

Synchronization of Inflation and Unemployment and Poverty Increase in the Iraqi Economy for (1994-2010)

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Abstract: *It can be confirmed that the Iraqi economy was and still suffering from problems represented by an increase in the rates of inflation, a decrease in local currency value and an increase in unemployment and poverty. In spite of the high potentials Iraq owns, but, due to the wrong economic policies and the never-ending wars, the resources were misused and the development was obstructed. After 2003, the political regime in Iraq was changed and many strategies and development plans were adopted to find solutions for hunger, poverty and lack of education. But these strategies and plans were, and still, facing many economic, social and political obstacles. This made slow it down in reaching its intended goals aiming to improve the Iraqi people status through reforming the economic environment and the structural problems they suffer from in order to pave the way towards ending hunger, weakness and poverty as well as elevating their living status and achieving sustainable development.*

Keywords: The Iraqi Economy for (1994-2010)

1. Introduction

In spite of the fact that Iraq owns great potentials which could be the key to its growth and development, but the Iraqi economy has suffered, and still suffering, in various economic aspects. This has been mirrored in the performance of the economy and its growth. The reason behind that is adopting wrong economic policies due to the wars and the economic sanctions imposed on Iraq. To direct the light to this point, this research attempts to present an image of the issue related to the synchronization of inflation and unemployment, since they are regarded as primary indicators that give a full prospect of the performance of this economy. It could be that what we witness today of high levels of inflation and unemployment in the Iraqi economy indicate a great economic flaw as well as a lack in the human development, high levels of poverty and environmental deterioration.

Aim

The research aims to analyze the synchronization of inflation and unemployment that the Iraqi economy suffers from and determine its degree of danger as well as the factors which led to increasing the problem.

Problem

Studying the increasing economic issues caused by the inconvenient political, social and economic reality which was always a reason for supporting every problem in this economy including the problem of inflation and unemployment as well as the deficiency in the human development, high levels of poverty and environmental deterioration.

Hypothesis

The research is based on the hypothesis that the political and structural changes which took place in the Iraqi economy over the years made Iraq suffer from serious

problems obstructing its development and growth for decades.

Structure

To prove the research hypothesis, the study will be divided into three topics:

First: synchronization of inflation and unemployment of the Iraqi economy.

Second: deterioration in the performance of the development indicators and the constant poverty in the Iraqi economy.

Third: the proposed solutions and ways of making them work.

2. Synchronization of Inflation and Unemployment in the Iraqi Economy

2.1 The Increase in Inflation Rates

Inflation represents a compound, complex and multi-dimensional phenomena, hence its sources are numeral and conflicting leading to a defect in the price relations¹.

The Iraqi economy has faced a great inflation during subsequent stages. During the period of the Iraqi-Iranian war, Iraq faced many conditions leading towards inflation, of which are ²:

- 1) Decreasing the amount of produced oil as well as the exported amounts of crude oil.
- 2) The decrease in the number of the working force, as a great part of them joined the army in the war.
- 3) Decreasing the exploitation rate of the available productive energies that led to a decrease in the production rate in many of the economic sectors.

Besides that, the country went through great inflation during the nineties caused by high levels in the government expenditure versing a decrease in the main government income, followed by an increases in the internal general debt which constituted a burden on both the internal and external debts for two main reasons³:

First, the severe and constant shortage in food and consumption products' supply (shortage in the total supply) and incompetence of facing the changes in the total demand.

Second and more importantly is the collapse of the Iraqi Dinar. That is, whoever wants to import food and consumption products must purchase them in the foreign currency and should be sold according to its price in the foreign currency which would be extremely expensive in the local currency.

After 2003, the Iraqi economy witnessed a shutdown in many of the economic domains and a fluctuated increase in prices leading to an increase in the living costs for the Iraqi individual and the cost of production as well as a decrease in the level of economic activity⁴.

Consequently, the price tendency caused, since the 1990, and till now, an annual inflation averages reaching about %50 in the Iraqi economy reflecting a structural problem originated in the components and approaches of the total economy which suffers from an imbalance between the commodity sector, except the oil industry, and the service and distribution sectors which are still producing marginal or weak services⁵. Through the table no. 10, we can notice that the general level of the prices reached high levels and the prices of the commodities and services elevated until they reached the point of losing the cash value. All of that led to a low level of local economic activities which in turn led to negative reflections on the components of the Iraqi economy, where the inflation rates increased due to the sanctions causing low growth and buying force rates⁶ until the inflation reached, in 1994, %458 due to the weak production performance and lack of flexibility. While in 1996, the inflation rate decreased to %16.11 as Iraq signed the understanding memorandum for food and medicine leading to high expectations by the Iraqi people causing a great decrease in prices⁷. But, after that year, the inflation rate began to increase especially after 2003 where it reached (%33.61, %26.95, %36.95, %53.23) for the years (2003, 2004, 2005, 2006) respectively. The reason behind this noticeable increase in the Iraqi economy is the increase in consumption rates (private and public) which was reflected by the increase in the current government expenditures as well as the need to rebuild the Iraqi economy after the destruction caused by the war. The constant increase in the government investment expenditures happened without an increase in the commodity and service supply which is reflected in the great increase in the general prices⁸. While after 2007, the growth rate began to decrease and growth rate of inflation reached %1.41, %2.8 for 2008, 2009 respectively. This decrease is due to the stability, the improvement of the security levels, a relative improve in the oil products supply as well as stability of labor in markets⁹.

Year	General standard	Annual change rate (inflation)	Year	General standard	Annual change rate (inflation)
1994	558	458	2003	6943.5	33.61
1995	2672.9	379	2004	8815.6	26.95
1996	2242.1	-16.11	2005	12073.8	36.95
1997	2759.2	23.05	2006	18500.8	53.23
1998	3166.7	14.78	2007	24505.5	32.45
1999	3565.0	12.56	2008	24851.3	1.41
2000	3742.5	4.99	2009	24155.1	-2.8
2001	4355.3	16.35	2010	24908.5	3.12
2002	5196.6	19.33			

Source: the second column is prepared by the researcher depending on:

The Iraqi Central Bank, the General Directorate for Statistics and Research of different years (2002-2011).

2.2 The Increase in Unemployment Rates

The Iraqi economy is of the economies that are known for achieving a full employment state until the late 1980s, but the ability of achieving full employment has decreased a lot since the first Gulf war in 1991 when unemployment began to increase¹⁰. By analyzing the data mentioned in table 9, we can notice that unemployment ratio reached %10.5, %17.4 and %20.2 of the total labor force for the years 1994, 1998 and 1999 respectively.

Also, the size of unemployment increased and continued increasing after 2003 as it reached %28,1 and %26.8 for 2003 and 2004 respectively.

This increase in the unemployment ratio after 2003, is caused by the shutdown of most of the projects and factories which stopped production after the deterioration in the security state and the shortage in the electricity power. After the decision of discharging the Iraqi army was made, and hundred thousands of soldiers in the army, police and internal security forces, the obligatory army service Act become invalid. The problem of unemployment increased in Iraq due to the constant deterioration in the service, agricultural and industrial production, the lack of instant procedures for solving high unemployment, poverty, increase in prices, constructing the basic structure and rebuilding the primary industries. Instead, the concentration was on exporting crude oil, privatization of oil industry and promoting for giving priority to the foreign companies to run the investment projects¹¹.

The increase in unemployment rates is considered as one of the serious problems faced by the Iraqi economy due to its economic, social and political effects. As well, it is a waste in the human element and an indicator of a defect in the social, political and economic system as it indicates that the government is unable to fulfill its obligations towards its citizens under its fragile structure and threatened dominance. Unemployment under such circumstances is regarded a suitable environment for the growth of terrorism and extremism¹².

While in 2008 the rate of unemployment reached %15 and in 2010 it was %12 from the rate of labor force. In spite of this decrease, this ratio is still higher than the population growth rate %3.2, therefore, it is obvious that this will lead to an increase in the issue of unemployment under the economic recession that Iraq is witnessing and the increase in the

phenomena of violence, conflicts, the malfunction of the Iraqi institutions, the deterioration in the performance of the private sector institutions and the open borders for the foreign commodities. It is expected that the problem will continue particularly among the graduate youth who lack training and modern knowledge¹³.

Year	Unemployment rate (%)	Year	Unemployment rate (%)	Year	Unemployment rate (%)
1994	10.5	2000	22.4	2006	17.5
1995	12.9	2001	24.6	2007	10.26
1996	13.9	2002	26.7	2008	15
1997	15.4	2003	28.1	2009	14
1998	17.4	2003	28.1	2010	12
1999	20.2	2005	17.9		

Source: Adeeb Qasim Shandi, Iraqi Economy ,where to-first edition, Baghdad print house, 2011, p 293.

2.3 Deficiency in Human Development Indicators' Performance and Constant Poverty

The human element has a great role and importance , also, it is the main factor in triggering the economic and social development, developing its growth rates and improving its proficiency¹⁴.

Education, of different levels, is the basic element in building the society and its improvement through optimum investments of the human resource in a way that conforms its ambitions and receiving social and economic returns and educating all of its members as education has become a necessity for building the character and the future.

The relation between education and development is based on the concept of increasing productivity in the case of human development and reaching a certain level. Education elevates the participation of the work in the output as well as guaranteeing a specific level of productivity through presenting trained working individuals, who are trained by the most modern methods¹⁵.

Iraq has achieved, through serious steps during the 1970s and 1980s, a qualitative improvement in the human development indicators. It is regarded, according to a UNESCO report, one of the best countries concerning the educational system during the period prior to the Gulf war in 1991. Also, it has a health system in the city which is identical to that of the countryside. But, the following incidents, since the 1990s, and the military operations resulting from these events followed by the international sanctions imposed by the Security Council in decision no. 661 in 7\8\1990, all of these issues disrupted the human development methodology¹⁶. Expenditures ratio reached %3.3 of the local production due to the financial crisis which the Iraqi economy has witnessed. The period from 2003 and the following years has increased the living burdens of the Iraqi citizen under the sever circumstances of killing, bombing and disarming their homes. In spite of

reconstructing many schools and colleges, the share of expenditure dedicated for education reached %4.7 and % 4.8 during 2004 and 2005 respectively. Due to the high interest in the increase in oil prices and in the rates of gross local production, the expenditure on education reached %4.9 then %5.9 in 2007¹⁷. The same was for the health indicator, it deteriorated to %3.7, 3.2, 5.3 and 3.8 for 2000, 2001, 2004 and 2006 respectively. The weak growth of the national development indicators has reflected negatively on the interaction of the citizen with the government institutions. This is embodied in the absence of responsibility towards public interest and money and disrespecting the law. This led to the rise of serious security, administrative and economic challenges. The previous regime policy has produced a dictatorial policy which is far from inculcating citizenship¹⁸.

As for poverty, it represents the opposite meaning of human development. It is a complex concept including economic, cultural and political dimensions. It is a state of deprivation reflected in low consumption of food stuff, low health state, low education performance, bad housing conditions and shortage in the financial, savings and capital assets¹⁹. All of these factors deepened the deterioration in the economic aspect in Iraq and the spread of unemployment which made poverty a prominent element in the society and affected all levels of social and economic life as %71 of the people were considered poor according to the estimates of international food and agriculture organization in 2004²⁰.

In a report of the Ministry of Planning concerning the line of poverty in Iraq in March 2009, it was stated that %23 of the Iraqi people are under poverty line and cannot provide the basic necessities of food and other needs²¹.

This affected the living status of the Iraqi citizen and the degree of deprivation of the most necessary needs in life which in turn affected his urban contemporary life directly²².

2.4 Suggested solutions and achieving them successfully

Development is a part of the human being, it starts and ends with him. Without understanding , conscious and responsible people, the efforts of development remains artificial and fragile having no self-belongingness originated constantly in the reality²³.

The developing process and real reformation in the country starts from the concept of natural interrelation of the economic, political and social issues. It is impossible to find solutions for the problem of structural imbalance in Iraq without a coordinated political system that does not contradict itself in order to reach high levels in construction. There is many variations in the proposals of the entities' opinions which constitute the body of government currently and, in the future, obstructing the developing process. Hence, it is necessary to devise an economic philosophical rational vision which mixes the need for a government role in saving the economic status with launching initiative spirit. This is the cornerstone in the real construction.²⁴

On the other hand, it is necessary to work on decreasing the differentiation of incomes to help the economy achieve a success in decreasing the rate of poverty. Since there are low

levels that suffer from hunger and poverty, a full accurate diagnosis should be undertaken to tackle this phenomena through information base and regular follow up.

To reach a sound economic policy. It is crucial to devise a carefully investigated strategic vision as well as investment development plans to exploit the accumulated cash surplus in long term investment projects and not just for providing instant services like schools, hospitals, bridges or paving roads. Interest is needed in the real productive sectors like the agricultural and industrial sectors to save them from collapse and to develop the excavation industry sector in order to benefit from oil products and decrease its imports. Also, it is necessary to benefit from natural gas which is being wasted currently. The process of developing and differentiating production has become a necessity in the current time since it helps the country to rise again, in addition, it provides public services and absorbs the working force to limit the rate of unemployment and poverty inside the country as well as improving the performance of the exporting industries through its technological content.

Therefore, it is crucial to figure out how to lighten the burden of the government and find suitable radical solutions through encouraging local private investment and supporting this sector by increasing interest in it and make it the first priority. The government should fulfill the role of managing the economic activities and developing the private sector and supporting it. The government should prepare an investment climate, having confidence in the private sector and supporting its role in every social and economic activity.

On the other hand, there must be a correlation between the capital accumulation and the available potentials of the natural wealth and experts to increase productivity and production. This is part of constructing an economy with strong basis, but the Iraqi economy lacks the rational planning process, knowledge, proficiency and ways of employing it.

Also, it is necessary to limit money waste, that is to combat the financial and administrative corruption which is found in the form of reconstruction projects. It is one of the most serious problems in the country as it is related to corruption and bribery. Therefore, caution should be taken through financial and engineering observation system to prevent money waste as well as calculating the real cost of the project. Also, the projects specification should be determined in advance.

What should be taken into consideration when devising new development plans, is the three decades which Iraq went through and to take lessons from its worst experiences to avoid committing the same mistakes and to direct expenditures towards the investment sector and decrease consumption, because the country is a consuming one currently, depending on oil revenues which constitute a great danger for the economy.

Enhancing the Iraqi economy demands also supporting individuals through providing a low interest rate loans by government banks which would lessen the dependence on

the public balance of the country in order to finance development and differentiate income sources through financing economic sector projects; agriculture, industry and services, in a way that could be reflected positively on the gross local outcome, which in turn can participate in developing human resources and building abilities.

3. Conclusions and Recommendations

3.1 Conclusions

In the light of the study and analysis I was able to reach the following results:

- 1) The decrease of the local savings and the increase of the gap between consumption and savings. The savings of Iraq are fluctuated due to the dependence on exporting oil. When compensating the shortage, Iraq resorts either to currency issuing or foreign borrowing as happened in the 1980s when Iraq was spending largely on the Iraqi-Iranian war which led to a deficiency in the sheet balance. This borrowing increased debts as we witnessed in the 1990s as a result of the sanctions imposed on Iraq and the issuance of new currency to cover the deficit. This led to the increase in inflation reaching extreme levels. The country is still suffering from inflation in spite of the serious solutions adopted to stable the economic state.
- 2) Shutting down the work force and production groups in Iraq has led to the increase in the unemployment rates. This also led to shutting down the workshops and production units after losing its workforce. This caused to stop the production of many commodities and local services needed in the society. The shortage was compensated by export which increased the problem even more.
- 3) The deterioration in the health and educational institutions as well as the living status which was reflected negatively on building human abilities and decreasing his participation in achieving development.
- 4) People are the tool of development and its aim, hence, the spread of poverty is one of the main factors that could increase the danger and the development could be lost.

3.2 Recommendations

- 1) Decreasing the general expenditures and directing it correctly according to the real requirements of the economy away from waste and losing.
- 2) Heading towards adopting a successful development through finding conformity between money and human capital because the financial income is not adequate by itself for achieving economic development. Therefore, it is crucial to pay attention to human capital through ending unemployment by a profound mechanism based on correct programs and decreasing the limit of poverty. In addition, it is demanded to reconsider education, develop the human skill, organizing training courses to participate in using data bases and communications and rehabilitating them in order to build human development.
- 3) One of the main steps for devising a successful development strategy is to have the right economic policy that determines the degree of benefiting from the direct foreign investment as well as the degree of making use of the Globalization strategy which is highly advanced in the scientific, communicational and informational aspects

which could help in achieving the demanded economic development and revealing the negative effects that can result from the direct foreign investment and Globalization which increase the structural deficiencies.

- 4) Adopting the right economic policy techniques that are able to solve the issues of unemployment and poverty.
- 5) Assigning the role of participating in the economic activities to the private sector and giving it the chance to work on developments opportunities particularly in the fields where the government cannot achieve the demanded success.

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