



---

## THE EFFECT OF FISCAL POLICY ON TREATMENT UNEMPLOYMENT IN THE IRAQI ECONOMY FOR DURATION (2003-2020)

**Dr. Hayat Juma Mohammed Hussein**

Faculty of Arts, Wasit University.

### **Abstract**

Unemployment is a deadly disease that affects the body of the economies of most countries whether underdeveloped or developing, and societies must confront this serious disease because it has political, social and cultural reflections, it affects human dignity and living, therefore must look for all successful treatments at all levels economic, financial or even educational. Fiscal policy, which is part of economic policies, has played a major role in confront and treatment unemployment through many of its instruments, whether in revenues, expenditures or public budgets, and we must not forget that fiscal policy is not the only effective tool, but one of a set of solutions, and we must also move towards harmonization between fiscal and monetary policies to confront this serious disease.

**Keywords:** fiscal policy, unemployment, expenditures, revenues, budget.

### **Introduction:**

Fiscal policy plays a major role in influencing economic activity because of its interlocking relationships with other economic policies, the concept of fiscal policy has evolved according to the stages of economic and intellectual development and the subsequent development of its role in economic activity, from its neutral phase in classical thought, which characterized the balance of the budget and the absence of any imbalance, and then to its interventionist phase in Keynesian thought, which took public fiscal policy out of neutrality and became a role Significant in stimulating demand through the increase of state spending, which led to an imbalance in the state budget in the short term, and then developed the role and concept of fiscal policy in the central planning phase in the socialist thought taken by the method of its administration and the public finances were an integral part of the central plan down to contemporary thought, which considered that increased government spending associated with increased taxes restricted individual freedom and called for a reduction in this spending, as a result of the expansion of state functions followed this has expanded the role of fiscal policy and its management, as the role of public revenues has not only covered public expenditures but has become an important tool that has a clear impact on economic activity, as well as the role of public expenditures and public revenues in solving the problem of unemployment.

### **The importance of search:**

Fiscal policy is one of the most important economic policies in which governments in all developed and underdeveloped countries , The Iraqi government has resorted to an expansionary fiscal policy to reduce high unemployment rates as a result of the wars waged in Iraq after 2003, which has had a clear impact on unemployment in the Iraqi economy.

### **Search problem:**

Treatment the problem of unemployment by imposing a positive impact on financial politicians that are reducing their rates.

### **Search goal :**

The research seeks to achieve at:

- Statement of fiscal policy to reducing unemployment in the Iraqi economy, in order to help decision makers to improve fiscal policy levels, reduce unemployment and treatment some other economic and social problems.

### **Search hypothesis**

The research is based on the premise that the impact of fiscal policy on reducing unemployment rates in the Iraqi economy varies depending on the economic and political transformations that took place during the study period.

### **Search methodology**

The research relies on the method of mixing between the descriptive and general analytical approaches and relying on a range of scientific sources and data from relevant authorities as well as on a range of reliable websites.

### **Search limits**

- Locality limits: The research covered the Iraqi economy as a whole, as the phenomenon studied is a totally-economic phenomenon.
- Time limits: Search time limited between (2003-2020)

### **Search structure**

In order to reach the goal of research and verify the validity of the hypothesis developed, the research was divided into two researches such as:-

- First topic: The conceptual framework of fiscal policy and its role in reducing unemployment rates.
- second topic: The relationship between fiscal policy and unemployment in the Iraqi economy for 2003-2020.

### **First research**

The conceptual framework of fiscal policy and its role in reducing unemployment rates

Fiscal policy has an effective impact on achieving economic stability and raising growth rates, in order to achieve this must treating the economic problems, including unemployment, so basic concepts must be clarified.

First: - fiscal policy, concept, types, tools:-

#### **1- Concept of fiscal policy**

The term fiscal policy derives from the French word "Fisc", meaning the portfolio of money and treasury, fiscal policy in its original sense is intended for both (the public finances and the state budget)<sup>(1)</sup>.

There are a range of concepts of fiscal policy, including (the range of actions taken by the State on the management of its financial activity (revenues and expenditures) which drives the various sectors of the national economy to achieve the objectives of providing the needs of society for goods and services, economic stability, equitable distribution of income and wealth and sustainable financial development through plans and programmes)<sup>(2)</sup>

(Bach) has defined it as (a tool for using both taxes and government spending as well as loans to influence aggregate demand, depending on the country's economic conditions. In addition to its role in achieving economic growth, achieving justice and reducing unemployment rates through the income redistribution mechanism)<sup>(3)</sup> It has also been defined as (the policy of using public finance instruments from spending programmes, public revenues to mobilization economic variables such as national product, employment, savings and investment in order to achieve desired effects, and to avoid unwanted effects on both national income and output, employment level and other economic variables)<sup>(4)</sup>.

## **2- Types of financial policy**

For fiscal policy, several types of it are as follows:-

A-Anti-cyclical fiscal policy:

The concept of anti-cyclical policy refers to the policy of management of deficits during the period of economic stagnation and management of surpluses during the growth period, in other words curbing economic activity while reducing government deficits during the growth, strengthening economic activity and increasing the duration of government during the recession)<sup>(5)</sup> .

B- Pro-cyclical fiscal policy:

This policy, which is consistent with the direction of the economic cycle, i.e. cyclical increases in real income are inevitably accompanied by increased public spending or lower tax rates, and such a policy poses a threat to economic stability because of its significant fluctuations in reversal demand that enter the economy for a long period of stagnation<sup>(6)</sup>.

## **3-Fiscal policy instruments**

There are many types of fiscal policy:-

A-Public expenditures:- expenditures policy can be defined as (the expenditures program based on the nature and roles of the State in political, social and economic life aimed at meeting the expenditures of the Government and its local bodies)<sup>(7)</sup>. Expenditures policy varies from state to state depending on the nature of the existing economic system. In capitalist states, expenditures policy aims to achieve economic stability, thereby reducing unemployment rates, combating inflation, and expanding the domestic market. While in underdeveloped countries, it aims to build a sophisticated industrial product system and provide basic consumer goods to the population. The policy by which the Government spends on various aspects is called public expenditure, which can be defined as (the amount of money spent by the State for the purpose of public benefit because public expenditure during the definition we note that public expenditure consists of three basic elements)<sup>(8)</sup> . public expenditure must be a sum of money as the prevalence of the monetary system and the abandonment of the barter system have become a role for the State to spend cash to obtain various goods and services to satisfy public needs. The second element is that public expenditure is carried out by a public person and the third element of expenditure must be for the purpose of public benefit .

B-Public revenues:- revenues politics has become an important tool that has an impact on economic and social conditions, as well as its function of covering public expenditures, it has become a tool for preventing certain undesirable activities, as well as directing investment, and revenue politics can be divided into two main Sections :-

### **Section 1:Tax Policy**

Taxes are currently one of the most important types of public revenues, both in terms of their absolute size and their proportion of total public revenues, and in most countries of the world, both in developed and developing countries, taxes have become increasingly important as a result of the development that has changed the role and objectives of the State, having limited its financial activity in traditional thinking to providing the treasury with the necessary resources for limited expenditures by preventing it from interfering in economic activity and the rule of the principle of tax neutrality and its non-impact on economic conditions. and social. While taxation now has an important role and a tool for influencing economic and social conditions, economic stability and social justice can be contributed to income distribution and changing economic structure, and taxation has played a role in strengthening and applying political thought in the society in which it operates.

### **Section 2: Borrowing policy:**

the second basic instrument of fiscal policy, is the state's resort to this instrument as a result of two reasons: taxes are at their maximum and the second is that taxes have violent social reactions. There are many types of loans, including internal ones, including external ones, both of which represent a burden on the national economy because the principal of the loan (debt) must be returned with its interest, and external loans are often linked to certain political conditions, so the state should make the best use of this loan as financing investments and building the productive apparatus. There are other branches of revenue policy, including

1- State revenues from domains are divided

A-Public property or public domain

B-Private property or private domain

2-Grants and subsidies

3- Fines

4 -Fees and royalties

C- General Budget :-The general budget is one of the most important fiscal policy instruments adopted by governments to implement their economic and financial policies, as well as the mechanism for obtaining public revenues and channels of use to ensure the regulation of public spending and the optimal exploitation of available resources, the concept of the general budget has evolved as the role of the state in the areas of economic, social and financial life develops, and the general budget shows how the state resources are allocated and distributed to the public activities and services of members of society and according to its priorities. The general budget is also a detailed statement explaining the estimates of state expenditures and revenues, expressed in the form of monetary units, reflecting the state's plan for the next fiscal year <sup>(10)</sup> .

### **Second: - The conceptual framework of unemployment, its types.**

#### **1. The concept of unemployment:**

Not everyone looking for work is unemployed and at the same time not everyone looking for work is in the unemployed, and generally there are two prerequisites for defining the unemployed according to official statistics

to be able to work and look for a job. Founding the above, ILO recommended that the unemployed be defined as anyone who is able to work, wants it, looks for it, accepts it at the prevailing level of wage earners but does not find it. In economic analysis, the word unemployment means a wage earner who has lost his job and livelihood and has been unemployed. The U.S. Knowledge Service also explained that unemployment is intended for total non-employment, which refers to people who are able to work, who are willing and seeking it, but who do not find it <sup>(11)</sup> .

## 2-Types of unemployment:-

Unemployment has several types <sup>(12)</sup> .

- A. Periodic unemployment:-This is unemployment resulting from the non-functioning of economic activities at a single or regular pace at different periods of time, but these activities are witnessing periodic ups and downs, and the movement of these economic fluctuations, which ranges from three to ten years, is called the term economic cycle, which is characterized by repetition and cyclicity, where the economic cycle consists of two phases, the first phase of the phase of popularity or expansion, in which the volume of production, operation and income levels tends to increase until the expansion reaches the end of the summit and then the crisis begins to occur at a turning point after which the volume of national activity moves into deflation until the descent reaches its end by reaching the bottom of the contraction and immediately after it begins to recover and economic activity begins to expand again ... Thus, demand for employment is expected to increase in times of expansion and decrease in times of decline (deflation).
- B. Seasonal unemployment :-This is also known as temporary unemployment... This is the kind of unemployment that individuals work for periods and work for other periods, as happens in most rural Arab countries, where the rotation of the work wheel intensifies at intervals and falls in others and may end in other periods, such as working in the summer and working in the rest of the classes although the student is one of them who enter the stage of employment in the first place, knowing that this type of unemployment interferes with what is known as partial unemployment considering that the worker who works all year round.
- C. Frictional unemployment :-Is unemployment that occurs due to the continuous movement of workers between different area and professions and it usually occurs due to the lack of information among job seekers with the opportunities available in it, meaning that the period of search for the journal of the Faculty of Al Tutath University issue the eighteen (218) work may be prolonged due to the lack of sufficient information about work either in employers or job seekers although each of them is looking for the other, and in this direction a number of researchers believe that frictional unemployment the less the higher the expense of looking for work.
- D. Structural unemployment :-This type indicates a disruption of part of the labor force due to structural changes in the national economy that lead to a state of incompatibility between available jobs and the experiences of job seekers, and these changes may be due to the shift in the entry of modern technology systems, the production of new goods or a change in the structure of demand for products as well as the entry of additional categories and skills into the field of work in the sense that we may face oversupply in a labor market or oversupply. Lack of supply in another labor market and this imbalance remains in place until the supply forces are compatible with the forces of demand .
- E. Forced unemployment :- It is known as forced unemployment and occurs when the worker is forced or forced to leave his job for one reason or another, such as declaring a project bankrupt or closing and

- dispensing with its workers without their will and desire. This type of unemployment occurs when workers are laid off. I.e. to dispense with their services forcibly, although the worker is willing and able to work and meet the prevailing level of wages and this type prevailed in Iraq after the political change in 2003 when large numbers of manpower were demobilized in many ministries and security agencies.
- F. Optional unemployment:-This is known as voluntary unemployment, i.e. a person's reluctance to work according to his choice, despite his ability to perform and the opportunity available to him without a fixed resource or legitimate means of living, which may also be called voluntary unemployment, which means that the worker resigns from the work in which he worked of his own volition, either because of his reluctance to work and his preference for leisure time (with another source of income ) or because he is looking for better work that provides him with higher wages and better working conditions .
- G. disguised unemployment :-Unemployment rates vary, especially in underdeveloped countries, Iraq comes first with an unemployment rate estimated at 59% of the size of the labor force, 31% temporary unemployment, about 43% disguised unemployment, and the proportion of unemployed women is estimated at 85% of the women's workforce in Iraq. Disguised unemployment, which is in a state of quantitative intangible disruption, the marginal real output continues to decline at zero or perhaps below zero, with the continued entry of the unemployed due to this type of journal of the Faculty of Al Tutath University, issue 18, unemployment, this type of unemployment is widespread in underdeveloped countries, particularly in agriculture, when rural society prevails, subsistence and self-consumption of the crop, population growth increases and the time allocated to productive work decreases, especially when agricultural activity suffers from a decline in the fertility of the land, the lack of irrigation water and the lack of modern machinery may prevail when the government administration works to accommodate the largest number of graduates of schools, institutes and colleges, regardless of their scientific qualifications and their suitability with the specifications of the jobs offered (13) .

### **The second Research**

The relationship between fiscal policy and unemployment in the Iraqi economy for 2003-2020

The fiscal policy in the Iraqi economy was aimed at a number of objectives of achieving economic balance by reducing unemployment rates and the possibility of achieving a better proportionality between possible domestic resources and public spending from the budget and its reflection on real growth in GDP, which reflects on average monetary income per capita, and this comes through coordination between general economic policies, especially between fiscal and monetary policies.

The decline in economic growth was mainly caused by the wrong policies and state control on overall economic activity, the accompanying mismanagement, the inability to diagnose the factors that were active in achieving development and the loss of the criteria for making appropriate economic decisions, which in turn reflected the overall activity, accompanied by a rise in unemployment rates in the Iraqi economy for the following reasons:- <sup>(14)</sup> .

- The state of destruction and ruination that has hit the economic structure during the last two decades of the last century and thus the occupation, which has become a direct cause of the cessation of economic projects, especially those that require large labor.

- Focus of previous economic policy towards increased military spending and armaments and move away from projects investment in need of manpower, which has created a lack of access to economic resources in the best way to achieve jobs in productive sectors that serve the development process.

- Moving towards non-productive sectors with rapid profit in exchange for weak investment in productive sectors.

- The production process has declined as inflation levels have increased significantly and their impact on investment processes has deepened unemployment, especially for young people of working age .

- The deterioration in the security situation, which was the great reason why many of the planned investments have not been made and their impact on perpetuating unemployment into unspecified areas and its impact on development work in general .

- The demobilization of large numbers of members of the former Iraqi army, security services and employees of some ministries and this situation increased the social cost incurred by the state to raise unemployment rates to high levels .

The reasons mentioned have led to high unemployment rates accompanied by the disruption of public sector work and the inability of the private sector to carry out the development process alone and only the oil sector remained as a source of financing for public expenditures in the budget and within the period after April 2003 it was the percentage of what is allocated to operational spending of public spending within Budgets for 2004-2005-2006 with higher ratios for both 2008 and 2009 budgets than the allocation of investment spending as shown in Table (1) mainly due to the volume of support for both oil derivatives and the ration card, which was accompanied by the emergence of financial and administrative corruption in that period because most of the support did not reach its dues in addition to the depletion of financial resources as a result of the security situation and in the outcome of these things, this reflected the growth of unemployment rates in the Iraqi economy.

Table (1) Iraq's budget structure for the period (2003-2020) 1 million dinars in current prices and unemployment rate.

Years	Revenues	Expenditure	Current Spending	Investment spending	Deficit or surplus	Unemployment Rate
2003	2,146,346	1,982,548	4614080	287881	163,798	28.1
2004	32,982,739	32,117,491	27597167	3924260	865,248	26.8
2005	40,502,890	26,375,175	27066124	3795018	14,127,715	18
2006	49,063,361	38,076,795	32217608	5276851	10,986,566	17.5
2007	54,599,451	39,031,232	32719837	6588512	15,568,219	11.7
2008	80,252,182	59,403,375	52301181	14976016	20,848,807	15.3
2009	55,209,353	52,567,025	45941062	9648659	2,642,328	15.2
2010	70,178,223	70,134,201	54580860	1555341	44,022	15
2011	108,807,392	78,757,666	60925553	17832113	30,049,726	15.3
2012	119,817,224	105,139,576	75788622	29350954	14,677,648	11
2013	113,840,076	119,127,556	78746806	40380750	5,287,480-	12.3
2014	105,609,846	113,473,517	86568374	38752700	7,863,671-	12.8
2015	72,546,345	82,813,611	56916476	27777048	-10,267,266	15.01
2016	53,413,446	73,571,003	55162767	18408235	-20,157,551	11.09
2017	71235486	75490115	59025654	16464461	-25,019,851	13.0
2018	106569800	80873200	67052900	13820300	-12,514,516	12.9

2019	10756700	111723600	8730100	24422600	-27,537,929	12.8
2020	63199700	76082400	72873500	32008900	-70,637,588	13.7

Source: Prepared by the researcher based on: Iraqi Ministry of Finance Iraqi General Budget - "Budget Department"- Ministry of Planning, Central Bureau of Statistics, annual statistical group for various years.- Central Bank of Iraq, "Annual Statistical Bulletin" Directorate General of Statistics and Research, Baghdad, various preparations

Table (1) shows that total operating expenditures account for a larger proportion during the study period than total public spending during (2003-2020) this is certainly at the expense of total investment spending, which now occupies the lowest percentage of public spending during the same period and which is supposed to play a role in contributing to the absorption of unemployment during the period, which makes the state budget unable to create a dynamic with appropriate effectiveness at the level of the same period real economic growth.

Through these results, we note that the results of the unemployment survey carried out by the Central Bureau of Statistics during the period (2003-2020) indicate a slight decline in unemployment indicators, which reached 15.3% in 2011 compared to the unemployment rate for 2006 which reached 17.5% and 18% in 2005 . From an economic point of view, these percentages are positive compared to the current economic situation of the country <sup>(15)</sup> . Although unemployment is one of the major problems facing the country with all its economic, social, political and security implications, the reading of the state budget after 2005 development in reducing unemployment rates, the treatment of this problem is still limited, especially after limited spending in both agriculture, building and construction. In fact, they are the biggest sectors reduction unemployment in the Iraqi economy, so the relative importance of allocating investment spending must be reviewed according to the priorities of allocating investment spending from total public spending, so the main challenges facing the Iraqi economy in reduction unemployment are:-

- Security problem: Security challenges are an obstacle to the reconstruction process and the issue is clear when we find that a large part of the investment allocations are devoted to the problem of the security situation, considering that the improvement in the economic situation is linked to the improvement in the security situation, which means a reduction in unemployment rates.

- agricultural sector: The rapid increase in the population and the limited arable land with increased salinity and weak agricultural productivity have increased reliance on imports to meet the growing domestic need, reflecting the emergence of unemployment.

- Limited industrial sector: The public sector owns a large number of state-owned enterprises employing large numbers of labor workers, which suffer from low productivity as a result of technological underdevelopment and obsolescence, not to mention the looting of these projects, the majority of which have suffered from very low productivity and have formed a financial burden on the State, reflected in the increase in unemployment rates.

- The collapse of infrastructure: electricity, communications and transportation as well as external indebtedness, which was reflected in pressures exerted on the state budget and these challenges in nature have increased the problem of unemployment.

## **Conclusions and recommendations**

### **First: - Conclusions**



- 1- Unemployment is multi-species and shows from one economy to another in many ways and in our estimation that dependency unemployment exists in most economic systems, the state of social insurance in the capital system in the case of the loss of jobs of individuals is only a form of dependency unemployment, where individuals fail when they get insurance from seeking jobs, and the same in the Gulf states or Iraq.
- 2- Iraq's fiscal policy plays a crucial role as the main tool by which the country's oil wealth is converted into economic results and distributed to benefit its population, but the volatility of oil revenues poses a challenge to fiscal policy in preventing revenue fluctuations from turning into fluctuations in public spending that can destabilize the economy and reduce the efficiency of government spending.

### **Recommendations:**

- 1- Develop a mechanism to treatment the real deficit and virtual surplus in the Iraqi general budget, using oil revenues and adding them in the implementation of economic and social development projects that constitute more stable and sustainable sources of revenue, increasing spending on infrastructure and education and taking parallel steps towards improving the business and increasing access to financing, especially for small and medium projects.
- 2- Solving the problem of unemployment, this requires many reforms, including with regard to population policies, and at the level of the educational system to meet the modern requirements of the labor market, which depends on the implementation of so-called employment programs to enhance employment opportunities and reduce high unemployment rates, especially the educated youth group, and perhaps the most important measures required to achieve this at the level of the Iraqi economy to reduce or treating unemployment.
- 3- Emphasizing the reconstruction of the economic sectors and infrastructure that have been destroyed by the war quickly, as this creates new jobs that contribute to the employment of the unemployed, especially the young man of working age, and this reduces unemployment substantially.
- 4- Providing the appropriate residence for domestic and foreign investment by increasing investment and employment opportunities.
- 5- Invest in industries that provide real (labor-intensive) jobs capable of absorbing a large part of the labor force and thereby reducing unemployment rates.

### **Refences**

- 1- Raja al-Rubaie, Role of Fiscal and Monetary Policy in Addressing Recessionary Inflation, Without Edition, Amman, Ammana Publishing and Distribution House, 2013, p. 65.
- 2- Khaled Ahmed Farhan Al-Mashhadani, Raed Abdul Khaliq Abdullah al-Obaidi, Principles of Economics, Without Edition, Amman, Al-Ayyam Publishing and Distribution House, 2013, p. 180.
- 3- Bach . Gl . Making Monetary&. Fiscal Policy brooking(Washing.Dc.1997,p50.
- 4- Iyad Abdel Fattah Al-Nisour, Macroeconomic Fundamentals, First Edition, Amman, Safaa Publishing and Distribution House, 2013, p. 152.
- 5- Tejan pettinger, Fiscal policy, economic helping,2012,p28.
- 6- Asger Lan Anderson, Lasse Holboll Westh Nielsen, Fiscal Transparency and procyclical Fiscal Policy, Working Paper Series, Economic Policy Research Unit (EPRU), University of Copenhagen, 2010,p2.,
7. Sami Khalil, Economics of Money and Banking - Book II - Monetary and Financial Theories and Policies, First Edition, Kazema Publishing, Translation and Distribution Company, Kuwait, 1982, p. 693
8. Taher Al-Janabi, Studies in Public Finance, Mustansiriyah University, Baghdad, 1990, p. 29
9. Haidar Nema Bakhit, Fariq Jabbar Matar, financial policy in Iraq and its role in influencing the offer of cash during the period 1970-2009, Kufa University, Faculty of Management and Economics, p. 190-192.

10. Abeer Mohammed Jassim, Issr asser Saeed Saleh, The Effectiveness of Fiscal Policy in Addressing the Problem of Unemployment in Iraq for 2003-2017, Journal of Social Sciences, Germany, Issue 12, January 2020, p. 252.
- 11-Ahmed Hawiti and others, unemployment and its role in spreading crime and delinquency, Nayef Arab Academy of Security Sciences, Riyadh, 2007, p. 18.
- 12- Unemployment is understood by its types of methods of treatment, see website . Sir online .org.www
13. Sarah Hassan Rahim, Unemployment and Ways to Address It in Iraq (Analytical Study), Al-Qadisiyah Journal of Administrative and Economic Sciences, Volume 15 Issue 4, 2013, p. 278-179.
- 14- Mohammed Abdul Saleh, the economic obstacles facing development work in Iraq after 2003, Iraqi Journal of Economic Sciences Issue 27, Faculty of Management and Economics, Mustansiriyah University, 2010  
P. 63.
- 15- Mohammed Ali Zinni, The Iraqi Economy, Current Reality and Challenges of the Future, Emirates Center - Strategic Studies and Research, 2009, p. 24