



The Role of Government Expenditure in Iraq's Economic Stability

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Abstract:

This study examines the role of government expenditure in achieving economic stability in Iraq. Therefore, the very nature of government expenditure and economic stability is emphasized and elaborated on here. Moreover, economic stability is uncovered to underline key factors influencing it, including inflation and unemployment. To do so, the study tracks the development of government expenditure so as to highlight how impactful it is on Iraq's economic stability, with emphasis on current and investment expenditures. Also, the study draws on the challenges and problems affecting economic stability in Iraq, with a special reference to government expenditures and business indicators. The paper aims to highlight how government expenditure can boost stability and sustainability in the Iraqi economy. A comprehensive economic analysis requires an understanding of government practices, measures, and procedures to check how far these policies create sustainable-based stability. Additionally, the study reviews certain previous studies concerning economic stability and government expenditures. Finally, the paper reaches conclusions and proposes some recommendations.

Keywords: Iraq, Economic development, Government expenditure, State policies, Economic changes.

Citation: Ensif, B. A. ., Hassan, Y. S. ., & Gharan, L. A. Z. . (2024). The Role of Government Expenditure in Iraq's Economic Stability. *American Journal of Social and Humanitarian Research*, 5(12), 522–527. Retrieved from <https://globalresearchnetwork.us/index.php/ajshr/article/view/3142>

Received: 21 Oct 2024

Revised: 12 Nov 2024

Accepted: 20 Nov 2024

Published: 13 Dec 2024



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Introduction

Being instrumental in the advancement and development of various state sectors, government expenditure has been important in financial studies. To a greater extent, most expenditure policies reflect state-designed ends, with governments constantly developing and urging economic activities and stable businesses. Recent financial studies elaborated on the establishment of advanced expenditure mechanisms to make possible the desired ends. Traditional schools of finance and expenditure as well as undesirable effects fell short of clear, understandable concepts of economic instabilities, particularly higher unemployment, excessive inflation, ill-used incomes, and various other crises.

Rationale

Although government expenditure in Iraq has been growing constantly, it has not had any noticeable economic stability.

Significance

This study is important as it uncovers how government expenditure can better create economic stability in Iraq. An analysis of these expenditure policies helps boost economic development as well as control inflation and unemployment.

Objective

This study aims to reveal the government mechanisms for guiding and planning macroeconomic variables through expenditures to achieve economic stability.

Hypothesis

This study hypothesizes that government spending policies differ in the achievability of economic stability owing to different economic conditions.

Methodology

This study investigates inflation, unemployment, and government expenditures in the Iraqi economy. To do so, a deductive, theoretical, and data-driven inductive approach have been followed in the analysis. A thorough analysis requires an understanding of de facto economic conditions to uncover relevant data and variables.

1. Government Expenditure

Government expenditures are a set of expenditures spent by the state in the form of state-regulated amounts of money within a specified period of time to meet specific social, economic, and other needs. Such expenditure involves state spending to provide services to citizens, purchasing goods to help them provide services, helping to organize society, or commissioning economic and social projects. Government expenditures include state-spent amounts to launch public services, utilities, projects, businesses, or other activities (Abdul-Hameed, 2010).

2. Economic Stability

To be stable is to be firm and motionless. Economically, stability is where the economic situation remains stable or ideally changes irrespective of circumstances. Primer stability can help restore balance. This is achieved when economic variables do not experience sustainable negative changes for a certain period, in which case the balance is reached when this requirement is met. Where the economic balance is being developed, zero-inflation employment as well as real national production-level balance can be realized. Generally, these balance-based stabilities see the highest government expenditure topped by the exploitation of the available economic resources and, at the same time, the preservation of currency evaluation (Al-Tikriti, 1986).

Economic stability should also meet the full operation of available economic resources while avoiding price-level significant changes. To sum up, economic stability is complemented by two main objectives that most financial systems often attempt to achieve: to maintain the de facto full operation of available economic resources and maintain a stable level of prices (Bakheet, 2007).

3. Economic Stability in Developed and Developing Countries

Having been manifested in various ways, economic stability in developed countries is concerned with maintaining the full operation of economic resources. In other words, unemployment rates are to be minimized through monetary and fiscal policies to support economic activity and stimulate investment (Al-Sa'ieedy & Al-Ateeby, 2015).

As far as inflation is concerned, developed countries struggle to keep inflation as low and stable as possible. By monitoring monetary supplies and managing monetary policies, developed countries have been keen to ensure that no undesirable inflation is in action.

Similarly, challenges in developing countries may be greater as economic stability can be influenced by such factors as fluctuation of natural resource prices, underdeveloped economic structures, and ever-going political instability. Therefore, inflation and higher unemployment can be major challenges in developing countries. Reliable infrastructure,

economic diversification, improved education, and skilled careers can all be part of efforts to achieve economic stability in developing countries (Ayib, 2010).

Additionally, economic shrinkage, which is a decline in total overall spending, can be challenging for many developing countries. Accordingly, shrinkage can cause lower production and higher unemployment, thus affecting living standards. Generally speaking, reaching economic stability depends on various factors, which require the integration of economic and social policies (Al-Ta'ee, 2011).

4. Economy in Post-2003 Iraq

Iraq's economy has faced various challenges and changes since 2003. Although Iraq possesses huge natural resources, it still suffers from low diversification. Furthermore, security and political tensions not only affect stability, but also hinder investments.

With oil as the main resource in the Iraqi economy, its fluctuating prices affect revenues. As much as Iraq's industrial sector needs development, various economic challenges in Iraq's economy, such as unemployment and below-average living, are real problems. Investment conditions and national production need to be strengthened and optimized. Furthermore, an overall sustainable development can only be achieved through economic diversification, attractive investments, and better security and political conditions. Below are some of the problems affecting the Iraqi economy before and after 2003 (Al-Ameri & Nima, 2007).

1. Iraq's economy comprises various key sectors, such as agriculture, industry, transport, communication, banking, tourism, health, and education. All these sectors have experienced a three-decade neglect, having received no due attention, despite the many natural assets that Iraq has which outnumber regional or foreign countries. All these changes have adversely affected the economic and social status of average Iraqis. With Iraq just preceding Yemen as the next undeveloped country, United Nations agencies have ranked it as a poor country. Notwithstanding that underdeveloped countries are the nations with no capitals, yet an underdeveloped country having only capital is not enough to overcome underdevelopment. Based on these discussions, some previous studies posited that underdevelopment is the scarcity and/or ill-use of resources (Mohammed, 2008).

2. Economic Problems in Post-2003 Iraq

The negative impacts of the 2003 war have deepened and intensified Iraq's economic problems since April 9, 2003. Not only have the backbones of the major economic activities, namely agriculture, industry, health, and education, been badly damaged, but also the oil sector. The oil sector, the once-only driver of Iraq's economy and growth, has seen the worst changes. In the years following the 2003 war, this oil-dependent economy has been adversely affected by security, political, and economic events (Awwad & Salim, 2009).

The policies pursued by the US Provisional Authority in Iraq, such as the dissolution of Iraq's military, economic, and institutional appliances as well as the destruction of the national economic and cultural assets, further complicated the structural imbalance in the Iraqi economy, with severe economic crises emerging. This devastation of the economy was manifested by widespread unemployment and the deterioration of society's social and health services.

Iraq's economy saw dramatic shifts after 2003 as it became a one-source economy. As oil dominated Iraq's economy, accounting for more than half of the gross domestic product and exports, these radical shifts have led to negative economic, social, and political impacts. Such policies have been labeled "the deviant oil wealth" as in excessively common consumerism and import over-dependency (Taqa & Ajlan, 2005). These

negative practices often cause a large leak of oil resources, an imbalance of savings and investments, an increased disorder between public consumption and private sector, far-fetched diversification, and hard-to-attract investments. Given these economic changes, Iraq's economic conditions are challenging due to the problems and instabilities elaborated on above (Breehy, 2011). Below are some of the challenges and problems facing the Iraqi economy.

A. Higher Employment

- The rates of unemployment in Iraq are significantly high, with the public sector alone cannot provide additional jobs.
- Unemployment is accelerating owing to the weak local private sector, which makes the government face challenges in creating sufficient jobs (Breehy, 2011).

B. Inflation

- Inflation is the increase in the amount of money, thus leading to higher prices.
- Increased government expenditure or monetary financing by promoting credit can boost inflation.
- The effects of inflation are currency undervaluation, increased prices, and the challenging provision of goods and services.

C. Increased External Debts

- Considered a major challenging problem, external debts have significantly increased owing to wars and sanctions.
- Iraq suffers from financial problems caused by cumulative external debt, which affects a proper utilization of natural resources.

These challenges indicate complex economic development and transformation. Therefore, effective actions should be taken to overcome these challenges and achieve sustainable economic growth. To overcome these challenges and provide sustainable economic stability, various sectors should be strengthened, investment conditions should be improved, and transparency and accountability must be enhanced (Al-Thabrawy, 2008).

5. Framework of Government Expenditure

1-Oil-dependence: Iraq relies heavily on oil revenues being the major source of state revenues, accounting for 95% of its total. Such higher dependence exposes the Iraqi economy to significant risks, namely global price fluctuations.

2-Full potential transformation: There are full capabilities in Iraq, such as natural and water resources, but they must be invested well to maximize economic and financial benefits.

3-Financial and monetary challenges: Problems in fiscal and monetary policies that require serious treatment. There are several problems affecting Iraq's financial conditions, particularly the drafting of an accurate financial budget and the reduction of large government expenditures.

4-External challenges: External challenges, such as debt and war compromises, must be addressed. Economic policies and practices must be redefined and reformulated to better address and improve Iraq's external financial situation.

5-Significant investments: A continuous dependence on oil exports requires significant investments to transform potentials into effective and ready-to-use resources.

In brief, the structural reforms of state economic and financial policies are a must to diversify revenues, outsource returns, and promote a sustainable economy (Al-Sa'ieedy & Al-Ateeby, 2015).

6. Investment Expenditure

Investment expenditure is particularly important because it is the second source of expenditure after consumable investment, and volatile impacts can create further economic fluctuations. Generally, investments are the re-allocation of expenditures towards fixed capital assets, such as plants, machinery, financial inventory, and new projects. Thus, investment is like a stream of expenditure dedicated to strengthening infrastructure and expanding productive capacities. The text indicates that increased investment means adding new productive capacities or repairing existing ones. All these practices jointly contribute to enhanced economic growth and improved competitiveness.

As investment plays a pivotal role in promoting economic growth, it can also be a reliable factor in maintaining a sustainably balanced economy. Accordingly, finding a balance between consumption and investment matters as it can achieve sustainable economic development. However, there are challenges to investment expenditure, which may not only be complex but also require effective remedies. One such challenge is to hinder or disrupt the increase in investments citing certain factors (Dawood & Salman, 2000).

Conclusions

1-Government expenditures are not mere figures in the general budget. Rather, they reflect important facts. This figure is the result of a multi-factorial interaction, be they political, economic, or social. The text indicates that these factors significantly affect the level of government expenditure.

2-To achieve economic stability, the text emphasizes that balanced economic growth for all sectors should be achieved. Additionally, the text indicates that investments should be allocated as per the needs of the sectors, with a particular emphasis on industry and agriculture. However, these measures are only achievable through the provision of appropriate investment conditions based on integrated infrastructure, plants, power facilities, water facilities, road grids, educational institutions, and health facilities.

3-Both unemployment and inflation are serious economic problems in Iraq, given their negative and impactful effects on the entire socio-economic situation. Likewise, the elimination of unemployment and inflation requires effective and full measures to improve Iraq's economic and social situation.

Recommendations

1-A specific time frame, based on the exploitation of oil revenues for investment in activities that directly contribute to economic diversification and export development away from oil-dependent revenues, should be adopted. In this respect, the text underlines a strategic policy to redevelop all economic sectors, and to highlight how important the oil sector is as a source of wealth and income and a maker of economic stability.

2-Given their significance as expanders of commodity supply, industrial sectors must be developed to achieve satisfactory economic growth. Remarkably, when these sectors are accounted for, low inflation rates and stable prices become tangible .

3-The private sector must participate in or contribute to job creation, providing that government subsidies are available in various forms, such as soft loans and transparent laws. Interestingly, this encouragement can contribute to the creation and expansion of existing businesses, thus creating new jobs to cut unemployment.

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