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Working Paper No. 1563

August 2022

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First published in 2022 by
The Economic Research Forum (ERF)
21 Al-Sad Al-Aaly Street
Dokki, Giza
Egypt
www.erf.org.eg

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Abstract

In this paper, we apply institutional approaches to understand the economic and social contexts of the protests that took place in Iraq in 2019 to 2020. We use the World Bank's World Governance Indicators as well as other data to show that political institutions that were established post 2003 have impeded economic development. We study how Iraq's political settlement along with its already deteriorating economic institutions and unfavorable economic and social conditions have combined to shape poor economic outcomes. That is, increased political openness and inclusion has not resulted in greater economic inclusion; instead, Iraq's political institutions likely have worked to constrain economic inclusion and a more egalitarian distribution of oil income. We thus offer policy recommendations that include a proposal for (limited) basic income scheme to distribute Iraq's oil rents.

Keywords: Institutions, Iraq, basic income, political economy, conflict, inclusive and extractive institutions.

JEL Classification: D7, F5, H2, H5, O2, O4

ملخص

في هذه الورقة، نطبق نُهج مؤسسية لفهم السياقات الاقتصادية والاجتماعية للاحتجاجات التي شهدتها العراق في العامين 2019 و2020. ونستخدم مؤشرات الحوكمة العالمية للبنك الدولي بالإضافة إلى بيانات أخرى لتوضيح أن المؤسسات السياسية التي تأسست بعد 2003 عرقلت التنمية الاقتصادية، وندرس كيف اتحدت التسوية السياسية في العراق مع مؤسساته الاقتصادية المتدهورة بالفعل والظروف الاقتصادية والاجتماعية غير المواتية لتشكيل النتائج الاقتصادية السيئة، أي أن الانفتاح والشمول المتزايد على الصعيد السياسي لم يؤدي إلى زيادة الشمول الاقتصادي؛ بل من المحتمل أن تكون المؤسسات السياسية العراقية قد عملت على تقييد الشمول الاقتصادي وتوزيع أكثر عدالة لدخل النفط، وبالتالي فإننا نقدم التوصيات ذات الصلة بالسياسات التي تتضمن اقتراحًا لخطة الدخل الأساسي (المحدود) لتوزيع إيرادات النفط في العراق.

1. Introduction

Since 2009, protests have occurred regularly in the capital Baghdad and most of Iraq's southern cities, including in oil-rich Basra, reflecting growing frustrations among the youth with dire public services, rampant corruption and lack of employment opportunities (Yousif et al., 2020:25). However, important changes in what the protestors emphasize and government reaction have been evident since October 2019. The demands of protestors in Baghdad and southern Iraq have not been restricted to material concerns over jobs and services but have extended to criticism of the post-2003 political framework with slogans such as "I want a homeland, I don't want electricity" (*Areed Watan, wala areed kahrabah*) among others. And, state security apparatuses and militias have killed hundreds and injured tens of thousands of protestors (World Bank, 2020a: 25). This represents a shift from agitation for tangible social benefits (jobs and basic services) to fundamental changes in governance and the political system, notably to ending the apportionments system of elites, or *Muhasasa*, and giving citizens agency in the country's destiny (World Bank, 2020a: 42). According to qualitative research conducted from December 2019 to February 2020 by the National Democratic Institute (NDI) (n.d.), there appears to be wide support among the public for the demands of protestors in Baghdad and other regions.

In what follows, we analyze the dynamics of the protest movement: the political and economic conditions that contextualize the demands of protestors, notably how the politics and the economic reality it has brought about have worked poorly to address people's needs. We study institutions, utilizing new institutional economics (NIE) and other approaches because we posit that theories that lay stress on oil and choice of policy openness alone explain only limitedly. In the next section, we present our framework of analysis. We apply the framework to Iraq in section three, analyzing the country's political and economic institutions using the World Bank's World Governance Indicators (WGI), among other markers. In section four, we discuss some policy recommendations, including a basic income scheme. The last section concludes the study.

2. The framework of analysis

Most analyses of Iraq's economy and its development have focused on two sets of narratives. First, according to the Dutch Disease formulation, increased oil revenues result in over-valuation of the real currency exchange rate, thus increasing production costs for tradable goods, with rising profits in oil and non-tradable goods bidding away inputs previously going into tradable goods sectors; agriculture and manufacturing suffer as a result (Yousif, 2016: 214-215). In addition, and second, US occupation forces, successive Iraqi governments since 2003 and even the IMF have argued that statist policies under the Ba'th regime that sought to marginalize the private sector and markets more generally account for Iraq's poor economic performance before 2003 and even since (Yousif, 2020). We find the Dutch Disease model cogent, but it does not account for the wide diversity of experiences of oil-producing economies. Indeed, Sachs (2007) argues that the Dutch disease is no disease at all but a market adjustment whereby resources flow to sectors that are more profitable; investments in public goods (e.g. in roads and railways) and selective subsidies can counteract the effects of the

disease by lowering production costs.¹ In addition, excessive government intervention and regulation in Iraq's economy before 2003 has been presented as a reason behind Iraq's economic woes. It is beyond the purview of this paper to assess Iraq's pre-2003 economic performance, but we note that state spending can be economically strategic and its level ought not to be confused with economic mismanagement: spending in fact is typically high where oil revenues accrue to the state. The composition of such spending in fact is more important than oil revenues or level of state expenditures. For example, the hiring boom in the public sector since 2003 has resulted in the Iraqi state spending increasing amounts on public sector wages and salaries, which rose from 14 percent of all public spending in 2005 to 39 percent in 2017 (Yousif et al., 2020: 10).

We argue instead that a study of institutions is an alternative way to understand Iraq's present circumstances. Specifically, we study Iraq's political institutions to grasp how Iraq's political system and economic institutions have affected development. We utilize Acemoglu and Robinson's (2012 & 2019) formulation, which provides a useful entry point for our analysis that examines the interaction between political and economic institutions and the effects of the interaction on development. We complement this by incorporating elements of North's (1990) analysis and North et al. (2009) along with the concept of 'political settlement' developed by Khan (2010 & 2019). This adds to the research on the interaction of political and economic institutions in the global south and the effect on development, which North (2008: 29) argues is generally lacking. This represents a continuation of previous research on Iraq's institutions and the implications on development (see El-Joumayle, 2016 & 2017; Yousif, 2016; Yousif et al., 2020).

North (1990: 3) defines institutions as "any constraints humans devise to shape their interactions" or less formally as 'the rules of the game in a society.' North (1990: 110) posits that "Third World countries are poor because the institutional constraints define a set of payoffs to political/economic activity that do not [*sic*] encourage productive activity." A more developed version of this notion is Acemoglu and Robinson's (2012 & 2019) hypothesis that distinguishes between extractive and inclusive economic institutions: the former benefit a fraction of society, while the latter are "institutions which provide economic incentives and opportunities for a broad cross section of society" (2019: 5). Acemoglu and Robinson (2019: 2) further state:

A society gets inclusive economic institutions because its political institutions generate them as an equilibrium phenomenon. We call institutions which do this inclusive political institutions which have two dimensions; a broad distribution of political power and a strong (or effective or capable) state.

¹ An implicit assumption of the Dutch Disease formulation is that the non-oil tradable goods sectors contribute uniquely (in terms of technical progress or innovation) to growth; otherwise, reallocating resources away from agriculture or manufacturing would not result in an aggregate slowdown in growth (Sachs, 2007). Counter-intuitively, if the oil sector were making a special contribution to innovation and progress (e.g. by introducing modern organizational methods), a reverse—Dutch 'Health'—process would presumably ensue.

The line of causation is thus from (inclusive) political institutions to (inclusive) economic institutions, with relationship breaking down when there is a weak, ineffective or incapable state. A capable state ensures rights are protected and security is preserved. As Acemoglu and Robinson (2012: 74-75) note:

To be inclusive, economic institutions must feature secure property rights, unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it also must permit the entry of new businesses and allow people to choose their careers.

We discuss these aspects of property rights, rule of law and provisions of public goods and services later, and more generally the role of oil revenues in creating new opportunities for Iraqis.

Also noteworthy is Acemoglu and Robinson's (2012: 106) notion of 'critical juncture', where "a major event or confluence of factors disrupts the existing balance of political and economic power in a nation", potentially resulting in altered political and hence economic institutions. In these circumstances "big shocks or new opportunities alter circumstances, power-distributions and trade-offs which can lead to substantial institutional divergences in ways which depend sensitively on initial conditions." (Acemoglu and Robinson, 2019: 19). Put differently, such events can lead to a changed *political settlement* that Khan (2010: 4) defines as a "the 'social order' based on political compromises between powerful groups in society that sets the context for institutional and other policies" and is "sustainable in terms of economic and political viability." Political settlements need not be formal: they can be informal. However, to be sustainable, they must obtain 'holding power' or "the capability of an individual or group to engage and survive in conflicts" (Khan, 2010: 6). Observable political and economic characteristics, e.g. abilities to organize and mobilize people and wealth, and unobservable factors, e.g. resolve and choice of strategies, shape the holding power of groups or parties. Moreover, Khan (2019) views political settlements not as "consciously planned political arrangements" (671) or a "conflict-ending agreement between elites" (673), but as an 'interactive' and repetitive outcome of numerous decisions and interactions between groups. Thus, the political settlements framework is a useful tool to understand the workings of political structures and institutions.²

² There are other aspects of the political settlement, including the horizontal distribution of power (or power of excluded groups relative to that of elite), vertical distribution of power (or relative power of various sections within the elite) and the financing of political settlements (Behuria et al., 2017: 512). While we study features of the latter in our discussion of 'holding power', it is beyond the scope of this paper to explore in detail each of these dimensions.

Scholars and practitioners have criticized Acemoglu and Robinson's formulation. For instance, Subramanian (2012) points out that the line of causation is rigidly unidirectional (from political institutions to economic); he notes that their theory fails to account for the experiences of the world's two most populous nations, namely China and India. Similarly, Khan (2019) argues that the link between inclusive political and inclusive economic institutions that Acemoglu and Robinson posit is highly contingent, depending on existing and evolving political settlements; thus, inclusive political institutions can have wildly variable results in different contexts. Sachs (2012) argues instead that geography is central to economic growth and challenges the easy association that they assert between inclusive political and economic institutions, offering examples of how narrow polities have often promoted economic reform and inclusive growth. Finally, Grinberg (2018) and Fukayama (2012) point to historical inaccuracies in Acemoglu and Robinson's (2012) account.

While we recognize these shortcomings, we nevertheless find the application of concepts of inclusive and extractive institutions as well as critical junctures, along with Khan's notion of political settlements, to be useful in understanding Iraq's political economy. That is, we are interested in how formal rules have interacted with informal institutions to generate political and economic outcomes. This is not a rigid or formulaic application of a narrow theory but a careful and eclectic use of concepts. Indeed, the notion of political settlement, which itself is a variously applied, is critical of aspects of the NIE approach (see Behuria et al., 2017). Whereas Acemoglu and Robinson appear (we say appear because it is unclear) to stress the roles of formal institutions, our use of political settlement extends to a discussion of both formal institutions, e.g. Iraq's written constitution, and informal, including Iraq's muhasasa system.

3. Iraqi political and economic institutions

Iraq since 1980 has been engaged in a long and bitter war with Iran (1980–1988); in a devastating conflict with a superpower in 1991, having invaded its neighbor Kuwait in 1990; was under debilitating economic sanctions (1990 – 2003); was invaded and occupied in 2003; and has periodically experienced civil conflict since. The results have included destruction of physical capital, decline in state institutions and capacity, and emigration of skilled and professional labor, not to mention death and destitution. Comprehensive economic sanctions were especially harmful: they precluded rebuilding after the 1991 war, resulted in a collapse in incomes (to a fraction of their former levels), precipitated a breakdown in health systems (as evinced by the upsurge in infant mortality), and induced widespread emigration of human capital.³

³ See Yousif (2016: 220-226) for a summary. For detailed discussions of the devastating effects of economic sanctions, see Gordon (2010) and von Sponeck (2006); on political and social effects see Niblock (2001) and for effect on child mortality and malnutrition see Garfield and Waldman (2003). The extent of collapse in real incomes and purchasing power can be gleaned from Bunton (2008: 642), who reports that a kilogram of chicken that cost 3 Iraqi Dinar (ID) in 1991, when the average salary of a public sector worker was ID 100 to 200, rose to ID 2,500 in 1995, when the average salary was ID 5,000.

Yousif (2016) and Yousif et al. (2020) argue that state capacity and institutions in Iraq have been declining for decades and that Iraq's development history is best understood as a sustained decline in human capabilities and institutions. State capacity, or the ability to provide basic public goods (e.g. peace and security) and more complexly to carry through government policy notably its developmental objectives, was likely rising during the 1970s and 1980s as the level of skills and education of the civil service improved, even as the Ba'thi politicization of the public sector checked this rise.⁴ However, economic sanctions (1990-2003) and later civil war (2004-2008) induced large emigrations of professionals, many of whom were engaged in the public sector. After 2003, de-Ba'thification idled tens of thousands of civil servants and promoted insecurity (Yousif, 2016), reducing the capacity of the state and its institutions, including developmental institutions and organizations. The decline has been associated with frequent and abrupt institutional change due to conflict and instability (El-Joumayle, 2016).

While the deterioration of human capabilities and institutions occurs in various ways and at different rates in this period, it is the invasion of 2003 that comes closest to meeting Acemoglu and Robinson's (2012: 106) description of critical juncture, involving abrupt institutional change. According to North (1990), institutional change can be gradual or abrupt. Gradual change occurs when institutions (i.e., rules and norms) undergo marginal adjustments over time, while abrupt or discontinuous change involves rapid change in formal rules, e.g. because of natural disasters (e.g., hurricanes, earthquakes, and floods) or man-made change (e.g. revolution or conflict). Eggertsson (2008: 48) posits that the latter is especially harmful to developing countries, because they tend to lack sufficiently advanced technology to cope with change. Similarly, North et al. (2009: 252) argue that reductions of the effects of negative shocks is more important in achieving long-term growth and development than temporary increases in the rate of economic growth. The invasion of Iraq in 2003 overthrew the existing regime that had been in power since 1968; brought in new political actors, processes and rules; and radically altered political and economic power relations, with old elites sidelined or removed. Not only was this change discontinuous or abrupt, it presented opportunities to create new political and economic institutions (al-Oraibi, 2013: 78). In the language of NIE, regime change in 2003 represents an exogenous shock, where changes to rules, conventions and other formal institutions comes from outside, rather than endogenous change that is the outcome of negotiations among actors in response to new economic and social circumstances (Pejovich, 1990).

Political institutions and political settlement

Indeed, institutional changes in the post-2003 period have been substantial, bringing forward new political actors, a constitution and regular parliamentary elections. Moreover, the concept of *muhasasa taifiya*, or an informal power-sharing arrangement based on ethno-sectarian

⁴ Owen (2007) makes a similar point about decline in development in the 1970s.

identity, has emerged and became institutionalized as practice since 2003 (see Dodge and Mansour, 2020: 7-9).⁵

Marr (2012: 292-298) outlines the contentious and hurried way in which Iraq's constitution of 2005 was put together, with various groupings, Iraq's new elites, protecting their respective interests. The result was a constitution that favored decentralization; was ambiguous on the competent authority responsible for oil and gas development and who receives oil revenues; and relied on future legislative action to decide key issues.

The constitution grants rights to labor unions (Article 22), private property (Article 23), public health (Article 31) and free education at all levels (Article 34). In other Articles, the constitution lays down the basic rules for elected democratic government, including the powers of legislative, executive and judicial branches (see Constitute, 2021). However, it is the constitution's provisions on the competent authority vis-à-vis oil (Article 112) that have gained the most attention (see Alkadiri 2020; Cordesman and Khazai 2014: 321-348; El-Joumayle, 2017: 272-277). These are opaque on the issue of whether the Federal (central) or regional governments are authorized to develop oil and gas and collect associated revenues. Disagreements over these between the Federal government and the Kurdistan Regional Government (KRG) have resulted in periodic disruptions to central government disbursements to KRG budgets (Alkadiri, 2020: 9; Yousif 2020: 110). In fact, the KRG has awarded dozens of contracts to international oil companies, agreements that are unrecognized by the central government (Cordesman and Khazai, 2014: 284). Although the KRG's disclosure of financial specifics has been patchy and vague (Osgood, 2018), it is clear that it has been forced to sell the oil it extracts at a discount to compensate for buyer risk associated with the purchase of what the central government regards as stolen oil and to pay intermediaries (Alkadiri, 2020: 10). The result is that oil revenues for Iraq as a whole have suffered.⁶

In sum, the constitution provides the framework for basic rights, including rights to education, health and labor unions as well as to elected government and thus, in principle, represents formal economic and political institutions that are inclusive. However, the Iraqi constitution has left issues of legal authority over oil and the future of Kirkuk up to the elected parliament, which has not enacted requisite laws. Considerable resources have been used to lay claim to

⁵ For a discussion of the origins of the theory and practice of 'consociational democracy' in European countries as well as its application to Northern Ireland and Lebanon, see Bishara (2018).

⁶ The issue of control over oil is sensitive because it is linked to the KRG's aspirations for independence. Most of Iraq's oil reserves are located outside Kurdish region. Kurdish independence is unworkable without Kurdish control over some of Iraq's oil: 17 percent of Iraq's oil reserves are in northern Iraq (Cordesman and Khazai, 2014: 328), but the KRG controls only part of this region. Hence the centrality of the oil-rich and ethnically diverse province of Kirkuk. Article 140 of the Constitution requires that a referendum decide whether Kirkuk is to join the KRG or remain part of the rest of Iraq; the referendum was to have been completed by 2007, but has not been enacted by parliament (Raheem and Rubaie, 2019). The lack of clarity on the distribution of oil rents has induced opportunistic land grabs on the part of both the central government and the KRG. Thus, in the context of the rise of the Islamic State in 2014, the KRG moved to control Kirkuk; later, in 2017, the central government used the pretext of Kurdish independence vote that it regarded as illegal to regain control of Kirkuk.

oil, resulting in periodic clashes, land grabs and reduced oil revenues and hence less funds for public investment; insecurity has in turn curbed private sector investment. Thus, the constitution while formally inclusive, declaring formal rights and regular elections, has not served the process of state building nor assisted in the development of inclusive economic institutions, which we address in detail later.

We turn next to the political settlement since 2003 with the attendant *muhasasa* that, unlike the written constitution, is informal. The idea behind the arrangement actually originated in the 1990s among exile groups opposed to Saddam's rule; it became operationalized only later in 2003 when the Coalition Provisional Authority (CPA) allowed those exiles—Iraq's new political elite—to pick the Iraqi Governing Council. The post 2003 political elite have argued that ethno-sectarian representation reflecting Iraq's demographic makeup gave voice to Iraqis as members of various sects and ethnicities.

The champions of the Iraq's *muhasasa* formed the new political elite that had limited domestic support when they came to power in 2003. Harith Al-Qarawee (2014: 6) argues that, to an extent, they relied on heightened "sectarianism and communal fears to create new constituencies." This is ironic as the *muhasasa* was said to assuage social anxieties; it implicitly assumed 1) that there exists a community of interests within ethno-sectarian groups, and 2) that identities formed along other dimensions, e.g. class or gender are incidental or secondary.

Dodge and Mansour (2020) show that since 2009, social movements have challenged this system, criticizing its associated corruption and resulting state fragility; the *muhasasa* was unable to prevent civil war in 2004 to 2008 and may have contributed to it. Despite its challenges and criticisms, the *muhasasa* system has persisted, and there is informal agreement that Iraq's President be Kurdish, Premier Shi'i and Speaker of parliament Sunni Arab. In time, allocations of senior positions in state institutions, including the army and the nomination of diplomatic staff in the ministry of foreign affairs, similarly have come to be based on sect. This outcome is somewhat consistent with the classification of Iraq by North et al. (2009: 42) as a 'fragile natural state', where governing coalitions are fluid and economic rents are key to maintaining stability within ruling coalitions.

Dodge and Mansour (2021: 3-4) explain how the *muhasasa* system has permeated various levels of the bureaucracy, with responsible ministers unable to prevent senior civil servants (that they nominally supervise) from directing funds or contracts to benefit the sectarian political parties that appoint those civil servants. For example, one minister estimates that a quarter of his budget was spent on fraudulent contracts (e.g. by intentional inflation of costs), while another states that a quarter was spent on 'political employees' (who draw salary but do not show up for work) and 'ghost workers' (fictional workers whose salaries are directed to political parties) (12-13). In this way, Iraq's Parliamentary Transparency Commission estimates that \$320 billion of government funds 'disappeared' in the 2003 to 2018 period (12).

The muhasasa system has thus contributed to corruption in the post 2003 period, allowing political parties and elites to fund their activities or attain ‘holding power’ to survive multiple challenges, including a civil war (2004-2008) and conflict with the Islamic State (2014-2017), in addition to confrontations with youths demanding an end to corruption and cronyism. External assistance, including from the US, has promoted and supported Iraq’s ruling political parties since 2003 and bolstered the holding power of elites, buttressed by mostly favorable international conditions in the form of basically rising, albeit oscillating, oil prices since the early 2000s that has provided for state funding and largesse.

It will be recalled that, according to Acemoglu and Robinson’s (2012 & 2019) that for inclusive economic institutions to thrive requires a state that is capable of preserving rights and maintaining peace, in addition to inclusive political institutions. Concerning state capability, the competition between political parties for ministerial and senior civil service positions that are based on connections rather than merit and proliferation of political and ghost employees have undoubtedly weakened the state bureaucracy: they erode state capabilities and siphon off public funds to private interests. A weakened state has found it difficult to implement government policy, as the capacities of state employees and institutions have dwindled in the context of politically sanctioned corruption.

The constitution also calls for regular, fair and free elections, data about which is presented in Table 1. This indicates declining voter turnout. Violence, insecurity and the Sunni Arab community’s boycott explain the comparatively subdued turnout of the January 2005 election. However, voter turnout has declined consistently, from almost 80 percent in December 2005 to 60.5 percent in 2014 to 44.5 percent in 2018 to a new low of 41 percent in 2021 (according to preliminary data).

Table 1: Voter Turnout in Iraqi Parliamentary Elections

Date	Registered Voters (1)	Votes (2)	Turnout (2:1)
January 30, 2005	14,662,639	8,550,571	58.32%
December 15, 2005	15,568,702	12,396,631	79.63%
March 7, 2010	19,000,000	11,526,412	60.67%
April 30, 2014	21,500,000	13,013,765	60.53%
May 12, 2018	24,350,850	10,840,998	44.52%
October 10, 2021*	22,116,368	9,077,779	41.05%

Sources: Patel (2018: 3) for 2005 through 2018 elections; al-Hurra (2021) for 2021.

* Preliminary results

Decisions about whether or not to vote are complex and the result of interaction of multiple factors. Still there are reasons to believe that Iraqis have become increasingly skeptical of the ability of elections to produce meaningful change. To be fair even advanced democracies have experienced declining turnout in recent decades, with turnout and income inequality found to be inversely correlated (Patel and Quilter-Pinner, 2022: 7). And low voting participation has been recorded in other Arab countries as well (Shteeb, 2020). In Iraq, Shteeb (2020: 138-141) suggests a number of reasons for the low turnout in the 2018 election. These include the

expectation of voters that the same individuals end up in power regardless of their vote, public dissatisfaction with the muhasasa in distribution of key positions, disappointment over the inability of successive governments to provide adequate provision of public goods and services, and the lack of public trust in the government's ability to adequately deal with corruption. The results of the most recent Center for Insights in Survey Research (2021) survey of public opinion, conducted a few months before the October 2021 election, likewise indicate that only a minority of the public had confidence that the forthcoming election would be free and fair, while only one quarter of those surveyed thought that their vote would inform what the government actually did (11 &13). Thus, Patel (2018: 3) concludes that the youth likely "overwhelmingly, and perhaps disproportionately" did not vote. Referencing 2018, but applicable equally to the 2021 election, Hassan (2018: 1) says:

The low turnout (...) indicates that there is increasing disillusionment with the system and with the idea of producing change through elections, especially in a context where established parties seen to have managed to reproduce their dominance by designing or manipulating the electoral process in their favor.

We argue that inclusive economic institutions have proved elusive despite generally rising political inclusivity. Tables 2 and 3 are the result of our own calculations and illustrate institutional developments in Iraq; as it is impossible to neatly separate political from economic institutions, they report on aspects of both. Table 2 reports the World Bank's World Governance Indicators (WGI) for the period 1996 to 2019, composed of six aggregate indicators: Voice & Accountability, Control of Corruption, Governance Effectiveness, Political Stability and Absence of Violence/Terrorism, and Rule of Law (see World Bank, 2020b).⁷ Based on expert assessments as well as business and household surveys, the WGI give numerical scores for institutions that range from approximately -2.5 (weak) to 2.5 (strong). We divide the long period into three sub-periods to show changes overtime: 1996 to 2002, 2003 to 2009, and 2010 to 2019,⁸ and compute one figure for each indicator in each of the three sub-periods, as well as an overall WGI index as a simple average of each of the six dimensions in each sub-period. The figures indicate that there has been clear improvement in Voice and Accountability, reflecting a more open polity, with regularly contested elections and greater freedom of expression in the media, since 2003.⁹ At the same time, there is a decline followed

⁷ According to World Bank (2020b), Voice and Accountability intends to capture perceptions of ability of citizens to choose their government, freedoms of expression and association, as well as of media. Political Stability and Absence of Violence/Terrorism intends to capture perceptions of "political instability and/or politically-motivated violence, including terrorism." Government Effectiveness intends to capture perceptions of quality of public services, the civil service and the quality of (and government commitment to) policy formulation and implementation. Regulatory Quality intends to capture perceptions of the government's ability to formulate and implement policies, notably those that "permit and promote private sector development." Rule of Law captures perceptions of quality of contract enforcement, protection of property rights afforded by the justice system and "likelihood of crime and violence." And, Control of Corruption captures perceptions of the degree to which "public power is exercised for private gain", including the "capture" of the state by elites and private interests."

⁸ There are three missing observations, for 1997, 1999, and 2001, and we impute a value for these that is the (simple) average of the preceding and subsequent year.

⁹ Reporters Without Borders publishes an index of press freedoms, which takes into account a number of factors, including media independence, self-censorship, transparency of news production processes and, critically, abuses

by partial recovery in the Rule of Law, reflecting the civil war, the war with the Islamic State and chronic instability. Regulatory Quality shows improvement in the period too, understandable given that Iraq was re-joining the global economy and the state's avowed desire to promote a market economy. And Political Stability, and Absence of Violence showed the greatest deterioration, which is consistent with the civil war (2004-2008), conflict with the Islamic State (2014-2017), acts of terrorism that occur regularly, and general instability that Iraq has experienced since 2003.

Table 2: World Governance Indicators for Iraq, 1996-2019

Period	Overall Score for the WGI Index (average)	Voice and Accountability	Political Stability and Absence of Violence/Terrorism	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
1996-2002 (1)	-1.74	-1.97	-1.71	-1.88	-2.09	-1.38	-1.44
2003-2009 (2)	-1.55	-1.28	-2.65	-1.51	-1.35	-1.73	-1.19
2010-2019 (3)	-1.39	-1.06	-2.16	-1.18	-1.18	-1.49	-1.29
Change Between (1) and (3)	Improved	Improved	Deteriorated	Improved	Improved	Deteriorated	Improved
Change Between (2) and (3)	Improved	Improved	Improved	Improved	Improved	Improved	Deteriorated

Source: World Bank (2020b).

Most surprising are the reported improvements in Government Effectiveness and Control of Corruption. The first supposedly occurs despite continued emigration of skilled personnel since 2003, in the context of conflict and de-Ba'athification that severely depleted the public sector, and with appointments into the bureaucracy based on political party affiliations rather than qualifications. The second goes against almost all analyses of Iraq's political economy and is at odds with Transparency International's Corruption Perceptions Index, which shows a moderate deterioration in corruption since 2003 (Yousif et al., 2020: 17). As noted, corruption has become institutionalized with corrupt officials or civil servants routinely receiving protection from powerful political parties whose interests the officials pursue (Allawi, 2020; Dodge and Mansour, 2021: 17; Yahya, 2017: 7-8).¹⁰

We supplement the WGI with a composite Millennium Development Goal (MDG) index of United Nations Economic and Social Commission for Western Asia (UNESCWA, 2011). This is part of a UNESCWA project that studies the experience of conflict-affected countries in achieving MDGs.¹¹ A composite index is computed using indicators that reflect attainment of MDG goals with range of zero to 10, the latter indicating movement towards those goals. The

against journalists. Interestingly, the index shows only modest improvement from 2002 (the first year the index is compiled) when Iraq ranked 130 out of 139 countries to 2004 when it ranked 148 out of 167 countries, remaining roughly at that level or deteriorating thereafter (Reporters Without Borders, 2021).

¹⁰ An analysis of the shortcomings of the WGI and governance indexes more generally is beyond the scope of this paper. Arndt and Oman (2008: 12-18) point out that the complexity and lack of re-reproducibility of the index make comparisons through time hazardous (because perceptions or weighting may have changed).

¹¹ These are as follows (UNESCWA, 2011): MDG 1: Eradicate extreme poverty and hunger; MDG 2: Achieve universal primary education; MDG 3: Promote gender equality; MDG 4: Reduce child mortality; MDG 5: Improve maternal health; MDG 6: Combat disease; and MDG 7: Ensure environmental sustainability.

index, shown below in Table 3, covers the period 1997 to 2008; it is divided into four triennia sub-periods: 1997-1999, 2000-2002, 2003-2005 and 2006-2008. We report below the computed simple average of the index in two 6-year periods: 1997 to 2002 and 2003 to 2009, that last year for which data are published. Select indicators are incorporated into the dimensions shown below: political, economic, security and social welfare. As shown, the security dimension deteriorated along with the economic; social welfare has improved marginally, but the most notable increase is in the political dimension, which underlines the point about the expansion in Iraq's political inclusivity since 2003.

Table 3: UNESCWA MDG index for Iraq, 1997-2008

Period	Overall Score for the ESCWA MDG Index	Political	Security	Economic	Social Welfare
1997-2002	3.86	0.72	6.72	4.17	3.84
2003-2008	3.15	1.59	3.34	2.77	4.89
Change	Deteriorated	Improved	Deteriorated	Deteriorated	Improved
% Change	-18.39	120.83	-50.29	-33.57	27.34

Source: UNESWA (2011).

In addition to the holding of regular and competitive elections, an obvious reflection of the expansion in Iraq's polity since 2003 has been the proliferation of non-governmental organizations (NGOs). Thus, between 8,000 and 12,000 NGOs were registered from 2003 to 2011. Although some have links to political parties and are not independent of government (NCCI, 2011: 18), not all NGOs have been co-opted and Isakhan (2021) shows how the independent Iraqi Federation of Oil Unions worked to highlight government errors and helped bring about important reforms in the country's labor laws.

Economic institutions

As noted, according to Acemoglu and Robinson (2012: 74-75), for economic institutions to be inclusive, they need to feature unbiased application of law, secure property rights, and provide at least basic public services and goods to give incentives to people to engage in investment and exchange. Despite constitutional rights for the protection of property and judicial processes, it is difficult to argue that expansions in protections of property rights and rule of law have been realized in Iraq since 2003. The Bertelsmann Stiftung (2020: 11) captures these trends, noting that Iraq's judiciary:

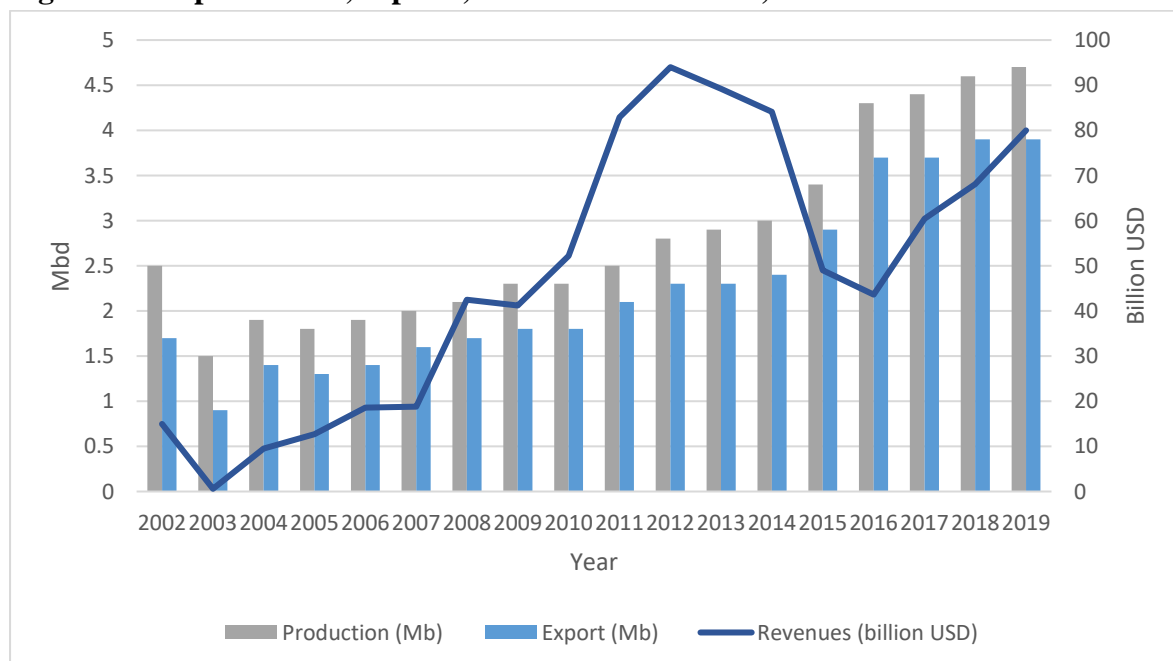
. . . is one of the state's weakest institutions, and its independence is often undermined by political parties interfering through patronage networks and clientelism.

As shown above, both WGI Political Stability and Rule of Law have declined; even where remaining indicators improved, they remained strongly negative. Meanwhile, the UNESCWA index shows massive declines in security after 2003.

For Iraq, oil revenues fund public goods and services, as well as capital investments, and pay the salaries of public sector workers; this has remained unchanged since 2003. A key question, therefore, is how or whether these revenues have made economic institutions more inclusive since 2003, how they have promoted delivery of public goods and services, especially education and health, and contributed to public investments and employment generation. These issues are discussed below in turn.

A. Oil revenues pay for recurrent and capital expenditure and were 81 percent of total revenues for the period 2005 to 2014 (World Bank, 2021: 24). As shown below in Figure 1, oil production and export volumes have increased consistently since 2003, with exports rising from less than one million barrels per day (Mbd) in 2003 to more than 3.5 Mbd in 2019. However, the resulting oil revenues have fluctuated with oil price, expanding as prices rise, e.g. in 2003 to 2008, and contracting during price declines, e.g. in 2014 to 2017. Oil price declines since 2014 have severely affected revenues that in 2019 had yet to recover their 2012 level, despite higher export volumes. As we shall see later, the high level of dependence on oil revenues has induced sizable pro-cyclical swings in budgetary spending, when prices, and hence revenues, change abruptly. Non-oil revenues, e.g. tariff revenues and income tax, are exceedingly low in Iraq and unable to significantly smooth spending: oil revenues were 31.6 percent of GDP in 2018 while non-oil revenues were only at 4.1 percent, lower than other oil-producing comparator countries (World Bank, 2021: 26). Political pressures for the state to create public sector jobs have tended to gain momentum in times of rising oil prices and revenues, creating enlarged spending commitments when prices decline. To balance the resulting budgetary shortfall, the state has resorted to cuts to recurrent expenditure as well as public investment.

Figure 1: Oil production, exports, and annual revenues, 2002-2019



Compiled by the authors. Source: Gollob & O’Hanlon (2020), EIA (2019), OPEC (2019).

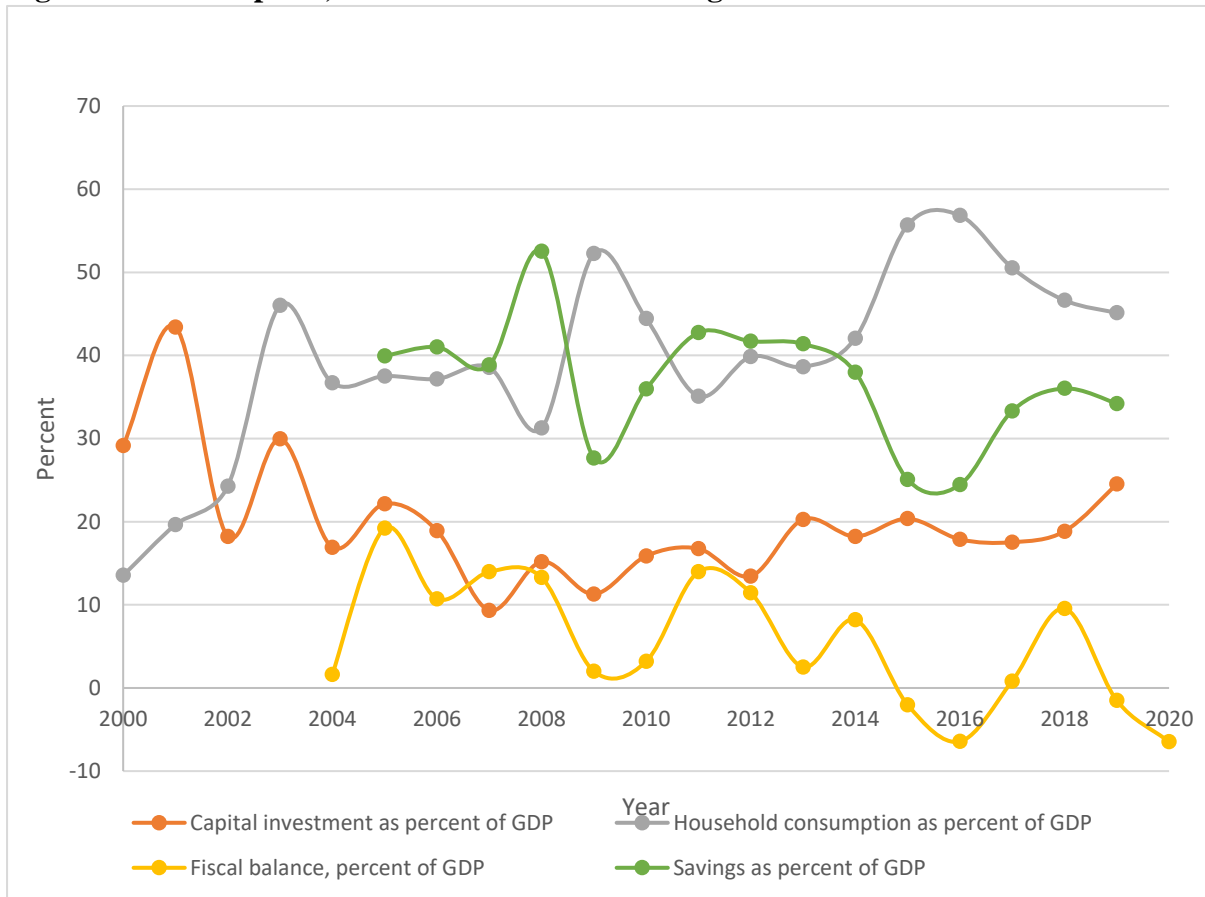
B. Capital formation has proven to be difficult since 2003. With the exception of investment in the oil sector, which employs very few people and has limited operational linkages with the rest of the economy—it provides only revenues—and where international oil companies have been tasked with raising production capacity, it has been hard to convert oil revenues into human and physical capital formation.¹² First, policy errors, including de-Ba’thification and the dismantling of the Iraqi army have contributed to insecurity, which in turn has stifled investment (see Yousif, 2016: 225-228); chronic insecurity has delayed investment and made it more costly. Second, the loss of skilled personnel to emigration and declining state institutions and capacity have also made investment difficult. Not surprisingly, the execution rate of capital expenditure was only 64 percent in 2010 to 2013 (World Bank, 2017: 69). Indeed large fiscal surpluses in the 2000s, shown below in Figure 2, are in part the result of the inability to spend government capital budgets; these surpluses declined since with declining oil prices after 2014 severely reducing government revenues. Third, the reconstruction process has itself been hampered by waste and mismanagement (see SIGIR, 2009). Fourth, while the state undertakes most capital investment, accounting for roughly two-thirds of Gross Domestic Investment in the 2013 to 2015 period (World Bank, 2017: 63), a poor investment climate for private business has also contributed to low investment rates. In addition to insecurity, lack of electricity and dearth of credit, it is harder for investors to open a business, register property and engage in other activities in Iraq than elsewhere in the Middle East and North Africa (MENA) (World Bank, 2017: 73-74).

Finally, and importantly as it relates to our analysis, the noted post-2003 political settlement has led to control of ministries and public sector entities by political parties and that has been a factor in hampering capital formation, as discussed earlier. Much of the government purchases of goods and services have benefitted individual political entities rather than necessary social expenditure, resulting in poor or non-existent delivery of public services or investment projects (Dodge & Mansour, 2021: 14). Government purchases have in effect financed the work of political parties, affording the post 2003 political elite ‘holding power.’ Crocker (2017: 7) explains:

Government procurement contracts are controlled by political parties that either auction them off or set up shell companies to award contracts to themselves. These contracts are then subcontracted, or simply never fulfilled, with funds siphoned off by corrupt politicians and other beneficiaries along the way.

¹² On Iraq’s challenges with capital formation, see Yousif et al. (2020: 10-13).

Figure 2: Consumption, Investment and Fiscal Budget Balance



Source: theglobalbaleconomy.com (2021); accessed September 1, 2021.

The control of ministries by political parties has erased the distinction between state resources and funding of political parties and their activities. For example, the Sadrist movement has used the public funds allocated to the Ministry of Health, under the movement’s control since 2006, to operate a private network of healthcare facilities designed to increase the movement’s support and distribute patronage (Yahya, 2017: 11). For all these reasons, capital formation has been low since 2003, typically averaging between 10 and 20 percent of GDP and only rarely exceeding 20 percent—a low rate of investment for a country recovering from economic sanctions and multiple conflicts.

Until the middle 2010s, the binding constraint on capital accumulation was the ability of the economy to carry out investments, most of which was done by the state: rising consumption did not effectively compete with capital formation, because state capital budgets were higher than could be executed. Since the mid-2010s, however declining oil prices and rising spending on public sector wages and salaries have worked to constrain state investment allocations. The 2019 budget is a case in point: the proposed budget of \$111 billion projected a deficit of \$23.1 billion, with \$27.8 billion allocated for investment and \$52 billion, almost half of the budget, going to pay state workers (Turak, 2019).

C. Investments in education and health sectors have been likewise hard to realize in the context of multiple shocks of decreased social spending during the Iran-Iraq war (1980 -1988), sanctions (1990 -2003) when social spending collapsed and institutions declined, conflict post 2003 and officially sanctioned corruption. The emigration of skilled health and education personnel intensified in the post 2003 period while physical structures and institutions have been damaged; for example, 12 percent of hospitals have been destroyed (World Bank, 2021: 40). Spending on health and education has been low in comparison to other MENA countries, declining from 7 percent of GDP in 2015 to 6 percent in 2019 (World Bank, 2021: 31). Consistent with the difficulties elsewhere of carrying out capital accumulation, most of the expenditure on education and health is taken up in recurrent spending, on wages and salaries, rather than investment spending: recurrent spending was on average 94 percent of education expenditures and 74 percent of health in 2015 to 2019 (World Bank, 2021: 31). Indeed, gains in education and health have been inconsistent and modest. In education, enrollment rates in primary and secondary education increased from 2000 to 2018, but were still lower than regional comparators; completion rates declined from 2006 to 2018 and were lower than 50 percent in secondary education in 2018 (World Bank, 2021: 89-92). In health, life expectancy declined in the 2000s but recovered to reach 71 in 2018, lower than regional comparators; maternal and under-5 mortality were among the highest at 79 per one hundred thousand and 27 per thousand respectively (World Bank, 2021: 44-45). In both education and health, spending has tended to be inefficient and inequitable, concentrating on expensive university education and curative medical care that benefits the better-off and urban population rather than the poor.

D. Public sector employment has increased markedly since 2003, effectively transforming oil revenues into rising domestic consumption as shown above in Figure 2, in contrast to the difficulties associated with capital formation. More generally, the lifting of economic sanctions increased exports (almost exclusively of crude oil), imports and economic activity generally. Political employees and ghost workers notwithstanding, the number of public sector workers has increased from 900,000 in 2003 to more than 3 million in 2015; when workers in state-owned enterprises (SOE) are added,¹³ that number rises to 3.5 million in 2015. As a portion of government spending, this represents a rise from 7 percent of all government spending to almost 40 percent in the same period (World Bank, 2017: 64-65). By 2019, the number of state employees reached 3.5 million and the number of pensioners was 4.61 million in 2018 (Merza, 2020: 29), while contributions to state pension plans covered only a fraction of pensions payments (World Bank, 2021: 13-14). The expansion in government expenditure on wages and salaries in part explains the high rates of household consumption. Indeed, public employment along with Iraq's universal Public Distribution System (PDS), which was instituted in response to economic sanctions of the 1990s and provides food items to the general public, are Iraq's main welfare delivery systems. Hence, their popularity among the public.

The rise in public sector employment stands in contrast to the anemic jobs growth in the private sector. Like many other countries in MENA, economic growth does not always lead to rising employment (see Assaad and Marouani, 2021), let alone large declines in poverty. Iraq

¹³ SOEs produce a wide variety of consumer and producer goods; most are unprofitable.

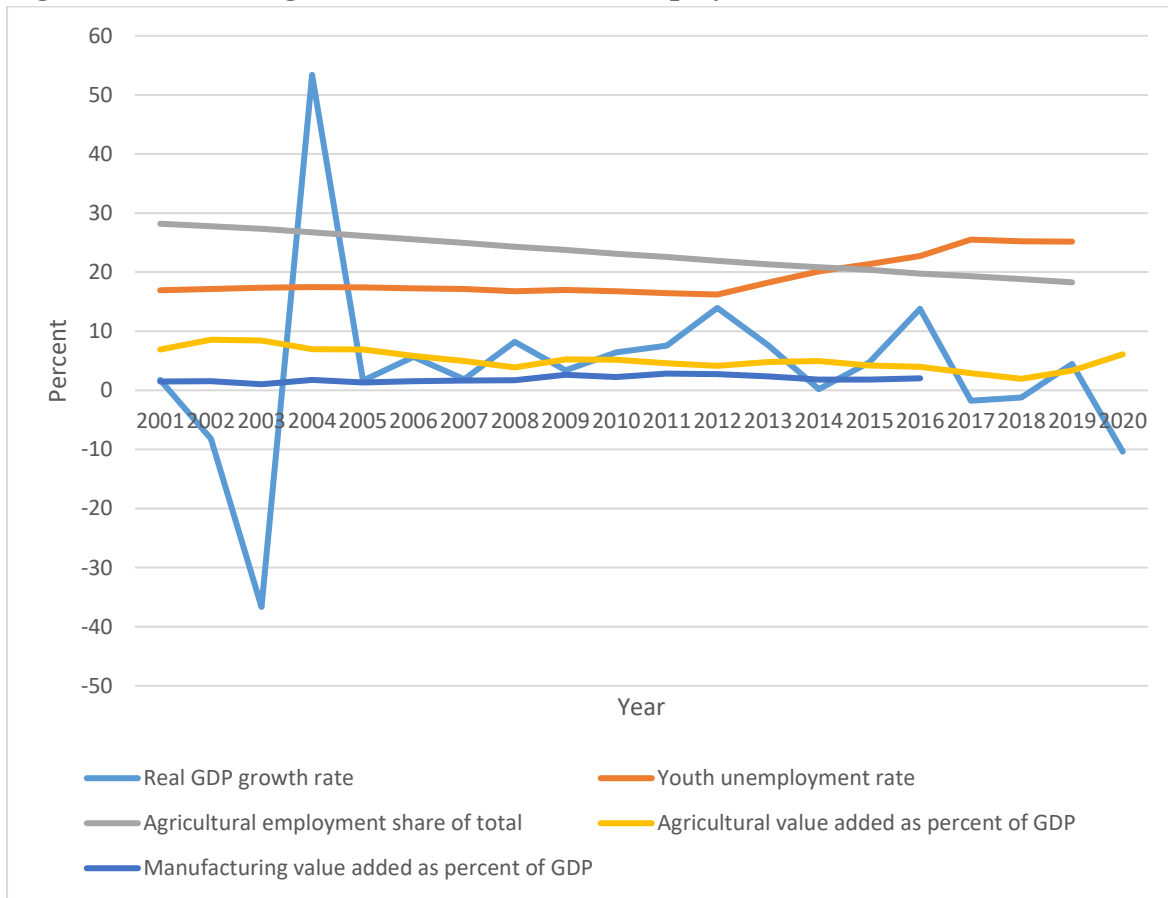
experienced rising oil revenues and real GDP growth of 7 percent per annum on average between 2007 and 2012; this resulted in the creation of 750,000 new jobs, but only one-fifth of which was in the private sector (World Bank, 2014: 125). Poverty did decline accordingly, but only marginally, and in any case was reversed by the onset of conflict with the Islamic State in 2014 (World Bank, 2017: 27-29).

E. Economic growth has been inconsistent and unimpressive in fact, despite rising oil revenues, as shown below in figure 3. Real GDP growth from 2005 to 2019 averaged only 5.1 percent per annum,¹⁴ or less than 3 percent per annum in per capita terms after accounting for population growth (calculated using estimates from thegolbaleconomy.com, 2021). The low rate of investment along with conflict and instability has constrained employment generation, which has not kept pace with new entrants into the labor market. Iraq has a young population where half of the total is under 19 years old (Bandiera et. al, 2018: 7), hence the high and rising youth unemployment (among 15 to 24 year olds). Most growth in GDP has come from rising oil output rather than increased output in goods producing sectors of agriculture and manufacturing. Iraq's agriculture has long-term problems, including soil salinity, reduced water availability, outdated cultivation methods and climate change (see Yousif, El-Joumayle and Baban, 2022), and requires large investments. Thus, value added in agriculture as portion of GDP has declined since 2003, along with employment in the sector. Deprived of key inputs such as electricity,¹⁵ manufacturing has been unable to take advantage of the end of sanctions as shown. There are individual successes of course, such as the opening of cement and date factories in Najaf and steel mill in Sulaymania with capacity of 500,000 tons a year (Marr, 2012: 364-365). Overall however manufacturing has been unable to recover and the contribution of value added in the sector to GDP stood at 2 percent in 2016 (thegolbaleconomy.com, 2021).

¹⁴ We exclude the massive war fluctuations of 2003 and 2004 as well as the covid-19 recession of 2020 in this calculation.

¹⁵ Electrical power generation has been rising in recent years, reaching 77.65 billion kilowatt-hours in 2018, but Iraq still imported 21.79 billion kilowatt-hours in the same year (Theglobaleconomy.com, 2021).

Figure 3: Economic growth, value added and employment



Source: thegolbaleconomy.com; accessed September 1, 2021.

In sum, Iraq’s political institutions have experienced greater inclusiveness since 2003. Yet, there is little evidence of correspondingly greater inclusion in economic institutions. Not only has the provision of law and order been lacking, but in terms of the distribution of oil rents, capital formation, human development outcomes (and investment) in education and health, as well as employment generation, Iraq’s economic institutions have lacked inclusion. Moreover, in very real terms, the post 2003 political settlement, although more inclusive, has hindered development, with the muhasasa system enabling official corruption and handicapping state capacity or effectiveness, which has remained low and perhaps has diminished since 2003. Conflict since 2003 has made capital formation, employment and development generally more difficult, and it is still hard to claim a correspondence between political and economic inclusion.¹⁶

Furubotn and Richter (2005: 475) remind us that the most basic property right is that of peace and security, or what they call ‘statehood.’ This provision of security along with national wealth or welfare represent the economic value of citizenship. Relatedly, insecurity, civil war and stagnant welfare explain the continued desire among Iraqis to emigrate and underline a diminishing value that Iraqis attach to their citizenship or statehood. One gets a sense of the

¹⁶ We leave aside here the thorny question of whether Iraq’s post 2003 political settlement has itself caused internal conflict, which is beyond the scope of this paper.

diminished value of Iraqi citizenship over the last decades from the emigration of Iraqis (see Sassoone, 2011). Iraqis continue to seek refuge outside Iraq in record numbers. The Iraq Human Development Report of 2014 revealed that 22 percent of Iraqi youths (15 to 29 years old, 29 percent of males and 14 percent of females) wanted to emigrate, for a variety of reasons including lack of job opportunities and desire to establish a future outside Iraq; the numbers for Baghdad are higher still and stand at 31 percent (41 for males and 17 for females) (United Nations Development Programme (UNDP) (2014: 179–181). According to the International Organization for Migration (IOM) (2020: 84) more than 1.9 million Iraqis remain internally displaced by end of 2018.

This reality is apparent to Iraq's new elite who have been responsive to calls for greater economic inclusiveness. In general, however, such efforts have been limited and scattered. Thus, recognizing that joblessness and lack of basic services, notably electricity, were key grievances of protestors in Basra in July 2018 (Salaheddin, 2018), Hayder Al-Abadi (Prime Minister, September 2014 to October 2018) promised to finance development projects worth \$2.9 billion and create 10,000 new jobs in the oil industry (Patel: 2018: 1). Adel Abdul-Mahdi (Prime Minister, October 2018 to November 2019 and later caretaker Premier until May 2020) witnessed the expansion of protests to other parts of the country, including the capital Baghdad. In response, Premier Abdul-Mahdi announced a package of policies in October 2019. These included the allocation of land to low income households; building of 100,000 dwellings throughout Iraq; payment of ID 175,000 (roughly \$150) per month to 150,000 unemployed persons unable to work; and the paid training of another 150,000 unemployed people who are able to work (Yorulmaz and Bilgay, 2019: 5-6; Al-Falluja Channel, 2019, October 9). While the need for jobs is undeniable—more than 85,000 person applied in the 10 days following Al-Abadi's jobs announcement of 10,000 positions in the oil sectors (Patel: 2018: 1)—these initiatives are limited. Abdul-Mahdi's proposals (we are unsure of the extent to which they were implemented) are substantial, but pale in comparison to the 500,000 people that enter Iraq's labor market annually (Patel, 2018: 7).

4. Policy recommendations

The World Bank and International Monetary Fund generate regular reports on Iraq that articulate policy recommendations on a number of issues (see for example IMF (2017 & 2019); World Bank (2017, 2020a & 2021)). These are useful but often lack institutional context. For example, the control of corruption is often presented as an item of political will or moral rectitude; we have argued instead, following Dodge and Mansour (2021), that corruption is part of the functioning of existing political institutions and outcome of Iraq's political settlement.

We propose a program of expanding Iraq's PDS, presently an in-kind program, into a cash-based, limited basic income scheme, which might be enlarged later to a universal income scheme. Universal programs run counter to IMF and World Bank thinking that favors targeted transfers to the poor, citing cost and waste of transferring resources to the non-poor. However, we note that information about who is poor in Iraq is costly to obtain. There are important advantages to such a basic income program, and drawbacks that we note later. The program

would build on the PDS, which has near universal coverage. It would distribute oil rents, in line with expectations of ordinary Iraqis for an equitable allocation of oil resources. Moreover, it would reduce pressure on the state to provide more public sector jobs, which is unsustainable in the long-run, and is likely to carry a dividend in terms of social peace and stability (see Yousif et al, 2020: 23). The aim is to improve directly economic inclusion, bypassing the lack of correspondence between enlarged inclusiveness in political with economic institutions. Relying on the working of Iraq's labor market to allocate jobs to new entrants is unrealistic.

We suggest a pilot study with an aim of implementing a limited basic income scheme that targets a specific demographic group, such as youths or excludes others, such as public sector workers, which is open to modification in future iterations as advocated by Standing (2017: 292). The basic workings of such a putative program are presented below in Table 4, with various scenarios for allocations and costs. The calculations below are based on Iraq's current GDP of US\$ 173,486 million (UNCTAD, 2021); total population of 40.223 million; and youth (15 to 29 year old) population of 11.318 million (Population Pyramid, 2020), all for 2020. The resulting per capita GDP is \$4,313 in 2020. Because we do not have detailed data on who is employed in the public sector, we are unable to estimate the costs of these programs if public sector workers were made ineligible to receive benefits. We follow Van Parijs and Vanderborght (2017) in scenario 1, where a basic income of 25 percent of GDP per capita is allocated, or \$1,078 per person per annum in 2020. The resulting total cost of scenario 1 is \$ 43.4 billion (or 25 percent of GDP) and declines to \$ 12.2 billion (or 7 percent of GDP) if only youths (15 to 29 year olds) receive the transfer. In scenario 2, we present a basic income based on the World Bank's former poverty lines of \$1.25 and \$2 per day, along with a \$3.20 per day basic income based on an Arab Monetary Fund study (Abdel Monem, 2020: 15). These imply a basic income of \$456, \$720, and \$1,168 benefit per person per annum (calculated by multiplying \$1.25, \$2 and \$3.20 by 365 days), and correspond to total costs of US \$18.4, \$29.4 and \$47.0 billion or 10.6, 16.9 and 27.1 percent of GDP respectively. Finally, scenario 3 utilizes the average expenditure of individuals per month, based on the result of Central Statistical Organization (CSO) 2017-2018 Household Survey (CSO, 2019). Based on an exchange rate of one US\$ to ID 1250 ID, this translates to a mean expenditure of \$2,041 per person per annum, which corresponds to a total cost of \$82 billion or 47.3 percent of GDP. In all scenarios, restricting the benefit to youths reduces the cost to less than one-third of the cost of providing the benefit to all. In none of these scenarios is the value of goods provided to the public by the PDS included, the market value (minus nominal cost) of which we calculate is \$391 per person per annum, based on CSO (2019:4) statistics.

Table 4: Basic Income: three scenarios with associated cost

2020	Scenario 1 (Distribute one fourth of GDP per capita)	Scenario 2 (Poverty lines of \$1.25, \$2 and \$3.20 per day)	Scenario 3 (Survey of wellbeing in 2017- 2018 per month)
<u>Benefit per capita</u> (current \$)	1,078	456 730 1168	2,041
<u>Cost for entire population</u> (in million current US \$)	43,371 (in millions current \$)	18,351 (\$ 1.25) 29,363 (\$ 2) 46,980 (\$ 3.20)	82,094
(as percent of GDP)	(25.0)	(10.6) (16.9) (27.1)	(47.3)
<u>Cost if only youths (15-29 year olds) receive benefit</u> (in million current US \$)	12,201 (in millions current \$)	5,164 8,263 13,219	23,100
(as percent of GDP)	(7.0)	(3.0) (4.8) (7.6)	

Sources: Population Pyramid (2021); UNCTAD (2021) and CSO (2019)

Thus, the \$1.25 per day income scenario 2 establishes a lower limit estimate of cost (\$18.3 billion) while scenario 3, based on the average expenditure and likely too generous, is the upper limit of cost (at \$82 billion). For perspective, the proposed spending of the 2019 budget on wages and salaries of public sector workers, at US \$52 billion (Turak, 2019), exceeds the cost of providing a transfer equivalent to a quarter of per capita GDP to every Iraqi and almost double the cost of disbursing \$2 per person per year as shown above. Were public sector workers excluded from our modified basic income scheme, the costs would be smaller still.

We recognize of course that this proposal is no magic bullet and will have to be accompanied by other reforms (see Yousif et al., 2020). It will not by itself rejuvenate agriculture or manufacturing, nor improve basic services; in principle, it reduces funds available for public investment in those sectors (Mirza, 2011). In theory, a rise in unearned income is expected to increase demand for leisure time and reduce labor supply, supposedly rewarding idleness. However, this can be offset by incentive effects that encourage entrepreneurship and investment, including in human capital (Hoynes and Rothstein, 2019: 947-8). Recent work in developing countries indicates that universal basic income schemes have tended to increase investment in education and health, and increase labor supply (Colombino, 2019). Indeed, a study Salehi-Isfahani and Mostafavi-Dehzooei (2017, 12-13) shows that a basic income program in Iran likely raised labor supply among service sector workers, because credit-constrained businesses used the basic income to expand operations. Yousif et al (2020: 24-25) note that complementary reforms that make it easier to conduct business, obtain credit and diversity government revenue will be required for this scheme to have its full effect. Finally,

banking procedures and transactions will need to be rationalized with recipients of the basic scheme preferably receiving automated deposits rather than cash.¹⁷

5. Concluding remarks

This paper explores the relationship between inclusiveness in political and economic institutions in the context of low state capacity in Iraq. Acemoglu and Robinson (2012 & 2019) provide a reason why political inclusion has not translated easily into economic inclusion, namely low and probably declining state capacity. What the theory does not explore, and what we discuss in this paper, is how the new political settlement, associated with more inclusion in political institutions and resulting from Iraq's critical juncture in 2003, worked to constrain inclusion in economic institutions, by weakening already low state capacity or effectiveness among other reasons. Reliance on state capacity to transmit political inclusion to economic raises questions about the applicability of Acemoglu and Robinson's formulation to developing countries emerging from conflict, with fractured polities and reduced state capacities. Acemoglu and Robinson may be thinking in terms of longer time horizons, but we believe that the period since 2003 provides enough time to assess Iraq's changed institutions.

Our discussion underlines the complex and often-unpredictable dynamic of increased political inclusion or liberalization. This in fact is the point that Khan (2019) makes: that inclusive polities can generate wildly different outcomes depending on context, not necessarily economic inclusion. This explains partly why development economics traditionally has been guarded in its views of political plurality, seeing human rights, regular elections and a free press as somewhat expensive luxuries, costly and detrimental to the first objective of capital accumulation and economic growth (Sen, 1997).¹⁸ Acemoglu and Robinson (2012 & 2019) go to the opposite limit to assert that politically inclusive institutions are the only starting point to achieving inclusive economic institutions, which is why their theory is unable to explain inclusive economic institutions that arise in politically extractive contexts.

In terms of Iraq's development, this study points to the infeasibility of relying on a more inclusive polity to generate economic inclusion. We suggest instead a policy re-orientation centered on a basic income scheme that distributes Iraq's oil rents directly to ordinary Iraqis, broadly in line with the normative and equity expectations of Iraqis themselves. Indeed, equal access to state services and privileges goes to the heart of what protesters have been demanding; continuing to provide government jobs with limited (and poor) public services is patently inadequate and unfair. Assimilating a more egalitarian distribution of oil rents into Iraq's evolving political settlement would make Iraq's economy more inclusive and is also likely to broaden Iraq's polity.

¹⁷ I am indebted to Dr. Ali Al-Hammood for alerting to the importance of this last point. Zoom conversation January 23, 2021.

¹⁸ Sen (1997) is rightly critical of this view, pointing to the practical and other benefits of political pluralism, and cautions against confusing (good or bad) public policy with type of political regime.

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