

# Iraqi Economy Prominent Problems -Intellectual Vision for the Solutions and Processing

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**Abstract:** Since human societies existed, the economic problem was related to multiple human needs and unique economic resources, thereafter it has been developed and expanded with the development of social life and economical transactions in those societies. Economic problems have become a prominent issue in many contemporary countries with capitalist, communist and socialist systems. This problem is more obvious in developing countries that suffer from many economic and political problems and become a threat for all aspects of life, especially economic, social and political. During its modern history, Iraq is one of the countries that face many of economic problems, especially during the last three decades due to the wars situations. It is difficult to tackle all economic problems according to the ground reality and practical vision. Thus, in this paper, intellectual analysis of three basic issues namely, recessionary inflation, unemployment and poverty are to be analyzed. Chronic deficits in the public budget, and an intellectual vision to address these problems are also discussed.

## Hypothesis

The evolved problems in the economy have threaten the citizens and government stability at once and tackling of the same leads to the achievement of sustainable development and social justice in the country.

## I. RESEARCH METHODOLOGY

The research adopts the method of deductive descriptive analysis based on the historical approach, and the research will address three topics where each topic is devoted to each of these three problems faced by Iraqi economy:

The first: recessionary inflation.

The second: unemployment and poverty.

Third: the chronic deficit in the public budget.

## II. RECESSIONARY INFLATION

Recessionary inflation, which is also called (stagflation), is a modern complex economic problem faced by advanced and developing economies. It is combining two main problems, namely inflation and recession. The first means the continuous rise in the general level of prices resulting from the increase in effective aggregate demand in relation to the size of the actual total commodity supply. Recession is a condition which means decreasing in the general level of prices resulting from a decrease in effective aggregate demand in relation to the size of the real aggregate commodity supply, and both lead to economic instability that negatively affects social and political life. Inflation leads to a decrease in the real value of money and thus a decrease in the real income of the individual and the state, and thus if inflation becomes unruly, i.e. uncontrolled, it may lead to the collapse of the monetary system and then the economic system, and this is what many countries of the world witnessed, especially in Germany during the period (1922-1924)<sup>(1)</sup>, as for the recession, it leads to an increase in

unemployment rates, a decrease in the size of the domestic product, and thus an increase in the state of poverty in society, and this is also witnessed by many countries of the world, especially in the last century, such as the global economic crisis represented by the Great Depression that swept the capitalist world during the period (1929-1933)<sup>(2)</sup> Since the seventies of the last century, a number of economies have witnessed a new problem that combined the concepts of inflation and recession, which is stagnant inflation that leads to a continuous rise in the general level of prices, the increase in unemployment and the low rates of real growth in national income, especially in the United States and other countries. Western Europe, for example, decreased the rate of this growth in the group of Western European countries during the period (1969-1979) to 3.5%, after it was 4.5% during the period (1955-1968)<sup>(3)</sup>, then it moved to the problem for developing countries, including Iraq. Where the country witnessed, before the occupation in 2003, high rates of this problem during the period of the (Iraqi-Iranian) war, and these rates worsened during the time of the economic blockade until they reached the highest in the mid-nineties. Then the problem of economic stagnation emerged and clearly since the beginning of the nineties, the apparent unemployment rates increased with the hidden unemployment that the economy was experiencing. Thus, it can be said that Iraq has witnessed the problem of stagnant inflation since the beginning of the nineties, the most important reasons for that is destruction of a large part of the economic and infrastructure during the wars and the impact of the blockade, secondly the sharp drop in oil prices, which reached seven dollars per barrel, thirdly, following policies and procedures such as printing the Iraqi currency without a cover of strong foreign currencies as an urgent measure to confront the problem of cash liquidity (financing by deficits) as well as the increased tendency for military industrialization at the expense of civilian industry. Thus this problem worsened especially after the 2003 military invasion in which the country's economic and infrastructure was destroyed, despite the increases the big oil prices, as inflation rates fluctuated and reached as indicated by the International Monetary Fund (14%) between (2000-2014), and the unemployment problem worsened, especially after the decisions of the American civil governor (Bremer) to dismiss the Iraqi army, security services, the Ministry of Information, Military Industry and others Institutions. After that, unemployment began to increase astronomically, until it reached, as the International Monetary Fund indicates, more than 40 percent of the youth in 2019, and this led to an increase in the poverty rate in the country until it reached more than 41 percent, especially in the southern provinces of the country. It should be noted that the percentage of workers in state agencies to the size of the population in economically developed countries and in most developing countries does not exceed (1%), while in Iraq, this percentage reaches (10%), where the number of these workers reaches approximately (3.5) million people, and this is a major defect in the relationship between the size of workers and population size. During this year 2020 and for several reasons, the most

important of which is the collapse of oil prices and the Corona pandemic, stagnant inflation rates have increased in the country and have become a threat to economic and social life and may threaten a monetary and economic collapse, by noting the following:

1. The increasing deficit in the general budget, especially with the increase in operational expenditures that have reached 70% of this budget, of which the greater percentage can be reduced if the state adopts law and social justice, especially the huge salaries of the three presidencies and their attachments, double salaries and others. With the increase in these expenditures, public revenues decreased, especially taxes and fees, due to administrative and financial corruption.
- 2.. The negative impact on operating economic resources, including financial resources that are smuggled outside the country, or that go towards speculative activities such as buying and selling real estate that achieve quick profits instead of operating it in commodity economic activities.
- 3.. More weakness in the production system, which is evident in the weakness of non-oil production, especially in agriculture and manufacturing, and the World Bank also predicted that the decline in the GDP of Iraq will reach 9.7% this year, as well as in more unemployment, which is approaching half The number of people who are able to work, which increased the area of poverty in the country that nearly half the size of the population.
4. The increase in prices of goods and services, especially the necessary ones, in light of the weak control of government agencies, which increased the cost of living for people.

Therefore, the problem of recessionary inflation in the country has really become a gateway to monetary, economic-social collapse and its treatment becomes a life necessity that cannot be treated without adopting short, medium and long-term economic plans through the following:

- a. Developing the economy by revitalizing the commodity and service sectors and what makes the economy is diversified and vibrant that does not depend on extracting crude oil only, but rather making this oil in the service of development, especially small and medium enterprises, because it is the most important solution to increasing production that increases the commodity supply and leads to lowering prices, i.e. lowering inflation rates, and at the same time means employing the unemployed workforce that leads to reduce poverty.
- b. Activating the monetary and financial policies and linking them in dealing with this problem in the country, through the commitment of monetary and financial institutions, especially the Central Bank, government and private banks, to laws and legislation, and are free from crime and administrative and financial corruption. The first of which is the cancellation of the currency auction, which represents the gateway to wasting public money from hard foreign currencies.
- c. Restructuring and developing financial and banking institutions, especially the tax authority, in a way that leads to an increase in the proceeds of taxes, fees and other levies.
- d. Developing and expanding the ration card system as one of the most important treatment for the effects of unemployment and poverty in the country,

especially since there is a successful previous experience in the country that can be used.

- e. Encouraging local and foreign investment, especially in agricultural (plant and animal) and industrial projects, and compelling the employment of the Iraqi workforce after training and qualifying them.
- f. To stop the uncontrolled import of foreign labor competing for Iraqi labor.
- g. The establishment of an unemployment compensation fund to allocate its money to the unemployed. With these ideas and others, it is possible to address this serious problem, achieve economic construction, support social construction, and enhance the desired political life.

### III. UNEMPLOYMENT AND POVERTY

Unemployment means the presence of individuals who are able to work, but they are unemployed and did not have job opportunities, and it is the main cause of the phenomenon of human poverty, which means the presence of individuals who lack or lack the satisfaction of material need such as food, clothing and housing <sup>(4)</sup>. It is less than \$ 600, and according to this bank set the number of poor countries in the world to (45) countries, and for this, the poor country in its national income contains its poor society, and their ratio to the size of the population in different countries of the world usually varies according to the size of this income. Although Iraq was not included in the list of poor countries, a large part of its people lived in a state of extreme poverty, especially during the last few years, until the poverty rate reached nearly 40% of the size of its population, which is close to the size of unemployment, as indicated by the International Monetary Fund. Iraq possesses the resources and wealth that makes it in the ranks of economically advanced developing countries free of unemployment and poverty, but the process of economic and social development is not subject to the size and quality of those resources and wealth only, but to the economic and social policies implemented by the ruling political system as well as other factors. Whoever reads in an analytical manner the history of contemporary Iraq during the last century, that is, since the formation of the modern Iraqi state, finds that (unemployment and poverty) formed cases inherent to this history and was characterized by an increasing increase except in some years, and they became one of the most prominent problems in the country, especially during the period (1980-2003), which is The period of (wars and blockades) and the emergence of other problems, the most serious of which was (inflation) in the nineties, which nearly led to the monetary and economic system, had it not been for the country's success in using the ration card system and other measures. And then (unemployment and poverty) worsened after the occupation of 2003 and at very increasing rates, especially after the collapse of global oil prices and the Corona pandemic in the last year. This dangerous increase is due to a set of reasons and factors: the most prominent of which are the following:

1. The first of which is the destruction of its economic and infrastructure as a result of the (US-British) military invasion of Iraq, the increasing number of people killed in this invasion, which increased poverty rates, and the decisions of the American civil administrator (Bremer) to demobilize the army and institutions. Security, media and military industrialization, then the civil war (2005-2007), then ISIS terrorism since 2014 and its occupation of Iraqi cities and lands, which were liberated after paying hundreds of thousands of martyrs and

costing hundreds of billions of dollars, and the resulting exacerbation of economic, social, political and security problems Especially unemployment and poverty.

2. The nature of the political and economic system after 2003, which did not implement serious policies that would address unemployment and poverty, especially after the outbreak of the administrative and financial corruption rampant in the country.

3- Weakness of the educational system and poor health, which was a factor that helped increase poverty rates,

4- The collapse of oil prices, then the Corona pandemic, which brought unemployment and poverty rates to astronomical figures in the country, which has negative repercussions on various walks of life. On the basis of the aforementioned, serious effects were born that pervaded various walks of life, the most important of which were:

a. Economic effects that were reflected in all branches of economic and financial life, starting with the decrease in the productivity of the individual and consequently the national income,

b. Political and security issues such as societal crimes and security problems.

c. Social, manifested in the birth of a wealthy social class with the decline of the middle class, which is usually the class that bears the weight of construction and development in the country, and the emergence of new family problems that the Iraqi society was not familiar with previously of this size, including family disintegration, the phenomenon of divorce, domestic violence, feelings of frustration and despair in life and what results. Of crimes, especially unprecedented drug use,

d. The increasing deterioration of education in its various stages and the deterioration of the health system, whose condition was revealed in the face of the Corona pandemic.

In light of the causes, factors and effects, life in Iraq and its various aspects has become threatened by disasters. And that the continuity of life for the people and the state requires the implementation of policies and measures, some of which are fast and some are medium and long term, as treatments an avenue for unemployment and poverty, including the following:

1. Establishing strategic, developmental, reform plans, especially for human resources <sup>(5)</sup>, where the starting point is the collection of accurate data on unemployment and poverty, and that the government planning system will undertake.

2.. Providing urgent financial aid and grants for the unemployed and poor families.

3.. Employing the unemployed through several channels, including activating local and foreign investment, obligating foreign companies to employ the Iraqi workforce after training and qualifying them, operating suspended small, medium and governmental industrial projects, and establishing small and medium agricultural projects in areas where the requirements for this are available, such as the Western Sahara in particular its oases.

4. Executing infrastructure projects such as electricity and water, paving roads, constructing bridges and housing units, for example, but not limited to, initiating these units that guarantees the employment of large numbers of unemployed,

as this means the production of bricks, cement, plaster, sand, livestock, glass, etc., and the foundations of electricity, water, blacksmithing and carpentry.

5. Employing the unemployed through developing the productive structure other than the country's oil extraction industry, and rehabilitating the suspended companies in order to employ numbers of the unemployed <sup>(6)</sup>.

6- Stopping the unrestrained import of foreign workers, especially the unskilled.

7. Take advantage of the successful ration card system that was used in the 1990s.

8. Amending and developing the educational and health system.

9. Encouraging people to engage in social solidarity, especially through television channels and other media.

10. It is the most important fight against administrative and financial corruption and the recovery of stolen public funds.

#### IV. PUBLIC BUDGET

The public budget represents a future cash financial plan for a year and consists of state revenues and expenditures, and these revenues consist of many sources, the most important of which are the economic revenues obtained from the use of available economic resources such as oil, agriculture and industry revenues, and the other is sovereign revenues such as taxes, fees and fines. As for expenditures, they include several areas, the most important of which are development investment expenditures and administrative operating expenses such as salaries, wages, military expenditures and other expenditures such as the payment of the internal and external public debt installments and their interest. The budget is considered in a state of equilibrium if its revenues are equal to its expenditures, and in a state of deficit if its expenditures exceed its revenues, and vice versa, it is called a state of surplus. The budget reflects the state's fiscal policy <sup>(7)</sup>, which aims to achieve a set of goals, most notably:

1. Achieving high rates of economic growth in the sense of the development of GDP and average per capita income.

2. Achieving economic stability in the sense of relative stability of the general level of prices and the operation of resources to deal with unemployment.

3. Achieving social justice <sup>(8)</sup>, especially through the redistribution of income.

Therefore, if this budget is able to achieve these goals, then it will be a tool for development and social justice, and if it is not able to do so, it is a tool for economic and social backwardness and for the creation of negative stratification, social conflict and the increase in poverty.

If we look at the history of this budget in Iraq during the past few decades, we find that it is characterized by a state of deficit that has worsened in recent years and has become a negative phenomenon that leads to economic and social life despite the increase in oil revenues as the backbone of its revenues compared to the years before 2003, and this negativity is due to a set of reasons They are concentrated in the following:

a. The increasing dependence on crude oil revenues that are dependent on external economic and political variables, especially oil prices in the international market, which is now witnessing a collapse in these prices, coupled with the accumulated deterioration in the non-oil commodity economy

due to the invasion year 2003 and the wrong policies of the successive governments after it, which led the country to a deteriorating economic situation.

b. The government's weak control over the country's economic and oil capabilities, especially the lack of a link between strategic planning and the budget <sup>(9)</sup>, which weakened the state's ability to obtain revenues from non-governmental oil smuggling operations in various regions of the country, and the loss of government control over revenues Border ports from taxes and fees.

c. The increase in operational expenditures such as salaries and wages that reached about (70%) resulting from large armies of real and fictitious workers in the civil and military departments of the state, as well as the disguised unemployment that fills these departments, the huge salaries of the three presidencies and their job attachments, and high military ranks. Which has not been witnessed in the history of Iraq, and the large numbers of secretaries of ministries, advisors, special ranks and many others, all of which have burdened the state with what is spent on them in terms of salaries, allocations and delegations, as well as the double salaries granted to tens of thousands of individuals.

d. The magnitude of the extravagant consumer spending and the absence of a policy of rationalizing public spending, such as the number of luxurious and armored government cars, and the wasteful spending of senior officials in their daily lives and travels.

e. Increasing public expenditures in the diplomatic corps, especially since many Iraqi embassies and institutions are in countries where Iraq has no interests.

f. The phenomenon of economic sabotage, which leads to a reduction in economic revenues, and its model is what the country has witnessed in terms of agricultural crop fires in recent years, which can be explained by the weakness of the pre-emptive intelligence action.

g. The spread of the phenomenon of financial corruption in state departments, which increased public expenditures and reduced public revenues. And it led to the waste and theft of public money. All this led to the general budget being negative economically, socially, and even politically, and it failed to achieve something developmental and to achieve something on the road to social justice, which was confirmed by the representative of the United Nations before the Security Council that the contraction of the Iraqi economy will be 9.7% and about 40% of the area of poverty of the population size this year.

Based on the foregoing, the Iraqi state faces two options, either to get rid of this negativity and to start building a state economically and socially in which the budget will contribute, or its dismantling and loss. A set of policies and measures can be adopted that would put the country on the road to salvation from disintegration and loss, especially in light of serious challenges, most notably the collapse of oil prices, the Corona pandemic, and the return of terrorism in several regions of the country, and the most prominent of these policies and measures are:

1. Restructuring the civil and military departments of the state in a way that reduces public expenditures and increases revenues, especially making use of the experiences and capabilities of Iraqis in other countries to build their country.

2. Establishing a new unified system for salaries that includes civil and military workers in the country as well as for retirees,

considering social justice, and that would reduce public expenditures.

3. Paying attention to economic investment spending that would increase non-oil public revenues, as it is the path to achieving sustainable development <sup>(10)</sup>.

4. Paying attention to the tax system and amending it after cleaning it from the administrative and financial corruption that is rampant in it, which would increase the proceeds of direct and indirect taxes.

5. A serious fight against administrative and financial corruption, which is no different in its seriousness from terrorism, and an actual start to recover stolen public funds.

6. That the aggravation of the budget deficit problem, which as it accumulates, has become a structural deficit and has dangerous effects on life in all its aspects. It is possible to think of addressing this through public (internal) borrowing as one of the solutions to this deficit because this borrowing does not result in an increase in the money supply that leads to a problem. Inflation, through the sale of government bonds and treasury bills to individuals and financial and monetary institutions. As for external borrowing from other countries or from the Fund and the World Bank, its problem is in the economic conditions, especially where the loan is destined. If the spending is consumerist, then the other will exacerbate the problem (debt installments and interest). And sometimes political conditions imposed by the donor, and about dealing with the deficit by withdrawing from the foreign reserves of the Central Bank, it is also difficult to think because it has negative effects on the currency exchange rate and on the level of domestic and international confidence in the capacity of the economy, and about treating the deficit by printing currency without a cover of hard foreign currencies, it is an option. The latest is the dangerous option that leads to the inflation problem, which has dangerous effects on the economy, development and the cost of living of people. Therefore, the correction of the budget deficit and in light of the Iraqi economic reality and other challenges facing the country, this correction should be part of the comprehensive economic reform in the country that achieves sustainable development and social justice <sup>(11)</sup>.

## CONCLUSION

1. The problem of stagnant inflation facing various countries of the world leads to economic, social and political instability, especially in Iraq.

2. The collapse of oil prices and the Coronavirus pandemic have led to an increase in stagnant inflation rates in the country, which have become a threat to various walks of life, especially in the exacerbation of the problem of unemployment and poverty and in the presence of the persistent deficit in the country's public budget.

3. The exacerbation of the unemployment problem and the increase in poverty have led and lead to serious negative repercussions that pervade all walks of life.

4. The absence of strategic planning to deal with these problems made them exacerbate and pose a serious threat facing the present and future of the country.

5. The worsening of the public budget deficit during the past few decades, making it unable to achieve national goals in sustainable development and social justice.

## Recommendations

1. Adopting strategic planning in the country according to interrelated national goals that begin with addressing economic problems, especially the research topic.

2. Adopting policies and procedures that would put the country on the path to confronting these problems, mitigating their severity, and then eliminating them, including what is domestic and foreign investment, financial and monetary, and structural for the state and its civil and military institutions, in a way that leads to achieving economic reform, sustainable development and social justice.

3. Work to revitalize the national economy, diversify it, and make it an advanced, industrial, and not rentier agricultural economy, which is positively reflected in the treatment of these problems.

4. Serious work to combat administrative and financial corruption as an economic, social, political and security scourge that supports various problems and challenges, including terrorism.

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