

Corruption in Iraq: Exploiting Market Behavior as a Form of Irregular Warfare

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The term corruption, when used in a technical sense, is a general concept in which components of an organized and interdependent system are not performing the functions for which they were originally intended, or performing them improperly to the detriment of the system's original purpose. Its original meaning has connotations of being morally wrong in practice and principle. Corruption has evolved into an institution in Iraq. What has been described as a culture of corruption now serves a vital function in the distribution of scarce resources. In a sense, corruption has been elevated to a form of irregular warfare as various groups compete for access to influence and limited resources. The study of corruption as a form of irregular warfare therefore will assist in developing suitable anti-corruption strategies and to communicate these strategies within the target audience's cultural frame of reference.

Market Behavior an Expression of Ideology

Social, political and personal ideologies differ as to the costs and benefits derived from economic activities and how best to distribute the gains and losses of cumulative market transactions among individuals and groups. How best to distribute these gains and losses reflects the unique cultural, ideological and political sentiments of the society within which economic activities occur.

Ideas as to what constitutes good governance and by extension the use of appropriate economic and market management mechanisms vary. One definition describes good governance as the efficient and effective “delivery of security ... economic, administration, social and political goods and public services, and the institutions through which they are delivered.”¹ This definition implies a central role for government in the management of societal resources and a service centric function emphasizing equitable “delivery” and distribution of social services to all its citizens. Not all cultures articulate the role and function of governance in quite the same way.

Legitimacy

The legitimacy of governance is determined by the unique grounds on which the government claims legitimate power. A government may base its legitimacy on having assumed the task of maintaining, nurturing, and improving the material condition of its supporters whose equal-rights to resources derives solely from their membership in the franchise.

¹ “Ungoverned Areas and Threats from Safe Havens”, Final Report of the Ungoverned Areas Project, Office of the Under Secretary of Defense for Policy, January 2008.

The government sets itself against the unregulated market and asserts its legitimacy on the basis of a characteristic claim: empower government and it will improve the material well-being of all the members of the franchise. Effective governance ensures that competition between interest groups remains confined within tolerable limits for all participants. If a government has assumed the task of maintaining, nurturing, and improving the material conditions of its supporters its effectiveness rests on its ability to enforce equitable access to state resources among rival groups. A government's inability to manage group competition equitably undermines its credibility to do much of anything else.

An ill administered or under-governed area reflects the inability of the central government to maintain parity between the various groups competing for position, influence and authority. A fair government is one that is perceived to maintain all actors equally and balanced against the other "in splendid equilibrium".² The government may be considered "corrupt" if it favors only specific groups or has been co-opted by one group in particular at the expense of all the others. The criterion for illegitimacy is therefore shaped in the manner in which each group perceives itself to be governed and resourced in comparison to other groups and not necessarily because the region is socially chaotic and therefore assumed to be more prone to western concepts of corruption. The use of corruption as a mechanism for the redistribution of gains and losses within a multi-layered society fluctuates at any given time in response to existing relationships between competing groups in the social network. Market behavior is therefore a bellwether and indicates whether the relationship between various group actors is stable or unstable.

Corruption: Role and Function

Markets adapt when segments of the population are embroiled in fierce competition for access to power and resources such as in a post war period. Internal power struggles in the aftermath of regime change and radical realignments of centers of social power affect market behavior in significant ways. These various phase states along the spectrum between stability and instability greatly affect how costs and benefits derived from market transactions are perceived and redistributed among investors, producers and consumers of resources.

Corruption can be defined as receiving favors contrary to established laws and normal procedures. Political corruption can be further defined as the dysfunction of a political system or institution in which government officials or employees seek illegitimate gains. It is a specific form of rent seeking where access to influence and resources is organized with limited transparency, limited competition and directed towards promoting narrow self interests.

A government official is considered to be corrupt if he grants or withholds something of value in exchange for a gift or reward. Corrupt behavior includes but is not limited to bribery, cronyisms, nepotism, graft, embezzlement, fraud, certain patron-client relationships or extortion. Perceptions of corruption undermine the credibility of government charged with the management of societal resources and the equitable delivery and distribution of social services. But is there a difference between corruption as a means for private gain and as a means to gain a group advantage in relation to other competitor groups? At times, acts of corruptions may be considered the most efficient mechanism for how best to distribute gains and losses among the various population segments at large.

² "The tribes are at their best when in splendid equilibrium". Attributed to Gertrud Bell while describing the Arab tribal system in early 20th-century Iraq.

Social Organization

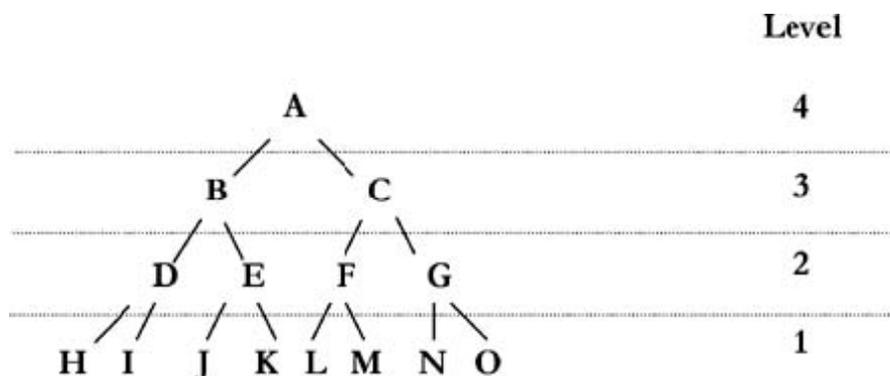
To gain a deeper understanding for corruption in Iraq we must first understand how Iraqi society is organized since market behavior is affected by and an expression of Iraq's social organization. Iraq's economic activities are best understood when considered from the perspective of a traditionally networked society comprised of distinct ethnic, sectarian and urban, special interests and tribal groupings. All compete with one another for access to limited resources and power. The major difference between hierarchical and networked forms of governance is that in a hierarchy, directives to shape individual and group behavior are initiated at the top and relative power positions within the hierarchy are well established. Governance in a networked society on the other hand is more dependent upon fostering cooperation and coordination so as to effectively manage conflicting group interests as each group seeks to gain advantage at the other's expense. Government organizations in a networked society are not distinct and separate entities nor automatically accorded legitimacy. They are active participants in leveraging power in pursuit of resources and must also seek supporters so as to check potential challengers to their authority.

Patterns of Behavior

Three distinct patterns of behavior are recognizable in Iraqi social trends as its various ethnic, sectarian and urban, special interests and tribal groupings compete for limited resources. There is a tendency to segment. Groups form alliances to realize a common objective or when threatened. There is also a tendency to develop patronage relationships so as to guarantee access to scarce resources. Finally, members in the network are very protective of group territory. Over time, these operating codes have allowed self-interested and distrustful groups to work together, even when narrow self-interest would seem to dictate that no group should cooperate with one another.

One of the most important characteristics of Iraq's networked society is the tendency to segment. The term segmentation refers to the presence of clearly articulated social sub-divisions based on ethnicity, religiosity, special interests or lineage and descent which determine communal solidarities and allegiances. As one of the primary organizing principles for dealing with inter- and intra-segmentary disputes and for fighting outside invaders, segmentation entails an important economic function. It is a means through which members may be rapidly mobilized to gain access to limited resources. Segmentation describes the way in which various sub-components of a given population coalesce to form higher-level organizations when opposed by other organizations of the same order. This principle encourages groups that had been antagonistic toward one another or involved in open conflict to join forces when they are confronted by an external menace which threatens them both or to work together to achieve a common interest.

For example, the figure below depicts how an alliance network may react if threatened. Groups H and I will act together as group D if confronted by group E. Similarly in the case of dispute with C, both D and E will join together to engage collectively as B.

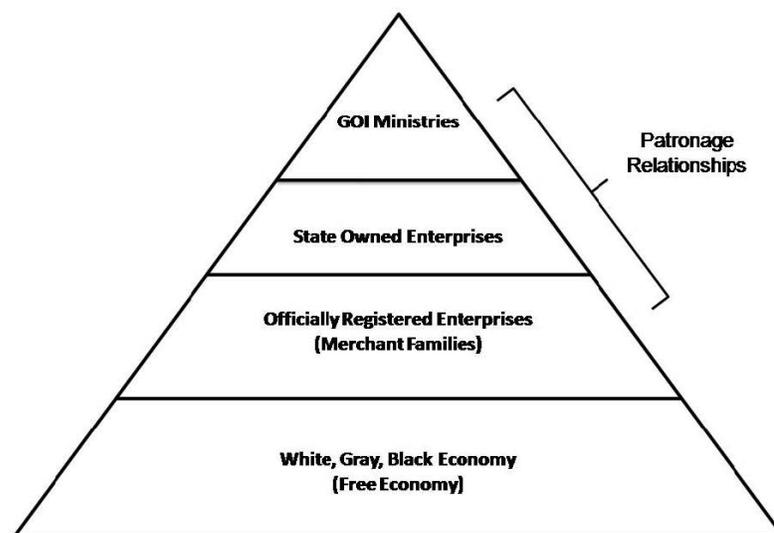


The second characteristic that must be considered when assessing levels of corruption in Iraqi society is the institution of patronage. State or group sponsored patronage relationships are a reflection of the existing social contract between the government and its supporters or between groups that have entered into an alliance system. Patronage relationships articulate existing associations between individuals and groups that share “*asabiya*” (solidarity) and “*nasab*” (origin). Therefore, it is closely linked to segmentation. Patronage reflects a *two-way* exchange. In exchange for someone’s loyalty and support, the patron is responsible for providing something in return such as protection, economic and or political assistance. A patronage relationship is not entered into easily. The decision to enter into a patronage relationship reflects a strategic decision and represents a commitment by two parties to maximize a “kindred” strategy or long-term relationship.

Territorial claims are categorized into four distinct types. These are hereditary rights, rights of customary usage, rights sanctioned by central government and conquest. Territory will be defended by force. The extent of territorial control is determined by the State’s or a challenger’s ability to project power and influence and dispute ownership.

Market Behavior

Every market has its own unique cultural attributes. Iraq’s economy and market behavior is an expression of the three distinct patterns of behavior: segmentation, patronage and territory highlighted above. To gain a deeper appreciation for why the Iraqi market behaves the way it does three structural dimensions must also be considered so as to assess the levels and types of corruption present in Iraq’s market economy. The first is to identify the numbers and kinds of economic actors who play key roles in economic activities and market transactions and in the case of corruption those individuals and groups providing support and actively participating. The second is to visualize the complexity of the relationships between individual economic actors and groups pursuing their own unique economic strategies, and the third is to identify the unifying factors, those dynamic and powerful physical or moral agents of action and influence maintaining the status quo.



Iraq’s market structure

Iraq’s economic structure itself consists of four major sectors where investors, producers and consumers of resources are actively engaged. Government ministries influence and shape market behavior in the management of goods and services and the institutions through which they are delivered. State Owned

Enterprises or SOE's are an extension of governance into the market space to supervise the administration of specific state owned resources and delivery of public goods to the population at large. Officially Registered Enterprises are large family owned concerns engaged in economy of scale market transactions. Rounding out Iraq's economic system are the white, gray and black market economies where the majority of small to medium scale market transactions occur.

Each economic sector contains its own complex web of relationships between individual economic actors and groups pursuing their own unique economic strategies. Economic sectors are linked and associated with one another directly or indirectly as groups build intricate cross membrane patronage relationships. The intensity of the various links and associations fluctuates in response to whether existing socio-political relationships between competing groups are stable or unstable.

Law of Diminishing Marginal Returns

Iraq's complex economic system sustains itself through an intricate scheme of checks and balances. The Iraqi economy is a complex system composed of problem solving organizations that require energy for their maintenance. Increased complexity carries with it an increased cost in energy per capita. Investments in socio-economic problem solving responses will in time reach a point of diminishing marginal returns. As demand for a commodity grows, increased production will, at some point, mean depletion or insufficiency of the least costly resources. At that point more costly sources must be used with diminishing marginal returns.

All patronage relationships are subject to the law of diminishing marginal returns. The initial investment in the relationship will in time be perceived as compulsory so that further bonding activities are at a higher cost with little or no additional benefit to the patron. Consider the situation of a government ministry that must invest in a legitimizing activity among a politically potent but minimally compliant segment of the population. Once this population segment has become accustomed to any pattern of increasing investment in legitimization (security, infrastructure and or agricultural development), it becomes necessary to sustain this relationship to maintain the compliance status quo. Increased investments in the legitimizing activity bring little or no increased compliance and the marginal return or investment in legitimization correspondingly declines.

Appeasement of a given tribal segment presents an illustration of this classic principle. Any level of activity initiated by the government ministry to appease this population segment eventually becomes the expected minimum and brings no increased return beyond the state of non-revolt. The alternate course is to reduce the legitimizing activity and increase other means of behavior control. Yet in such situations as resources committed to benefits decline, resources committed to control must increase. The law of diminishing marginal returns is in play every time a decision to enter a patronage relationship is considered. The decision to enter into a patronage relationship therefore reflects a strategic decision on the part of the government ministry and represents a commitment to maximizing a "kindred" strategy. Iraq's Prime Minister Maliki's reluctance to support a Coalition Forces initiative to integrate Sunni tribal militias into Iraq's security forces and provide vocational training for those unable to be absorbed is an example of the law of diminishing marginal returns in action.

Shaping the Market

Any attempt to shape Iraqi market behavior must first take into consideration its unique cultural attributes. Iraq's market behavior reflects the cumulative expressions of segmentation, patronage and territory and is subject to the laws of diminishing marginal returns. The market is self-regulating to the extent that it places restrictions on all participating group actors. The moment a group instigates an economic initiative, it begins to encounter opposition. A rival will react by strengthening existing economic patronage

relationships and seek to mobilize new ones to compensate for a perceived loss of power and access in the existing socio-political network and to reestablish a semblance of balance between the two.

By applying the cultural characteristics of segmentation, patronage and territory in our analysis we are able to detect a distinct pattern of market behavior. We can now refine our analysis to assess how the market has adapted since the Saddam era and envision future market behavior. Armed with the appropriate mental model we can determine what anti-corruption measures might be appropriate so as to shape conditions within the cultural frame of reference; to exploit the tendency for a particular market behavior, and sustain the effort once initiated.

The Saddam regime reflected a mixture of traditional and modernizing autocracy in which he and his extended family functioned as patrons dispensing favors to social, economic, and martial networks in return for their support. The regime set itself against the unregulated market and asserted its authority on the basis of improving the security and material welfare of his family and loyal supporters.

The market was “corrupt” for it had been seized by one predominant group at the expense of all the others. Under the guise of a nationalized economy, Saddam gained control over key sectors of the market and populated key terrain or administrative jurisdictions within the economy with regime loyalists. Saddam’s security and economic patronage system functioned by transferring rents to family members, close friends and loyal supporters.

Consolidation by the Saddam regime of key administrative jurisdictions within the economy encouraged efficiency in the control and distribution of resources. Corruption in the form of rent seeking for services or favors assumed a formal structure and predictability resulting in a high degree of consumer confidence that services or favors for rent payments would be honored.

The market was self-regulating for it placed restrictions on all participating members. The regime monitored economic activities closely so as to ensure that no one member could strengthen his own economic patronage network and expand beyond acceptable limits at the expense of the central government. The moment a member of Saddam’s network was perceived to amass too much power and influence he would encounter opposition. Members of Saddam’s network themselves would check the power of others and attempt to block or compensate for a perceived loss of influence.

The following example of structural corruption highlights the checks and balances inherent in the system.

The Iraqi traffic police during the Saddam regime received a disproportionately low base salary compared to the duties and responsibilities of the duty position but it was assumed that low salaries would be off-set through additional earnings received in the performance of maintaining order and stability. A traffic policeman for example was expected to issue citations for traffic law violations; determine the cost of the fine and collect monies on the spot. The traffic police was authorized to keep a percentage of the monies collected as an additional subsidy to its meager earnings.³ This scheme provided an incentive to enforce existing traffic laws. Over time, individual police officers would seek to increase this subsidy and begin to levy fines above the going rate. Other policemen would join the market and the price of fines would rise as more and more policemen began to charge higher fees. From an economic perspective, the decision to raise the price was a function of incentives. The willingness to charge a higher punitive fee was a function not only of the size of the increase but also of the consequences of being caught by superiors or challenged by a more powerful competitor. In this case the Saddam regime that did not wish to upset the population unnecessarily nor viewed by its opponents as being unable to control the police force. From a political perspective, the regime could not afford for even small levels of popular dissent to spread. Neither could it

³ Conversation between author and a former Iraqi Police Officer in November, 2003.

allow the perception that it had lost control over its police force. The regime had to be acknowledged as a monopoly of coercion or opposition groups might misinterpret the situation as a sign of weakness. As the cost of fines increased, more and more complaints regarding the matter would reach Ba'ath party representatives until action was taken to correct the problem. Select members of the police leadership would be punished and the cost for violating traffic laws would return to acceptable levels.

Patronage Networks

It is important to note that individual acts of corruption are not necessarily performed in isolation. Each official whether a traffic cop or low to high level bureaucrat is dependent upon a support structure and is a member of a patronage network. The larger the patronage network the greater the coercive power. The market system is an expression of perpetual competition as "corrupt acts" strengthen relationships with select allies and mobilizes new ones to expand a pre-existing patronage network or defend against challengers. Some networks deliberately stay inefficiently small and organize their activities in a complex manner to avoid the attention of larger more powerful networks. Others seek to achieve economy of scale so as to seize the reins of power.

The removal of Saddam Hussein from power also marked the collapse of his security-economic patronage network. A realignment of social centers of power soon followed causing the preexisting complex web of cross membrane associations between economic sectors to become frayed. New players occupied key economic jurisdictions vacated by the departure of Saddam's family, close friends and loyal supporters who immediately began to build their own patronage networks. The realignment of social centers of power has forced a radical change in market behavior.

Market Behavior as Indicator

Iraq's current market behavior is not only an expression of the present state of socio-political relationships between competing groups but also reflects a very distinctly Iraqi economic recovery trajectory. A generic template for economic recovery after a major disruption might consist of the following phases: security and stability, return of displaced persons, rapid economic growth in response to reconstruction, resumption of domestic trade and agriculture and start ups of old or new businesses. This phase would be followed by an expansion in infrastructure and long-term capital investments and resumption of foreign trade and investments. Iraq's economic recovery parallels the generic template highlighted above but with a twist.

Iraq's recovery effort is best visualized as a pane of glass. It took Saddam Hussein approximately twenty-four years to stitch together his security-economic patronage network. With his removal, the pane of glass was dropped and shattered into hundreds of smaller shards of glass. Each shard of glass represents a distinct territory or economic jurisdiction controlled by one or another group. Establishing security and stability within each shard of glass took priority as groups reestablished themselves after years of domination or prepared against the anticipated retaliation by members of the winning side. Many persons departed volatile areas and still reside outside of Iraq as displaced persons. Some are just now beginning to return. Areas experiencing the brunt of insurgent fighting were hindered in the reconstruction effort from the start. A number of regions soon returned to a semblance of normalcy and initiated the reconstruction effort in earnest. The Kurdish region is relatively stable and has a five year head start on the rest of the country. Serious reconstruction efforts in Anbar province in western Iraq have just begun recently.

Form of Irregular Warfare

The power that comes with control over economic jurisdictions is exploited as a form of irregular warfare to consolidate existing patronage networks or to expand and assimilate weaker networks and territory. Much of

this irregular warfare is carried out at the ministerial levels. The following example highlights how group competition plays itself out. In 2007, the Ministry of Agriculture who consists primarily of supporters of the Organization of the Martyr Sadr (OMS) challenged the Ministry of Finance staffed by members of the Islamic Supreme Council in Iraq (ISCI). The Ministry of Agriculture accused Finance of not being forthcoming enough in the allocation of State funds. The Ministry of Finance referenced an inability of local government to spend the allocated funds properly as its reason for withholding financial support. The true reason for withholding the funds was likely the on-going power struggle between the OMS and ISCI for control over local governance. The Ministry of Finance did not consider strengthening OMS' local patronage network in its best interests. The Ministry of Agriculture responded by denying the import of food-stuff from Iran. This decree directly impacted the Ministry of Interior (MOI) whose officials are largely allied with ISCI and its subordinate agency the Department of Border Enforcement (DBE). Neither the MOI nor the DBE would now be able to receive its percentage cut of the cross-border trade. The Ministry of Finance eventually relented and released the allocated funds to the Ministry of Agriculture. Once again, it is important to remember that each ministry is dependent upon its own distinct support structure and is a member of a patronage network. The larger the patronage network the greater the coercive power. The Ministry of Agriculture was able to draw upon its support structure, whether allies in the council of representatives or members in the DBE who also sought to check the power of ISCI by targeting the finance ministry.

Iraq's current pattern of corruption can be defined as entrepreneurial in nature. Government officials are engaged in sometimes cooperative, sometimes competitive efforts to extract the maximum rent not only from the population but also from other branches of the State bureaucracy. The extended order effect is one of groups and their associated patronage networks' attempting to leverage access to power and resources as the realignment of social centers of power settles into a stable state. Implementation of anti-corruption measures should therefore exploit Iraq's existing cultural idiosyncrasies so as to shape behavior and sustain the effort.

Greater transparency and accountability will benefit the market by regulating the conduct of group competition for scarce resources. But introducing anti-corruption measures that do not take into consideration the cultural uniqueness of the Iraqi market are bound to experience push-back by groups engaged in a struggle for parity.

There is a natural tendency to oppose capacity building since the effects of increased bureaucratic capacity does not benefit those currently out of power. Capacity building in the current atmosphere may be viewed as support for a rival's consolidation of power within a specific economic sector and not a means for all groups to receive an equitable share of limited resources.

The initiative to define corrupt acts as "un-Iraqi" is a slippery slope for it may serve only those that have secured access to resources to defame those that seek them. There is a fine line between the labels "un-Iraqi" and "fifth column". In the present state of economic development, all economic activity is political. Any attempt by one group to gain greater access is viewed by another as a challenge to the status quo. Since every major economic activity at this stage of development is political, relationships between economic actors is subject to the law of diminishing marginal returns. The initial investment in the relationship will in time be perceived as compulsory so that further bonding activities are at a higher cost with little or no additional benefit to all the parties involved. Once a population segment has become accustomed to any pattern of increasing investment in legitimization (security, infrastructure and or agricultural development), it becomes necessary to sustain this relationship to maintain the compliance status quo. Increased investments in the legitimizing activity bring little or no increased compliance and the marginal return or investment in legitimization correspondingly declines.

Conclusion

If it is true that small amounts of corruption act as a lubricant for government activities; what is the appropriate amount of corruption for managing demand elasticity? How important is the role that corruption plays in ensuring that competition between interest groups remains confined within tolerable limits yet provide an ample opportunity for all to gain access to limited resources? Is the expression “culture of corruption” with its implicit western subtext appropriate to describe an economic system that is a reflection of its own unique cultural emphasis on group vice individual competition? There should be no argument that acts of corruption in the sense of seeking private gain at the public’s expense must not be tolerated. On the other hand, is it appropriate to define corruption in western terms when it serves such an important market function? There is no doubt that a culture of corruption in the western sense exists in Iraq but it is also an essential ingredient to the functioning of the market. Corrupt acts facilitate competition for limited resources among disparate groups where access to power and authority is a guarded resource. Power, authority and access to limited resources are precious commodities in and of themselves.

The best that may be hoped for is a judicious mix of tempering corrupt acts by individuals all the while exploiting the tendency for extended order corruption by targeting specific social networks so as to administer proper amounts of lubrication. An effective economic strategy may be to foster a mixture of compact groups competing against one another. When the sole aim of an economic initiative is to bring prosperity and progress to a people it must do all it should to preserve and reinforce communal patterns. The initiative must not concentrate on the individual but introduce innovation and reforms into specific groups or community channels; a concerted effort to shift the preferred customer base so to speak, and let the group or community progress as a whole.

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