



## Profiting from destruction: The Iraq reconstruction, auditing and the management of fraud

Michele Chwastiak

University of New Mexico, Anderson School of Management, MSC05 3090, Albuquerque, NM 87131, USA

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### ABSTRACT

While several US corporations have benefited tremendously from the Iraq reconstruction, the Iraqis and US taxpayers have not done as well. This paper argues that the Bush Administration's neoliberal agenda in Iraq created a corrupt, lawless environment in which corporations could reap huge profits through what would normally be called malfeasance. It further demonstrates how the audit reports produced by the Office of the Special Inspector General for Iraq Reconstruction helped to manage the impact of this massive fraud by giving the perception that the laissez-faire policies of the Bush administration were innocent mistakes, making the failures appear to be independent of one another, reconstructing corporate malfeasance as waste while criminalizing low level employees, and blaming the government agencies, the war and the Iraqis for the fraud.

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When the US troops marched into Baghdad they found a society on the brink of collapse (Cockburn, 2007; Miller, 2006). Prior to the 1991 Persian Gulf War, Iraq was a fairly urbanized and mechanized society with one of the healthiest and best educated populations in the world (Medact, 2002; Pilger, 2002). However, during Gulf War I, the U.S. led coalition

E-mail address: [Chwastiak@mgt.unm.edu](mailto:Chwastiak@mgt.unm.edu)

systematically bombed and destroyed Iraq's civilian infrastructure including roads and bridges, as well as electrical, communication, water and sanitation facilities (Medact, 2002; Research Unit for Political Economy, 2003). According to Medact (2002), the Persian Gulf War wrought "near-apocalyptic results" on Iraq in that it turned a post-industrial country into a pre-industrial country, yet the population relied on the life support systems of a modern society to survive. This state of affairs coupled with twelve years of economic sanctions and yet another war created a huge humanitarian crisis.

To respond to this humanitarian crisis, the US Congress appropriated \$42.23 billion for the Iraq Relief and Reconstruction Fund (IRRF) and the US extended large contracts to Halliburton, KBR, Parsons, Bechtel, Bearing Point, etc. for the reconstruction of, among other things, Iraq's electrical, water, sanitation, health care and oil sectors (Office of the Special Inspector General for Iraq Reconstruction, 2008a). Further, Congress established the Office of the Special Inspector General for Iraq Reconstruction (SIGIR) in 2004 to monitor the expenditures of the IRRF. The mission of SIGIR is to oversee "the use, and potential misuse, of the Iraq Relief and Reconstruction Fund and all obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Iraq" (SIGIR, 2008b).<sup>1</sup> However, by 2008, 93% of the IRRF funds had been disbursed (Department of State, 2008) and Iraq's humanitarian crisis had only grown worse.

By 2008, over 2 million Iraqis had fled their country, creating the greatest refugee crisis in the world. Another 2.3 million Iraqis were internally displaced. Of those internally displaced, 70% were women and children, 72% did not have access to adequate shelter, and most had infrequent if any access to food rations. Over 60% of Iraqis were unemployed, 43% lived in absolute poverty, 70% did not have access to safe water and 80% lacked sanitation. On average, Iraqis received at most 10 h of electricity per day and health services were in a catastrophic situation. With respect to the children of Iraq, 28% were malnourished and 92% suffered from learning impediments (Oxfam, 2008; Refugees International, 2008; United Nations Assistance Mission to Iraq, 2007).

Given that most of the IRRF funds were spent by 2008 and the lives of Iraqis were worse off, it is timely to consider the antecedents and rationales for the reconstruction effort. This paper argues that the US's 2003 invasion of Iraq provided it with the opportunity to radically restructure Iraq's economy transferring wealth from the state to the private sector. This was done by applying economic shock therapy. One of the points of economic shock therapy is to create unregulated spaces where capitalist enterprises can make enormous profits quickly (Klein, 2007; Whyte, 2007a).

The prime contractors involved in the reconstruction of Iraq took advantage of their monopoly positions in an insecure environment with minimal oversight to enrich themselves at the expense of the US taxpayers and the Iraqis. In essence, the reconstruction of Iraq became a new form of corporate welfare in which extracting profits from malfeasance was acceptable. For while SIGIR has documented over and over again, the mismanagement and misuse of Iraq reconstruction funds, to date, not one executive from a major contractor has been convicted, tried, indicted or even investigated for the massive contract failures (Global Policy Forum, 2007).<sup>2</sup>

This paper relies on Sheldon Wolin's (2008) notion of managed democracy to argue that the US population is being managed into accepting as a norm the corruption that appears to go hand in hand with neoliberal market hegemony. Thus, although the SIGIR audits straight forwardly admit that massive amounts of money have been wasted on the Iraq reconstruction, they simultaneously manage the impact of this disclosure by distracting attention away from the laissez-faire principles and corporate greed that created the graft.

The audits do so in six ways. First, the SIGIR audits relieve the Bush Administration from any blame for the reconstruction failures by attributing the laissez-faire manner in which the IRRF funds were administered to ignorance. Second, the SIGIR audit reports make the huge fiascos of the reconstruction appear to be independent of one another and in so doing, mask the systemic greed and indifference that created the failures. Third, SIGIR reconstructed what many would deem as corporate malfeasance into waste and poor management, and made a show of being tough on fraud by prosecuting low level employees. Fourth, SIGIR shifted the blame for fraud to the government agencies overseeing the contractors, even though the agencies were by design significantly understaffed. Fifth, SIGIR used the war, itself, to rationalize why fraud was inevitable, despite the fact that policies created by the Bush Administration ensured that corporate profits would not be interrupted by the war. Lastly, SIGIR placed the blame for the reconstruction fiasco on the Iraqis, themselves.

Hence, this paper adds to the growing body of literature which demonstrates that auditing does not necessarily contribute to improved transparency or enhanced democracy (Everett et al., 2007; Power, 1997). In "making things auditable" what constitutes knowledge is transformed to legitimize the audit process and in so doing, salient pieces of information may be transfigured or rendered invisible (Power, 1996, 2003; Robson et al., 2007). Further, given that auditing is perceived as an independent method of verification it can contribute to more ambiguity and less protection of the public interest by importing legitimacy to the object being audited (Free et al., 2009; Sikka, 2009). Lastly, in government, auditing can stifle, rather than foster, political debate by suggesting that technical business solutions are available for political problems (Radcliffe, 2008).

The paper proceeds as follows. The first section discusses Sheldon Wolin's (2008) notion of managed democracy. The second section touches on previous research that has demonstrated the interested nature of accounting. The third section puts forward the US's neoliberal agenda in Iraq and the consequent corruption it engendered. The reconstruction racket is

<sup>1</sup> SIGIR replaced the Coalition Provisional Authority Office of Inspector General when the Coalition Provisional Authority was dissolved on June 28, 2004.

<sup>2</sup> The only company to be prosecuted for fraud to date in Iraq was Custer Battles. While a federal jury found the contractor guilty of fraud, a federal judge overturned the verdict on technical grounds (Eckholm, 2006).

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