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Poverty as a Consequence of Structural Imbalances and State-led Growth Failure in Iraq and the Kurdistan Region (1970--2020)

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### **Abstract:**

This paper sheds light on economic contradictions, or structural imbalances, of the Middle East and North Africa (MENA), with special references to Iraq and the Kurdistan Region of Iraq (KR-I), which occurred across the last 50 years. These contradictions, or imbalances, have resulted in a weak economy and political instability, and gradually generated a high level of poverty. The study emphasizes the correlation between state-led growth, structural imbalances, resource curse, and socio-economic outcomes such as poor economic performance, low levels of private-sector development, and increasing poverty rate. It also analyzes the constraints of reforms by social actors. The paper relies on secondary data collected by NGOs, government organizations, researchers, etc. It concludes that poverty is first and for most a consequence of the economic contradictions, or economic imbalances and state-led growth including but not limited to instability in oil rents versus high growth rate of population, and a large public sector versus a weak private sector.

Keywords: Economic imbalances, State-led growth failure, poverty, Middle East, Iraq, Kurdistan Region

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### Introduction

Until the 1980s, most Middle Eastern states advocated some form of socialism. Sudan, the Yemen Arab Republic (YAR), Syria, Iraq, Libya, and Algeria were among this group. The Kurdistan Region has been under the influence of the same economic model, socialism or central planning, reflected on the Region's economic performance in the last three decades. Others (e.g., Morocco and Turkey) followed the same model though with a different label. The economic model that existed was, and still is, mainly no more than a large public sector and welfare program alongside industrialization. It was claimed that the model is an effective cure for the diseases left by colonialists; thus, the state brings prosperity to society by interfering with the economy. But despite some progress, decades of state efforts failed and generated economic contradictions, a combination of economic conditions and ideas, or features of an economic situation that are in conflict with another and produce unfavorable social outcomes. One of these economic and social outcomes is poverty.

Poverty has long been an evolving challenge in the world. Accordingly, over the contemporary decade, dissimilar approaches and programs such as the Millennium Development Goals have been employed to explore the roots of poverty, reducing it, and improve the quality of people's lives.

According to Sachs, poverty can be divided into three degrees. Extreme Poverty "or Absolute poverty" is the first degree in which the households cannot meet basic needs (e.g., access to healthcare and education, or safe drinking water and hygiene, and lack of shelters) for survival. For this, a line has been drawn, which is \$2. Extremely poor are those people who are under the poverty line. The second degree is moderate poverty, which is above \$2. It normally refers to situations of life in which basic needs are met, but just scarcely. Finally, relative poverty is usually interpreted as a household income level below a given proportion of average national income (Jeffrey D. Sachs, 2005, p.20).

Since 2010, the term Multi-dimensional Poverty has appeared and it includes deprivation from health, education, water, electricity, and the standard of living. In 2019, nearly 7 billion people of the world's population were multi-dimensionally poor. Afterwards, a measurement was established for this between 01- in which close to 1 is a good indicator. Using this measurement, Iraq has gotten 0.03 which means that it is in severe circumstances, meaning that multi-dimensional poverty is high (النداوي، عباس أحمد 2020، ص.ص. 20-4.). The last poverty line is the subjectivity poverty line, which is how the poor see himself/herself and where s/he placed himself/herself on the poverty rank because s/he understands that his/her situation is severe (Nicolas Duvoux and Adrien Papuchon, 2019, p.4). Other concepts and measurements used in this paper are poverty gap (depth of poverty in percentages to poverty line) and Vulnerability to monetary poverty (Near poverty rate), that is the poverty line times



1.5 (Assessment of COVID-19 Impact on Poverty and Vulnerability in Iraq, 2020, p.2).

In the last few decades, though fewer people are living in extreme poverty around the world in comparison to the previous decades, the decline in poverty rates has slowed, raising concerns about accomplishing the goal of ending poverty by 2030 (World Bank, 2018). Nevertheless, in contrast to its attempts and estimations, the World Bank approximates that 40 to 60 million people would fell into extreme poverty in 2020 as a result of COVID-19. Among extremely poor people, the biggest rate lives in low-income countries.

### Problem statement

Within the last 50 years or so, oil abundant and gas reserves have shaped political and economic development paths in much of the Middle East and North Africa (MENA) region. This combined with the claim that the state can fill the vacuum of power left by colonialists, and bring prosperity to society if it interferes with the economy. However, though progress can be observed, the state has failed to accomplish the announced goals, especially in Iraq and the Kurdistan Region. The failure of state-led growth combined with structural imbalances have brought several unfavorable social outcomes, including increasing poverty rates, and there is a risk of increasing the rate further for several reasons, a point to be returned to in this paper.

The Research Questions

Based on the problem statement above, the central questions are:

What are the economic contradictions, or structural imbalances in the Middle East and North Africa (MENA) in general, and in Iraq and the Kurdistan Region in particular?

How the state-led growth failed and generated new structural imbalances?

How is poverty affected by those imbalances and the state-led growth failure?

# Objectives of the Study

The aim of this paper is not to determine the rate of poverty. Instead, the goals are:

To identify socio-economic causes and consequences of structural transformation and state-led growth on poverty, in Iraq since the 1970s and in the Kurdistan Region since 2005 as data does not allow to dig deeper.

To explore constraints of reforms and provide the economic policies that can contribute to tackle economic imbalances and reduce poverty rate consequently.

Finally, as a hypothesis, the paper states that demographic factors (e.g., fertility rates) are highly affecting



poverty rates. Also, human capital formations, including the illiteracy rate, influences poverty rates. However, both demographic factors and human capital accumulation are products of the economic contradictions, structural imbalances, within Iraq and the Kurdistan Region.

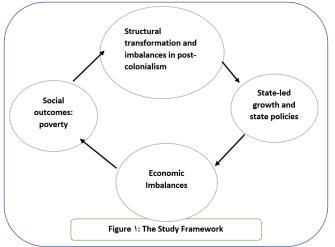
Significance of the study

Reviewing and exploring causes and consequents of structural transformation and adjustments in the MENA in general during the last 50 years.

Understanding and analyzing the predicaments inherited from the economic and political models of Iraqi state in the last five decades or so into the Kurdistan Region along with focusing on determinants of poverty and fighting against them.

# The Study Framework

The below figure illustrates the link between structural imbalances, state-led growth, and poverty in the MENA countries further. Our model is one of reciprocal causation. It has originally taken from Melani Camett et. al., (2015), with some amendments, developments, and adjustments to be fit with the idea of this paper. The model (the figure below) tells the story in a slightly different way, and as follows. In post-colonialism era, the MEAN, of course including Iraq, confronted structural imbalances (e.g., urbanization with weak agriculture and industry sectors). States have interfered with the economy to fill the economic and political vacuum left by superpowers, took the responsibility of enhancing the economy and bringing prosperity. In the beginning, some progress could observe. However, especially in the oil-exporting countries, the state failed not only in pushing the economy up and improving economic performance, but it also fell into crisis once new structural imbalances, largely due to resource curse, occurred. The social outcome was unemployment, underemployment, inequality, and poverty, which generated social unrest and made further problems to the economy.



Iraq and the Kurdistan Region case shows an extremely variable growth rate during the last oo years or



Iraq and the Kurdistan Region case shows an extremely variable growth rate during the last 50 years or so. This variability is partly a result of the dependence of the country on oil revenues. The first boom was in the 1970s, then collapsed by the 1980s and parts of the 1990s, which forced shrinking government expenditure, caused the large public debt, and resulted in lower growth. From the fall of Ba'ath's regime in the early 2000s to until 2011, the second oil boom started resulted in resuming growth. It has slowed down since. And poverty rates have increased again. Hence, the paper supports the arguments by showing data and several indicators from various sources.

The rest of the paper is organized as follows. Section 2 explores the literature. Section 3 focuses on economic contradictions in the Middle East. Section 4 is devoted to discussing the impact of the centralization planning model and oil rents and their links to economic contradictions in Iraq. Section 5 discusses similarities and differences in economic performance between the Kurdistan Region and Iraq. Section 6 is an analysis of reforms and their constraints. The last section is a conclusion.

Theoretical Background and Literature Review

The discussion about roots of poverty can be as old as the age of economics itself, which dated back to 'The Wealth of Nations, written by Adam Smith in 1776.

Adam Smith focuses on the division of labor, or what can also be named "specialization," as a major source of growth or crisis. He supports the market economy, not the state intervention, as a mechanism to grow and get rid of poverty. Following him, Thomas Malthus argues that the poor are responsible for their misery. Once income increases, birth rates increase; thus, causing the poor to fall into the poverty trap. Unlike Malthus, Ricardo believed industrialists to be at the dynamic center of the workings of the capitalist economy. But what landowners gain in income with population growth, industrialists lost. The result is poverty. However, Marx argues that poverty and unemployment will be indispensable from capitalism as long as the system consists of two classes, the workers and the capitalists, and as far as the former class works for the latter class. Thus, it is capitalists, not the working class, who are responsible for the poorness of people (James M. Cypher and James L. Dietz, 2004, pp.113126-). In the modern era, the Vicious Circle Theory, developed by Ragnar Nurkse, origins from the fact that the developing countries suffer from the lack of income and market imperfection which had led them to lower production capabilities, poor economics, and delaying their entire progression programs. Later, economists have developed the human capital theory to explain the social outcome. From the vantage point of growth, rapid population growth is both the cause and consequence of poverty and underdevelopment (Julia C. Devlin, 2010, pp.2627-). However, the decline or rise of fertility largely

depends on factors deriving from economic policies and human capital accumulation.



The Human Capital theory, originally developed by Jacob Mincer and Gary Becker, implies that increased education leads to increased earnings through the acquisition of new skills and knowledge which will lead to employment, and employment, in turn, leads to higher productivity which leads to higher earnings. For example, the lengthening of time women spends in education boost the decline in total fertility rates. A shift from work (e.g., land cultivation in the rural areas) to education tends to keep their productivity down during childhood. Hence, the chances of a successive baby boom are limited (Alessandro Romagnoli and Luisa Mengoni, 2014, pp.7677-). Consequently, poverty rates decrease.

Moreover, according to the entire theory, "pervasive rent-seeking occurs where the state is weak, decaying, venal, and lacking rule of law, primarily among low- and middle-income economies", causing economic performance to eradicate (E.Wayne Nafziger, 2006, p.115). Still others, such as institutionalists, focus on legal, political, and economic institutions. Through this, they support good governance, property rights, patent, R&D, etc, to achieve development goals, including lower poverty rates (E.Wayne Nafziger, 2006, pp.131133-, and pp.334336-). Hence, how resources allocate depends on the institutional developments within that particular country.

As to the carrying out of the economic development process in particular, on one hand, the classic theories of economic growth highlighted the constituents necessary to promote the structural change and the improvement of economic conditions, including capital accumulation, labour force growth, and technological advancement. On the other hand, market and government failures have been seen as the main threats that cause economic failures (Alessandro Romagnoli and Luisa Mengoni, 2014, p.34). Within these theoretical debates, demographic pressures in every developing country have encouraged economists and decision-makers to claim more productive growth; which needs longer-term investment through private-sector expansion (Pete W. Moore, 2004, p.2).

These theories do help us in understanding the roots of growth and crisis, economic stability versus instability, and prosperity versus poverty. They are also helpful in designing policies to fight poverty in the case under study, Iraq and the Kurdistan Region.

An earlier study conducted in Kenya by the African Medical and Research Foundation - AMREF (1998) revealed that the primary district causes of poverty in Kenya were personal, demographic, political, historical and environmental factors. This concurs with similar assertions revealing that poverty can be categorised as rural poverty and urban poverty (Navaneetham et. al., 2008). Ijaiya (2000, 413) supports this view, established that the problem of urbanization is also a major underlying factor responsible for causing poverty. This is caused by a lack of maintenance and investment of poor public



facilities, leading to the inner urban decay of urban cities. Additionally, countries may lack sufficient maintenance skills and financial resources needed to maintain public facilities, at least in the very early of the urbanization process when people move from the countryside into the cities. Suggestions were provided that lowering tax rates and increasing government expenditure on infrastructure development is vital for dealing with the problem of inner-urban decay responsible for causing poverty.

Adding to the above findings, Ukwu (2002, cited by Oladele Joseph Kehinde, 2010, p.3) explores the causes of poverty in sub-Saharan Africa, listed the following factors:

Inadequate support of poverty alleviation programs by responsible stakeholders.

Limited access to markets by poor people.

Reduced productivity and environmental degradation.

Low human capital endowment levels.

Lack of rural development and support of poor regions.

Lack of capital and assets.

Inadequate access to employment opportunities.

Nevertheless, none of these studies deeply focused on the structural imbalances that have faced the MENA, and in Iraq and the Kurdistan Region within it. Its impacts on poverty have largely been neglected, too. It is here that this paper tries to contribute.

Structural Imbalances and State-led growth in the MENA

The argument in this section begins with the rise of the state apparatus, followed by its rollback and the decline of public services. To fill the vacuum, there were attempts to provide more space to market economy mechanism than the state as an engine for growth.

Following World War II, the Middle East was suffering from having a huge number of uneducated and poor people. One reason for this was the dominance of agriculture over the economic system and the social relations while physical capital was rare. Poverty in both forms of human capital (knowledge, skills, etc), as well as physical capital (money, income, etc), has given a pretext to the political leaders to plan for centralization.

There was an attempt for imposing a state-led growth model. Culture and religion were not the reasons for the large public sector. Instead, following post-colonialism, the state was looked at as the entity responsible for fixing the economic damages. Other goals included the escape from backwardness and the establishment of a strong state along with a welfare society. To fulfil these goals, all human and physical resources were to be used. In this way, the government has made it its responsibility to interfere in the economy. The responsibility for the advancement of the society needed a strong



military, which was taken a large portion of the government's expenditure. In this process, resources were diverted into corruption and patronage (Cammett et. al, 2015, 233). In contrast, the private sector was largely ignored and seen as a method for an illegitimate accumulation of profit and wealth. Whenever the private sector gained profit, it was argued, it would export it instead of reinvesting in domestic markets. Increasing inequality gave the bureaucrats a further pretext for ignoring the private sector and intervention into the economy. It was the state's responsibility, the bureaucrats claimed, to distribute assets for the benefit of the poor. However, the big size of the public sector, in terms of revenue and expenditure from total GDP, with "lack of full adjustment in labor markets contributes to high rates of youth unemployment" (Julia C. Devlin, 2010, p.4).

Turkey is on the list of countries that passed through this process. Mustafa Kemal Ataturk established the Republic of Turkey in 1923 and started a large campaign against European colonialists such as Italy, France, and Greece. Ataturk established a republican, secular, and nationalistic system. The manifesto of Ataturk, announced in April 1931, states that the state has the legitimacy to interfere in the economy. During those years, announcing Five-Year-Plan was the norm. In 1934, he announced a five-year plan. Within this, the Turkish state ran most of the projects. For example, the government had nearly 184,000 employees in 1945, accounting for 35 per cent of the government expenditure. This resulted in a budget deficit. In the 1960s and 1970s, this model of state-led growth continued. The number of employees in state projects increased from 362,000 in 1970 to 646,000 in 1980, which accounted for 16 per cent of the non-agricultural employment. The government expenditure between the 1960s and 1980s increased from 18 per cent of the GDP to 35 per cent of the GDP. The same model of state-led growth was implemented by Iranian rulers. In 1979, Iran transformed into an Islamic regime but this changed nothing in terms of government monopoly over the economy (Cammett et. al, 2015, 237). There were similarities in this centralized model between Iraq and Iran. However, Iraq did it in the name of socialism and pan-Arab nationalism, which will be discussed later.

Table (1) shows oil revenues and their share in the public budget as well as GDP. Among these countries, the United Arab Emirates (UAE) was able to take advantage of oil revenues thereby diversified exports. The share of oil revenue in pubic revenues was also decreased. This demonstrates that the presence of oil and other natural resources can be a blessing, not a curse depending on its allocation and having good institutions. Eventually, "just as the goals of efficiency, growth and national independence were only partially achieved, the ideal of increasing equity also proved elusive" (Cammett et. al., 2015, p.260).

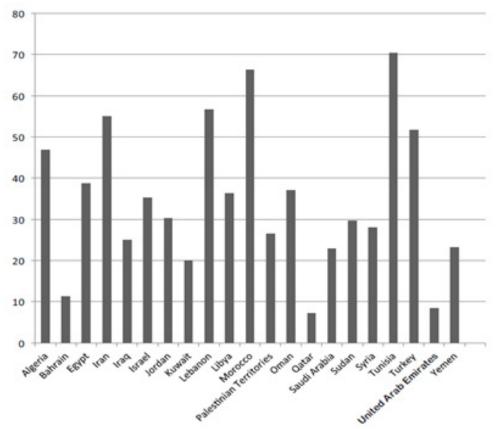


Table (1): Oil Rents, Oil Exports and Revenues, and Government Revenues in Selected Middle Eastern Countries, 2010					
Country	Oil rents (in billions of 2010 (US dollars	Oil rents per capita (in 2010 (US dollars	Oil rent (percentage of (GDP	Oil exported (% (of exports	Oil revenue (% of government (revenue
Bahrain	\$4.4	\$3,490.0	19%	76.8%	79.6%
Kuwait	59.9	21,858.4	48.3	93.5	76.0
Oman	20.9	7,505.7	36.1	76.4	83.6
Qatar	18.5	10,535.2	14.6	89.0	60.2
Saudi Arabia	248.6	9,074.8	47.2	88.2	88.1
UAE	54.8	7,301.2	18.4	42.7	75.3
Libya	31.6	4,974.9	42.3	na	na
Algeria	27.4	732.0	16.9	72.2	92.0
Iraq	105.1	3,118.7	73.6	98.0	85.0
Iran	99.3	1,259.2	23.5	73.0	80.7
Syria	9.6	427.6	16.3	46.2	69.0
.Milani Cammett et. al., 2015, p.344 :Source					

Three groups can be distinguished within this region, as Cammett et. al. state. The first is Resource-Rich- Labor Poor (e.g., GCC countries). The average long-term growth (19602010-) was 2.08 per cent, with Oman achieved the highest (5.86 per cent) and Kuwait having the lowest rate (- 0.6 per cent). The second is Resource-Rich- Labor Abundant (e.g., Algeria, Iran, and Iraq). The average long-term growth (19602010-) was 1.30 per cent; Iran is the first (2.76 per cent) and Iraq is the last one (- 1.08 per cent). The third group is Resource Poor-Labor Abundant (e.g., Tunisia, Turkey, Israel, and Jordan). The long-term growth was not less than 2 per cent for each country, though Jordan was ahead of the rest with 3.7 per cent on average for the same period (19602010-). It can be said that the third group is better than the second one as lack of natural resources has forced them to move toward the productive sectors. At the same time, the presence of natural resources in the second group has not reached a level sufficient for the population but led to the establishment of dictatorial political regimes.

One reason that prevented income from increasing in accordance with the structural transformation in these countries was the population growth (See Figure 2). Population growth has been among the highest in the world and labor force growth has increased at an even faster pace. This is due to high birth and fertility rates and rapidly declining death rates. A young population structure has implications for saving rates and labor force growth rates because even if fertility rates are declining, there is a large cohort of the population in child-rearing age (Julia C. Devlin, 2010, p.13 and p23). The figure below





shows the years to double the population number in the MENA.

Figure 2: Doubling the population Number in the Middle east

Source: Cammett et. al, 2015, p.141

The relationship between demography and economic development, emphasized by the analysis of population age structure, put the new challenges into focus: the creation of jobs, which is the priority of the MENA governments' agenda to reduce current unemployment rates and reabsorb new entrants in the labour market. For several reasons, family and kinship networks also play an important economic and social role. In Jordan for example, approximately 40 per cent of the elderly were living with their children (Julia C. Devlin, 2010, p.4). In challenging these difficulties, investing in human capital is a priority for the Middle East countries if a sustainable development path based on a new social contract is considered (Alessandro Romagnoli and Luisa Mengoni, 2014, p74).

Another contradiction is the weaknesses of the gross domestic saving compared to the total domestic production. The deficit between savings and investment was filled with external borrowing and a large number of these countries became indebted in large amounts. Iraq's debts in 2010 reached 57 per cent of the GDP. In Lebanon, it reached 167 per cent of the GDP; In Jordan, 63.3 per cent and in Turkey



41 per cent of GDP. The volatility of primary commodity prices "contributed to the chronic balance of payment deficits and a high degree of volatility for many developing regions, including at times, the MENA countries" (Julia C. Devlin, 2010, p.29). Especially in the Resource Rich-Labor Abundant countries, when oil revenues decline, the poor suffered the most harm from these economic instabilities and shrinking government spending.

The final structural imbalance is the lack of diversified exports. This is particularly due to the weaknesses of agriculture and industry, especially in oil-rich countries. The highest share of the labour force is absorbed by agriculture, the informal sector, and petty services relative to manufacturing and industry (Julia C. Devlin, 2010, p.18). In addition, in oil-exporting countries, when oil prices rise, the appreciation of domestic currency results in high import volumes at the expense of exports, a phenomenon is known as the Dutch Disease. Eventually, the aggregate demand shifts downward and the economy might confront recession. Finally, this weakens the state's capacity to counter poverty and unemployment.

It is worth noting that in these societies, clientization replaces justice, individualism, and families depending on their connections to authority in order to get jobs or shares in government social security support. Those who are close to authorities and who might support them are having a better standard of living than those who are away from them. Business elites were coopted through state patronage (Pete W. Moore, 2004).

Not surprisingly, if \$2 is counted per day for the poverty line which is a better measurement than \$1 per day, nearly 22 per cent of the population of the Middle East are under the poverty line. In this respect, the Middle East is far from some other regions of the world. Latin America was at this level 10 years ago, left Europe and the US alone. If the poverty line is set at \$3, the rate of poverty raises to 46 per cent of the population in the Middle East. Until 2010, nearly 80 per cent of men and 60 per cent of adult women were literate; out of every 1000 persons, 229 use a mobile phone, about 50 had a personal computer and 89 had access to the internet (Julia C. Devlin, 2010, p.p1317-).

# Central Planning Model, Oil Rents, and Economic Contradictions in Iraq

In 1953, Iraq fell under the influence of the Ba'ath party, whose goal was Pan-Arab nationalism, meaning the unification of the Arab world, and it embraced socialism. Initially, Iraq supported the private sector through the provision of economic and financial infrastructure. However, in the 1950s, oil revenues expanded the state's capacity. The oil revenue was used to support agriculture and government expenditure. Eventually, winds of change, partially due to investment in agriculture,



caused overthrowing the monarchy through a coup (Melani Cammett et. al, 2015, p.110).

The new president, Abdulkarim Qasim, supported investment in industry and the ministry of the industry was established to oversee the industrial sector. In 1963, the Baathists took control by a coup over him. Afterwards, the Baath party was removed for a brief time, but in 1968, they took over power again. The story of state-led growth has started since (Kiren Aziz Chaudhry, 1994, 67-).

The banks were nationalized and the industrial sector was controlled. In the total output, the state reserved the share of 62 per cent of manufacturing and 42 per cent of employees. In 19721975-, the oil sector was totally nationalized. With oil prices skyrocketed, the state's shares in GDP rose to 75 per cent (52 per cent of which was from oil). In 1977, the state-owned nearly 400 projects and 80,000 employees. In 1977, the state had 410,000 employees, which accounted for half the workforce, alongside 250,000 military personnel. In the 1980s, the military numbers rose to one million soldiers. Aside from these, 260,000 police members existed with 120,000 pensioners. In 1980, one out of four Iraqi citizens was on the government payroll. As in Turkey, part of the message of the Baath regime was to escape from the clutches of Western invaders and provision of prosperity, both of which came to be in opposite. However, Iraq faced three major upheavals: the Iran-Iraq war, the war on Kuwait, and eventually embargo imposed by the international community. In this process, the role of human capital was limited to defending the regime instead of being productive in economic activities. When Iraq started a war in 1980, it owned 50 billion dollars. When the war ended, it was \$86 billion dollars in debt. The GDP per capita reached \$546 after the invasion of Kuwait. All losses from these three wars (including the US invasion in 2003) is estimated at \$1 trillion US dollars (Cammett et. al., 2015, pp.245246-), which is almost 4 times larger than the GDP of Iraq in 2001.

As previously mentioned, among the Resource Rich-Labor Poor countries economic development for the long-term (almost 40 years) was only negative for Kuwait (which was invaded by Iraq). Among Resource Rich-Labor Abundant countries, only Iraq's economy is ended with negative growth (-1.08 per cent) when taking long-term growth (19602010-). The second remark is that economic growth is not stable, facing ups and downs all the time. Looking at the big picture, uneducated people, poverty and unemployment were born from these large-scale events, making the previous generation less able to support their children in getting them into education or enjoy a good standard of living. For example, secondary education enrollment was 23.5 per cent in Iraq in 1971, raised to 53.2 per cent in 1980, before declining to 46.5 per cent and 37.3 per cent in 1990 and 2000 respectively, indicating that current parents were suffering from a lack of opportunity to choose to study, let the poor quality of education alone. Also, the maternal mortality rate increased from 47 to 84 per 100,000 live births,



and the infant mortality rates increased by 150 per cent between 2003 and 2012 (Melani Cammett et. al, 2015, p.167 and p.188, table 5.5), demonstrating that parents and their children have not had opportunity to accumulate their human capital.

The structural imbalances previously mentioned in the MENA have remained the same in Iraq. Following the fall of the Saddam regime, a wave of optimism covered the whole of Iraq, followed by the second wave of the oil price increase. Again, GDP per capita started to move up; however, the revenues have largely been re-captured by the government. The government has become the major choice for employment. A large government was formed. Accordingly, Iraq's economy continues to heavily depend on the oil sector in light of the steadily declining contribution of non-oil commodity activities (agriculture, industry) to the GDP. Indeed, the oil sector, with a contribution of 55–60 per cent of the GDP, only employed 2 per cent of the workforce, and the productivity of the remaining 98 per cent of the workforce was very low in goods and services production activities (Iraq Human Development Report, 2014, p.57). Until now, oil revenues are not less than 90 per cent of exports and nearly 90 per cent of the total public revenues of Iraq.

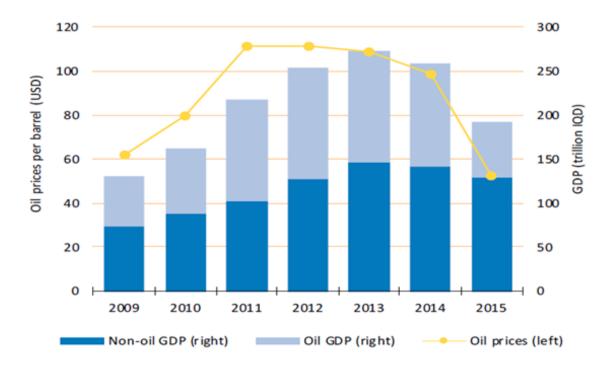


Figure (2.3): Oil-versus Non-oil GDP in Iraq (20092015-)

Source: Assessment of the Labour Market, 2014, pp.3527-

Though GDP per capita was 4989.80 US\$ in 2015, increased to 5955.11 US\$ in 2019 خضير) national income is directly affected by increased oil revenues



rather than by increased productivity rates. Also, both the public sector (13 per cent), construction (13 per cent), and real estate (12 per cent) are having the biggest share in non-oil activities (Assessment of the Labor Market, 2014, pp.35). Their shares mostly represent a reflection of "Dutch Disease" in which demand for public sector jobs as well as non-tradable goods increase.

It has been argued that the economic embargo imposed in the 1990s, the US invasion of Iraq in 2003, administrative, and financial corruption are the main reasons for poverty. In 2019's ranking, for example, Iraq was number 166th of the countries of the world in terms of corruption. In the same year, the committee on integrity announced the existence of 4572 cases of corruption. Following these reasons, forced emigration, and displacement on account of sectarian warfare have had direct effects on the increase of poverty. Coordination between the public and private sectors in terms of planning and investment in order to escape the rentier economy and to establish job opportunities thus decreasing poverty are the major suggestions in this respect. Simultaneously, the oil revenues need to be used for public investment instead of ideological influences ) -12. ص.ص. 2020 ص.ص. 2020 خضير عباس أحمد النداوي، ديسمبر 2020 ص.ص. 2020 ص.ص. 2020 عباس أحمد النداوي، ديسمبر 2020 عباس أحمد النداوي، ديسمبر 2020 ص.ص. 2020 عباس أحمد النداوي، ديسمبر 2020 عباس أحمد النداوي عباس أحمد النداوي ديسمبر 2020 عباس أحمد النداوي ع

Moreover, geographic location, as a consequence of structural imbalances, has an effect on poverty. Poverty outside the cities is more than poverty inside the cities, 30.7 per cent compared to 13.5 per cent, respectively in 2012. The size of families and the lack of education have had direct effects. For example, in ages 611-, poverty is 20.5 per cent for illiterate compared to 9.2 per cent for educated people. The least rate of extreme poverty was in Sulaymaniyah 2 per cent, Irbil 3.6 per cent, and Duhok 5.6 per cent where the family size is lower compared to other cities in Iraq. No doubt, the poverty rate in other measurements, such as relative poverty or moderate poverty, is higher than these percentages mentioned. One of the suggestions is the allocation of part of the government's budget for the poor on a yearly basis, alongside the policy of organized families, notably outside the cities. Yearly, 2.2 billion dollars for poor people to be placed on top of the poverty line were needed (7 ,2013 ).

Another study emphasis on the fact that poverty in Iraq is related to the following factors (ا.د. بــشرى):

Low income at work: This phenomenon is mostly seen in families working in the agricultural and/or transportation sectors.

Low level of education: Poverty is high in families with low education. However, poverty itself makes the children of these families not study. In Iraq, 51 per cent of the poor has had less than an elementary degree.

High unemployment rate: This is a source of poverty as more than 32 per cent of poor families in Iraq



were unemployed.

Poverty outside the cities is more than poverty inside the cities. A reason for this is that people work in agriculture outside the cities alongside their low level of education. For example, poverty inside Sulaymaniyah city was 1.4 per cent in 2012 but it was 4.8 per cent outside the city.

Increase in the number of family members: Poverty is more in families having a larger number of members. In 2017, the number of the population in Iraq was nearly 38.5 million at an increasing rate of 2.7 per cent.

The spread of the coronavirus and closure of borders and airports in 2020, coupled with the decline in oil prices, not only increased poverty but it also created a crisis for the international community in the form of political and social problems (2. ص. 2020، م. 2020). During the Covid-19 pandemic when full-lockdown was announced, poverty rates raised by no less than 10 per cent in Iraq and the Kurdistan Region. In this respect, a UNICEF report shows that the poverty gap was 4.1 per cent in Iraq. And Near poverty line was 25.8 per cent (Assessment of COVID-19 Impact on Poverty and Vulnerability in Iraq, 2020, p.2).

Thus, all forms of poverty (extreme, moderate, etc) can be observed. In addressing poverty rates, and designing policies, one shall not neglect each type of poverty.

Developmental Path of the Kurdistan Region

Since the early 1990s, the Kurdistan Region has had a semi-autonomy until after the collapse of Saddam Hussain's regime in 2003 when recognized by the central government as an entity within its parliament and government though under Iraq's constitution.

The 1990s was a lost decade for the KR-I due to a double embargo by the central government as well as the UN, not to mention a four-year civil war. The KR-I has entered into the new century with several economic imbalances inherited from the past.

The post-liberation Iraq has taken a new dimension moving from a centralized to a federal state with Kurdistan Region having its independent legislation system. Often different socio-economic policies and strategies are being followed. As a result, differences in the levels of security, socio-economic and overall standards of living can be observed across the regions (Jamal R. M. Ameen, September 2017, p.2). However, similarities in the developmental path can also be observed, particularly in relying on oil rents as a major source of export revenues and government budget, resulting in economic predicaments. To start with the positive side, the security and political stability partially enjoyed by the Kurdistan Region for most of the last two decades have led directly to positive achievements in the HDI's three elements of health, education, and income compared to the other 15 governorates of Iraq. Overall, HDI



was 0.694 in Iraq versus 0.750 in the Kurdistan Region in 2014 (Iraq Human Development Report, 2014, pp.2930-). The GDP per capita was IQD 1 million in 2003, which rose to IQD 3.3 million dinars in 2007. The next year, it reached IQD 6.8 million. The government planned to increase the GDP growth by an annual 5 per cent (Regional Development strategy for KR-I, 2007, pp.3536-). However, not only was this objective not accomplished, the Region was confronted with severe crises, particularly due to the decline of oil prices, cutting the budget by the central government, corruption, and ISIS attack.

In recent years, the private sector made fast growth in many sectors. In manufacturing, oil, and construction sectors, there was growth resulting in the increase of income level of households and individuals, reflecting in the ownership of modern houses and escaping old-style houses (nearly 80 per cent of the population has become owners of their residences). The economic growth expanded the people's knowledge, even in health and cleanliness. Ten years after the fall of the Saddam regime, economic growth even changed the style of baths and showers, from people using bowls to shower in their baths.

Moreover, in 2013, nearly IQD 2.046 trillion was spent by the administration of governorates on the construction sector in the Kurdistan Region (with 6,503 million m2 allocated to it), one-fourth of which was in Sulaymaniyah governorate, including German Administration. Although it decreased to 1.082 trillion in 2015 then to 658 billion in 2018 (Kurdistan region 20142018- Indicators, 2019, p.91), it still occupied a large percentage of public spending. It resulted in the growth of the construction sector in cement factories whereby in 2020, nearly all the region's requirements of cement were provided by the local factories in addition to exports to other areas of Iraq.

On the negative side, however, the increase of oil products (500,000 barrels per day in 2020), growth of the construction sector, and the increase of imports were signs of the Dutch Disease discussed earlier, from which the Region's economy suffered and could not escape. The growth of the oil sector pulled labor further from the villages into the construction sector in the cities. Consequently, in agriculture, the supply of labor decreased, caused the costs of its production to rise. The industry has suffered the same problem. in Sulaymaniyah, only 4.2 per cent of the labor force worked in industry (Regional Development strategy for KR-I, 2007, p.38).

The pattern of industrialization is highly capital-intensive as oil is a dominant sector. Coupled with the fast but compulsory urbanization of the 1990s, the Kurdistan Regional Government (KRG) needed to respond to a growing employment problem. As there is less room for designing monetary policy, which is at the central government's hand, the KRG has relied on fiscal policy as well as trade policies. The



policies worked for a short while, and the rate of economic growth increased at a fast pace during 2005 and 2012. However, as the structural imbalances were still there and the economy was still weak, a little wave could remove sources of increasing income. The ISIS attack and the world economic recessions have caused oil revenues to decline. This combined with internal political conflict among the major political parties over natural resources and the government positions, led to discouraging cooperation and lowering national income. Consequently, a contractionary fiscal policy was in place (e.g., through cutting public employees' salaries by 70 per cent in the first phase then by 40 per cent in the second phase, and finally by 20 per cent until June 2021). Meanwhile, the KRG was not succeeded in imposing property rights, private actors and individual initiatives are weekends. For example, savers could not return their deposits when the KRG has taken them to pay for the public employees' salaries. Later, when the government suffered from crises and budget deficits, the people were no longer at an age to move to the private sector.

The large and inefficient public sector, with almost 49 per cent of the labor force (Kurdistan Region 20142018- Indicators, may 2019, p.84), has given the authorities, both in the government and in the major political parties, justifications for selling the public sector organizations, lands, and enterprises in the name of privatization in recent years. This has opened debates on the negative consequences of applying the market economy model. While the people in the KR-I and the rest of Iraq had paid for the centralized planning model for almost two decades, they may also pay for a fast transformation towards accepting new liberalism ideas and concepts.

Instability in government social security programs due to oil revenue volatility is another predicament. For example, in 2011, the law of supporting family income was changed from IQD 30,000 to IQD 150,000. Nearly 73,000 took advantage of this law, 28,000 of whom were in Sulaymaniyah. Nearly 31,000 graduate students received social subsidies in IQD 150,000 (و بودجــة، ثرؤذة يــة ك بــؤ خزمة تطوزاري و 2012، ل ل 3-35.

Economic growth and structural transformation have had unintended outcomes, one of them was poverty. But that does not mean culture was blind as Cammett et. al. argued. Despite some progress in empowering women, given them 30 per cent of the 111-seat parliament in Kurdistan Region due to a 30 per cent quota system is an example (Rudaw, Women seek 30 per cent share in new Kurdistan Regional Government, 122019/6/), women failed to fulfil voters' expectations, in addition to the problem of selecting candidates based on ethnic, tribal relations, etc, rather than qualifications. They are particularly interested in working for the public sector than for the private sector as the working hours of the former are more consistent with their child bearing responsibilities. Notably, the literacy among



working women is twice that of women who don't work (Kurdistan Region 20142018- indicators, May 2019, pp.810-). It needs to be said that a large percentage of females, almost 46 per cent, still refuse to work and see themselves only in the role of housewives.

The rate of participation in the labor force represents the status of women more accurately. Nearly 67 per cent of men of working age versus 14 per cent of women of working age either work or actively seek employment (27. له قريَم كوردستاني عيراق، ديدطايـةك بـؤ ئاينـدة، 2020، ل. Moreover, Iraqi society is still in favor of early marriages for both males and females. In 23.4 per cent of total marriages in Iraq and in 22.4 per cent of the marriages in the Kurdistan Region, the bride was under 18 in 2014 (Iraq Human Development Report, 2014, p.42).

The above reasons, coupled with the government subsidies to households, in which one of them is the provision of nearly IQD 5,000,000 for marriage, made the population grew on a continuous basis. In 1987, the Kurdistan Region's population was 1,910,905, which increased to 2,861,690 at a number of less than a million in ten years (almost the size of the Iraqi population one hundred years ago). It reached 4,662,266 and 6,033,814 people in 2009 and 2018 respectively (Kurdistan region 20142018-indicators, may 2019, p.3). Not surprisingly, in 2007, the average size of the family was 6.2. In the center of Sulaymaniyah, it was 5.4 and in its surrounding villages was 5.9 (,2007 من المجموعة الاحصائية رقم المعارفة). In addition, the youth's financial reliance on family is still significant, whether in Iraq or the Kurdistan Region, with 65.3 per cent of the youth aged 18 to 30 years totally or partially depending on the family (Iraq Human Development Report, 2014, p.67).

In the area of human development, the Kurdistan Region saw growth. However, it has not reached a level where can leave positive impacts on family size, the labor market, etc. The completion of preparatory education was not more than 65 per cent in Sulaymaniyah, which was higher than Duhok and lower than Erbil (Kurdistan Region 20142018- Indicators, May 2019, p.21). In 2010, out of the total of 182,895 employees in Sulaymaniyah (excluding the Peshmerga), only 536 and 1093 individuals had PhD and Master's (respectively) compared to 21,067 uneducated and 17,189 primary school-educated individuals.(33 . اثاریَزطای سلیَمانی، 2011 . اثاریَزطای سلیَمانی،

Unaspiringly, the unemployment rate has increased. The discrepancy in unemployment rates between young men and women (10.1 per cent and 37.6 per cent respectively) in the Kurdistan Region is very large, which reflects a greater need for employment among young women (Iraq Human Development Report, 2014, p. 52). In the KR-I alone it is estimated that over the next 20 years between 850,000 and 1.1 million new workers will enter the labour market (Assessment of the Labour Market, pp. 3840-). As a consequence of structural imbalances and government-led growth model, especially when it



combines with political events and world economic crisis, poverty rates have increased on average. In 2012, the poverty line was estimated at a monthly income of 105 500 Iraqi dinars per capita at the national level in Iraq. According to the inflation rate in 2018, the poverty line was estimated at 110 880 Iraqi dinars per capita (Assessment of COVID-19 Impact on Poverty and Vulnerability in Iraq, 2020, p.2). The poverty rate rose among host households from 3.5 per cent in 2012 to 4.7 per cent in 2014. During the last 5 years, the KR-I was hit by several severe crises (budget cut, decline in oil prices, influx of internally displaced people and Syrian refugees) that had direct effects on the livelihood of KRI's residents and as a result, poverty significantly reached 12.5 per cent (compared to 31.5 per cent for the rest of Iraq) in 2014. It recorded the lowest rate in the Sulaymaniyah governorate (Kurdistan Region 20142018- Indicators, 2019). In 2018, the rate of poverty increased to 15 percent( كردستان العراق.. ثنائي).

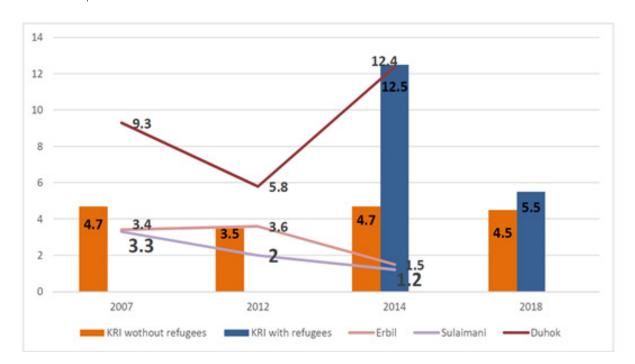


Figure 2.7: Poverty rate in KR0-I in 20072018-

Source: Kurdistan Region 20142018- Indicators, 2019, p.27

Apart from the poverty gap (0.7) and near poverty line people, which are high (almost 22 per cent according to the same UNICEF report mentioned above), according to the multi-dimensional poverty index, people are still deprived of most services. In the villages, 62 per cent of people get water through public water networks. In fact, 70 per cent of people get clean water by pipes to their homes from clean sources. Only 25 per cent of the population of the cities and 18 per cent of the population of the village say that they receive water for 10 hours per day from public networks. This made people save water



### Reform and its Constraints

The policy responses to and political effects of these pressures can be different from a country to another. Struggling with reform implementation and regime change can be part of the results, though some countries pursued successful reform (Pete W. Moore, 2004, p.2).

Poverty cannot be solved easily. However, the experience of countries that took great steps to reduce the poverty trap assists Iraq and the Kurdistan Region in its rates to an acceptable level. But how? Through state-led growth or market economy?

Most of the Middle Eastern countries are under Western reform projects. As long as the Soviet Union was powerful, the model of centralized planning was used. Once the Soviet Union fell in the early 1990s, it started to be influenced by the reform project of international organizations and agencies, including the International Monetary Fund (IMF). The idea of reform now consisted of the fact that macroeconomy (notably prices) should be stabilized through a capitalist state instead of the socialist state. And the mechanism was banks and other productive activities to be taken under the influence of the private sector and open trade, which motivates capital to move into productive investments. These prescriptions are known as the Washington Consensus, supported by the IMF and the World Bank. Most countries in the Middle East implemented this plan. One problem with this program is that "educated and skilled youth may face an economy that generates very little skilled employment". It does not also take into account these countries' internal conflicts and contradictions, especially countries that are Resource Rich-Labor Abundant. Iraq, Syria, and Algeria are on the list of these countries that refused to join the Washington Consensus. The class in control of the state was not ready to hand-over power to the bourgeois in the private sector. They controlled the oil revenues, through which they



could control people. What mattered to them was to control the society, and security and military forces assist in this regard (Melani Cammett et. al, 2015, p.279).

No doubt, in the modern Middle East, business-state coordination is one major mechanism for increasing productivity. However, "clientelism has not lost its uses and business representation has hardly come to dominate the reform agenda in every country" (Pete W. Moore, 2004, p.2, and p.7). In addition, the transformation from the public to private sector alongside their coordination has not gone without resistance. If unions were constraints in front of some Middle East states for giving spaces to the private sector due to their fear of weakening their position, in Iraq and the Kurdistan Region a large group of the government employees and their families were against this transformation as it may make them unemployed, or leaving them without stable and secure employment. In relation to the idea of privatization, economists such as Joseph Stiglitiz criticized the Washington Consensus and stated that without adjusting for these countries' situations, free markets not only fail to deliver them out of poverty and into growth but creates for them crises (Cammett et. al., 2015, p.275).

Reforms have geopolitical obstacles, too. Countries like Iran and Turkey interfere into the Iraqi economy, including the Kurdistan Region's, resulting in the slow-down of growth and the prevention of poverty control (The Coming Turkish-Iranian Competition in Iraq. 2011, p.1; Turkey-Iran Tensions Rise as Ankara Expands Operations in Iraq, Middle East, March 2021)

Finally, just as in the Middle East as Milani Cammett et. al. (2015, p.263) state, the growth in the private sector was linked to the public sector in Iraq and the Kurdistan Region (e.g., textile products are for Peshmerga or security forces of the government). This can be supported by arguments highlighting that the inability of effective and sustainable political structures limits the effectiveness of policies aimed at eradicating poverty (Cuesta et al., 2020, p.120).

Despite the obstacles, policymakers shall do their best to reduce them. In general, the most important thing is to increase food production through the betterment of land fertility, which means solutions to the problems of irrigation and fertilizers. The result of these steps is the escape from dependence on rain (Sachs, 2005, pp.7072-). Moreover, the rise in literacy and a better quality of education leads to a decline in the rate of births and fertility rates in general. Due to this, less pressure was exerted on their land. In contrast, others believe that a high birth rate supports enlarging the market size, make purchasing goods and services stronger, lead to production. A landlocked country may be a victim of being landlocked rather than population growth.

One shall not exaggerate in reducing the poverty rate rapidly and in the very short term. Yet, 4-year or 5-year plans could be set, and its objectives and elements for the Kurdistan Region can be as follows:



Lower poverty levels to 5 per cent,

Lowering the illiteracy rate to less than 2 per cent, which was about 4 per cent in 2018 according to an official report, Increase preparatory education enrollments to over 80 per cent (now between 6570- per cent) (Kurdistan Region 20142018- indicators, 2018, p.23),

Lowering unemployment rate to 7 per cent, including discouraged workers, and decrease unemployment rate among women and youth to 10 per cent. The unemployment rate among women was as high as among youth in 2014: over 19 per cent versus over 17 per cent respectively (Capacity Building, Rand, 2014, p.29).

Increase access to public water to 98 per cent in cities and 85 per cent outside of cities

Lowering gender discrimination whereby the role of women is made more significant in economic activities. To that end, government policy to encourage 1620- years old to delay marriage is needed. As for accomplishing the above goals, there is a diverse mechanism. Dr. Bushra Ramadhan Yasin refers to some of them as follows (1178. ص 2019، ص 2019).

Authorization of governorates and districts in planning for countering poverty within their borders. Continuation of government policy in assisting poor families.

Provide financial support to health and education sectors, which helps in human capital formation. In fact, policies that contribute to tackling the economic contradictions can be more effective in dealing with poverty, reducing it, and avoid pushing people to fall over the pool of it, though this needs a long-term strategy.

#### Conclusion

Poverty is linked with hunger, illness, poor sanitation, and thirst. The negative conditions a poor person confronts in one stage may influence his or her life. Reasons for poverty can be different from one country to another. In the Middle East and North Africa, economic contradictions, structural imbalances, left from previous regimes and systems, including colonialism, are the major causes of these societies' predicaments. The socio-economic structure of these societies generates unemployment and poverty. True, demographic factors are leaving their impacts on poverty. However, the demographic factors, such as fertility rates, largely relies on the economic and political structures of that particular country. It also depends on the region that particular country is located.

Iraq as a country within the MENA region, not surprisingly, is affected by the political and economic systems that prevailed in the region. Iraq had borrowed the central planning model, supported by oil rents, in the name of anti-colonialism policies, just as Turkey and Iran did previously. The Kurdistan



Region has copied the same model of centralization and oil rents. Thus, economic contradictions, such as a fast pace of population growth versus unstable income or a large public sector against a weak private sector, were the results. Accordingly, the government has not had the capacity to challenge extreme and relative poverty and unemployment rates. Both in Iraq and the KR-I, political poverty remains a stumbling block to tackling poverty and renders ineffective efforts to tackle other forms of poverty like economic, social and legal poverty.

Job creation and other mechanisms to support poor families' indispensable from human capital accumulation. Supporting poor families by the government, human capital improvement and training, and market regulations are the most urgent instruments to avoid falling into the poverty trap.

## الملخص

تلقي هذا البحث الضوء على التناقضات الاقتصادية، او الاختلالات الهيكلية التي حدثت خلال الخمسين عامًا الماضية في السرق الأوسط وشهال افريقيا، مع إشارات خاصة إلى العراق وإقليم كردستان. وقد أدت هذه التناقضات او الاختلالات إلى ضعف الاقتصاد وعدم الاستقرار السياسي، وولدت تدريجياً مستوى عالٍ من الفقر. تؤكد الدراسة على الارتباط بين النمو الذي تقودة الدولة ،اى الدولة التدخلية، الاختلالات الهيكلية، ولعنة الموارد والنتائج الاجتماعية والاقتصادية مثل الأداء الاقتصادي الضعيف، وانخفاض مستويات تنمية القطاع الخاص و ارتفاع نسبة الفقر. كما يحلل قيود الإصلاحات من قبل صانعي السلطة والفئات الفاعلة. تعتمد البحث على البيانات التي جمعتها المنظمات غير الحكومية، والادرات الحكومية، والباحثون، وما إلى ذلك. وتستنتج الى أن الفقر هو أولاً وقبل كل شيء نتيجة للتناقضات الاقتصادية، اي الاختلالات الهيكلية، ودور الدولة بما في ذلك على سبيل المثال لا الحصر عدم الاستقرار في ربع النفط مقابل معدل النمو المرتفع للسكان، و قطاع عام كبير مقابل قطاع خاص ضعيف.

# پوخته

ئهم توێژینهوهیه تیشک دهخاتهسه رئهو ناتهباییه ئابورییانهی، یان پهشیّوییانهی که له 50 ساڵی رابردوودا له روّژههڵاتی ناوهراست و باکوری ئهفریقادا، بهتاییه عیّراق و ههریّمی کوردستانی عیّراق، روویداوه. ئه ناتهباییانه، یان پهشیّوییانه بوون بههوی لاوازبونی ئابوریی و ناسهقامگیری سیاسی، به تیّپهربوونی کات ریّرژهی ههژارییان بهرزکردهوه. تویّژینهوه که جهخت لهوه دهکاتهوه که پهیوهندییه کههیه له نیّوان گهشهی ئابوریی پشتبهستوو به دهولّهت، ناهاوسهنگیی بونیادیی، نهفرهتی سهرچاوهکان و دهرئهنجامی کومهلّایهتی و ئابوریی پشتبهستوو به دهولّه ئابوریی ئاستی گهشسهندنی کهرتی تاییهت و زیادبونی ههژاریی. ههژاریی ئهدای ئابووری وه کلاوازیی ئهدای ئابوریی و بهربهسته کانی لهلایهن بریاربهدهستان و تویّرژه کاریگهره کانهوه، شیده کاته و کارگیّریی شیده کاته و کارگیّریی شیده کاته و درگیّریی شیده کاته و کارگیّریی



حکومـهت و تونـژهران و هاوشـیّوهیانهوه. دهرئهنجامیّکـی تویّژینهوهکـه ئهوهیـه ههژاریـی بـهر لـه هـهر شـیّک ئاکامـی ناتهباییـه، یـان پهشـیّویی، ئابـووری و روّلـی دهولهتـهوه ههیـه، بـه نهبونـی سـهقامگیریی لـه رهیعـی نـهورت بهرامبـهر بـه کهرتیّکـی تایبهتـی سسـت.

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### Reports in Kurdish

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