. But this is not a matter for the private sector. Given the high degree of state ownership in the Iraqi economy, it is the government that will have to reduce directly its demand for foreign goods and services. But those imports have provided the capital used in Iraq's development programs and much of the food and other goods consumed by the Iraqi population. When the government reduces its import demands, which it must do if a trade surplus is to obtain, it will be raising taxes. This fiscal action will be implicit in nature but no less real in effect. The administrative difficulties usually associated with tax increases may be minimized, but the Iraqi people will still feel the impact of higher taxation.

In 1981, Iraq's nominal oil export revenues peaked at $26 billion. Recently, its annual earnings have run between $17 and $18 billion, which is probably a reasonable range for what Iraq can hope to obtain from this sector.[34] In 1991, when the United Nations offered to lift its sanctions and allow Iraq to export $1.6 billion worth of oil, it demanded 30 percent of the proceeds as reparations. Indeed, 30 percent has been the proportion frequently mentioned as the impost the U.N. would apply to all Iraqi oil sales once the full reparations process gets under way.[35] Using $18 to $26 billion as a possible range for Iraq's oil revenues,

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a 30 percent levy will produce between $5.4 and $7.8 billion in annual contributions to the UN's reparations fund. This would be an implicit tax of between 10 and 15 percent of Iraq's $55 billion 1986 GNP. Whether an impost of this magnitude is Carthaginian or not is debatable. One thing is sure: it would be greater than anything Machlup found in his empirical investigation of the history of reparations.

Several factors condition these calculations: the extent to which Iraq's economy was damaged during the war; the adjustment costs of moving from a wartime to a peacetime economy; and how import constraints will affect these efforts. Another important question concerns Iraq's external liabilities. Adding the service on $85 billion in foreign indebtedness to the tax burden, implicit or otherwise, required by reparations could increase considerably the severity of Iraq's economic problems. Capital inflows could ease this situation, but eventually they too would have to be repaid.

VI

The Transfer Problem

THE TRANSFER PROBLEM is equally problematic. Iraq will pay reparations to many countries, but its principal creditor will be Kuwait. Harry Johnson has described the conditions necessary to determine the degree to which the real transfer is effected when more than two countries are involved. Stated specifically in terms of Iraq and Kuwait, the theoretical result rests on how the sum of Iraq's marginal propensity to import from all sources, and Kuwait's marginal propensity to import from Iraq, relates to unity. The destruction the Gulf War visited on these countries makes any calculations of these marginal propensities impossible.[36] Regardless, this aspect of the transfer process may be far less important than something else that is all but certain to appear when Iraq gets back in the oil business: the classical phenomenon of changes in the terms of trade.

Implicit in any consideration of Gulf War reparations is the assumption that Iraq will honor the conditions of U.N. Resolution 674 and any subsequent agreements regarding its obligation to make good the damages it inflicted during that conflict. It is clear that oil will be the means Iraq will use to meet those responsibilities. When it was a member in good standing of OPEC, Iraqi oil accounted for approximately 15 percent of the cartel's supply. By the time the Gulf War ended, Iraq's share of OPEC production had fallen to zero, yet the cartel's total output (and prices) remained virtually unchanged because Saudi Arabia and Iran filled in the gap. Barring any output changes by the other members of OPEC, when Iraq begins exporting petroleum to pay its reparations, the

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addition of its production (and Kuwait's) to the cartel's supply is bound to lead to a decline in oil prices. But that means all members of OPEC will suffer deteriorations in their terms of trade, *i.e.,* losses in real income. As for Iraq, it will be able to make its reparations payments but it will suffer a secondary burden. And finally, countries that are net oil importers will see their terms of trade improve and their real incomes increase. In the short run, this could aid efforts to end the current recession. If successful, in the long run, an international economic recovery could mean greater earnings for oil producers as higher world incomes increase the demand for petroleum.

The preceding analysis assumes that once Iraqi wells come back on line the other members of OPEC make no supply adjustments. However, if the cartel's goal is to maintain current price levels, it will have to reduce its output. In this event, Iraq will not suffer a decline in its terms of trade and hence no secondary burden. Kuwait will have its reparations and no change in its terms of trade. And the rest of the world will have its reparations and also face unchanged terms of trade. But the members of the OPEC cartel that reduce supply to offset Iraq's production increases will see their revenues decline. In this instance, there will be two losers: Iraq and OPEC countries that make the necessary adjustments in supply. Saudi Arabia and Iran benefited most when OPEC moved to meet the supply reductions that occurred at the start of the Gulf crisis. Forgoing income once the crisis ended was not something they envisioned when they threw in their lot with the United Nations. This is particularly true of Saudi Arabia, OPEC's largest producer. Recently, deficits have appeared in that country's national budget and its government adamantly opposes any reduction in its market share. Indeed, the Saudi refusal to accept a lower quota and observe an OPEC production ceiling proposed at a February 1992 cartel meeting is clear evidence of that unwillingness to cut back at this time.

Another outcome, unlikely but painful, could result from Iraq's attempt to satisfy its reparations payments. In this instance, OPEC members, insensitive to international considerations, reduce the cartel's supply by more than the increase occasioned by Iraq's resumption of production. Given the short-run inelasticity of the demand for petroleum, OPEC revenues will increase. Iraq's terms of trade will improve and its reparations burden will be mitigated by a perverse transfer. But now the rest of the world would face the unhappy prospect that higher oil prices could slow the recovery from the current recession and reduce further growth rates as well. Furthermore, in a turn reminiscent of the 1970s, there could be another redistribution of world income away from oil importers and to oil exporters. This is hardly the dénouement expected by the nations that

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joined the New World Order to stop aggression in the Gulf and, not so coincidentally, to stabilize world oil prices.

The analyses presented above are well within the realm of possibility. OPEC is aware of them. Since the Gulf War ended, Iraq has twice been rebuffed in attempts to bring its production back on line. In June 1991, OPEC ministers meeting in Vienna refused to support Iraq's request for support in asking the United Nations to end sanctions against its oil exports. In August 1991, Reuters reported that, at an Istanbul conference of foreign ministers of forty-five Islamic nations, an overwhelming majority voted with representatives from the Gulf states who opposed another Iraqi plea for an end to U.N. sanctions. Most recently, a senior Arab-OPEC delegate at OPEC's February 1992 Geneva conference remarked, "If we say the Saudis continue to produce 35 percent of OPEC's output forever, what do we do when Kuwait and Iraq return as producers?"[37] Oil producers in the Gulf know full well how Iraq's sole means of meeting its reparations obligations may affect their economic welfare.

VII

Conclusion

FEW WOULD DISAGREE with the New World Order principles enunciated during the Gulf War: a world allied against aggression and the conviction that those who attack their neighbors should be liable for the destruction they cause. However, before such retribution is exacted, all possible economic repercussions should be investigated. In almost every previous example of reparations, the principal issues were how to get the offender to pay and how the real transfer would be effected. That history, particularly the case of Germany in the 1920s, will serve to inform United Nations officials as they negotiate the final terms of Iraq's reparations bill in the 1990s. But the Gulf War has added a new consideration to the modalities of reparations: how to proceed when the guilty nation has the ability to affect world prices—even to the point where it may be able to reduce its reparations burden and inflict real income losses on those seeking compensation. This twentieth-century case of Middle East reparations promises to add an interesting dimension to an already fascinating chapter in the history of international economic relations.

Notes

1. Charles Kindleberger, *A Financial History of Western Europe* (London: Allen, 1984) 232–250.

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2. Frank Tipton and Robert Aldrich, *An Economic and Social History of Europe* (Baltimore: Johns Hopkins UP, 1987) 267.

3. Kindleberger, *Financial History* 238-239, 250, 433-445.

4. Stephen Schuker, *American 'Reparations' to Germany, 1919-1933: Implications for the Third World Debt Crisis* (Princeton, NJ: Princeton UP, 1988) 24-35.

5. Richard Caves and Ronald Jones, *World Trade and Payments*, 4th ed. (Boston: Little, Brown and Company, 1985) 55-58; Bo Sodersten, *International Economics*, 2nd ed. (New York: St. Martin's, 1980) 289-291; Harry Johnson, "The Transfer Problem and Exchange Stability," *Journal of Political Economy* 64.3 (1956): 212-225.

6. John Maynard Keynes, "The German Transfer Problem," *Economic Journal* 39.153 (1929): 1-7; Caves and Jones, *World Trade* 55.

7. Such declines are not inevitable, given productivity changes of the right order of magnitude. See Kindleberger, *Financial History* 299.

8. Bertil Ohlin, "The Reparations Problem: A Discussion," *Economic Journal* 39.154 (1929): 172-173; Caves and Jones, *World Trade* 55.

9. Thomas Balogh and Andrew Graham, "The Transfer Problem Revisited: Analogies Between the Reparations Payments of the 1920s and the Problems of the OPEC Surplus," *Oxford Bulletin of Economics and Statistics* 41.3 (1979): 183-188.

10. Johnson, "The Transfer Problem," 213-217.

11. *Ibid.*, 217-221; Sodersten, *International Economics*, 289-290.

12. The three outcomes described here are theoretical propositions. How the trade imbalances they produce relate in size to the required reparations payments is strictly an empirical matter. See Johnson, "The Transfer Problem," 213.

13. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, 1920) 161, 225.

14. Rondo Cameron, *A Concise Economic History of the World* (New York: Oxford UP, 1989) 351.

15. *Toronto Star*, Feb. 4, 1922.

16. Bernard Weisberger, "In the News," *American Heritage* 42.4 (1991): 22-23.

17. Balogh and Graham, "The Transfer Problem Revisited," 187-188.

18. *Business Week*, March 18, 1991.

19. Étienne Mantoux, *The Carthaginian Peace or The Economic Consequences of Mr. Keynes* (London: Oxford UP, 1946).

20. Schuker, *American 'Reparations'*, 19. See Jon Jacobson, "Is There a New International History of the 1920s?" *American Historical Review* 88.3 (1983): 617-645.

21. Fritz Machlup, *International Payments, Debts, and Gold* (New York: Scribner's, 1964) 374-395.

22. *Ibid.*, 382-383; Kindleberger, *Financial History*, 303.

23. Schuker, *American 'Reparations'* 24-35.

24. See, for example, Douglas McIntosh, "Mantoux versus Keynes: A Note on German Income and the Reparations Controversy," *Economic Journal* 87.348 (1977): 765-767.

25. Helen Chapin, ed., *Iraq: A Country Study* (Washington: Library of Congress, 1990) 171.

26. Ian Skeet, *OPEC: Twenty-Five Years of Prices and Politics* (Cambridge: Cambridge UP, 1988) 239; *Facts and Figures* (Vienna: OPEC Secretariat, 1987) 29.

27. Kiren Choudry, "On the Way to Market," *Middle East Report* 21. 3 (1991): 14-23.

28. *Ibid.*, 15.

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29. Chapin, *Iraq,* 141.
30. Christine Helms, *Iraq: Eastern Flank of the Arab World* (Washington: Brookings Institution, 1984) 118–119; Chapin, *Iraq* 125.
31. *New York Times,* March 1, 1991.
32. Iran's demand is related to its war with Iraq. *Business Week* March 18, 1991.
33. Arminio Fraga, *German Reparations and Brazilian Debt: A Comparative Study* (Princeton, NJ: Princeton UP, 1986) 7.
34. Iraq and OPEC oil production and prices data are taken from: Energy Administration, *Monthly Energy Review* (Washington: Government Printing Office) and *OPEC Bulletin,* various issues.
35. *Manchester Guardian Weekly,* June 23, 1991.
36. Available data, faulty as they are, indicate the sum of the marginal propensities is probably less than unity because of the insensitivity between Kuwait's income and its demand for Iraq's exports. However, Iraq's oil earnings, denominated in dollars, go directly to the state. The government's marginal propensity to import out of those revenues is probably close to unity. When the U.N. lifts its sanctions against Iraq, it could prohibit all capital flows into that country. Because its foreign assets have been frozen and its exchange reserves are all but depleted, when the U.N. takes 30 percent of Iraq's oil earnings as reparations, Iraq's imports would have to decline, thereby producing a trade surplus.
37. *New York Times,* June 15, 1991; Aug. 3, 1991; Feb. 15, 1992.

The Joan Robinson Legacy—A Review Article

INGRID RIMA has assembled fifteen stimulating and insightful essays, (*The Joan Robinson Legacy.* Edited by Ingrid H. Rima. New York and London: M. E. Sharpe, Inc., 1991) in the main previously unpublished, the response of significant second and third generation post-Keynesian theorists to the opportunity she offered them to refine, extend and clarify their views of the message of that redoubtable First Lady of economic analysis, Joan Robinson. The collection is usefully embellished by the reproduction of Phyllis Deane's sympathetic biographical memoir, Maria Marcuzzo's scholarly Robinson bibliography of 378 items and Marjorie Turner's conjecture that Robinson's failure to be awarded the Nobel Prize in Economics was due to her gender, her political orientation and particularly to her unrelenting criticism of the neoclassical orthodoxy going so far as to repudiate her own well-known early work, The Economics of Imperfect Competition.

Generally stopping well short of hagiography, the majority of the essays demonstrate the radical criticism proffered by Robinson. Hans Jurgen traces the metaphysical foundations of Robinson's theories to values she herself attributed to her upbringing. These views infused her analysis and contributed to her identification of the inherent weakness of contemporary theory, particularly its method of suppression of value-related and class-related characteristics of capital.

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