
Economic Growth and Welfare in Iraq

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February 2011

Conceptual framework and overview

Development Economics deals with economic aspects of the development process in low and middle income countries established as a self contained discipline after the Second World War. Its Focuses is not only on methods of promoting economic growth and structural change but also on improving the potentialities of better life for population.

The Arabians economic thinker Ibn khaldon provided descriptions of economic growth in his Muqaddimah. Later in Western Europe it was understood that economic growth also corresponds to a process of continual rapid replacement and reorganization of human activities facilitated by investment.

Mercantilism was the earliest modern approach to development economics paralleling the rise of the nation state in Europe. The policies of the states of the said period coined by economists as the "Bullionist " theory which considered the net acquisition of precious metals is the main criteria of successful economic policies. Development was seen as involving increase in the total amount of specie that is circulating medium such as silvers and gold, under the control of the state. The Bullionist theory led to justification of occupation of colonies to supply cheaper raw materials which could then be manufactured and sold. In the 18th century the policies had changed to emphasize manufacturing in itself, and the adoption of high tariffs guided by the doctrine of economic nationalism. And then allow them to export abroad, when the productivity improved and capital cost paid by the domestic protected market, until the prices decreased to competitive level allow exporting.

Underdevelopment of southern and eastern parts of Europe was the main interest of early development studies.

In the fifties of the last century, the typical undeveloped economy of Latin America. Asia and Africa had become the subject matter of development economics. Studies identified underdevelopment with the lack of capital as a result of low saving because of low income, the pattern of causality called vicious circle. Number of development strategies suggested breaking the vicious circle. Among those strategies the "big push" of interrelated investment projects implemented simultaneously to enlarge market and increase income. The leading sector of intensive, forward and backward, linkages introduced as a dynamic element to shake the stagnant structure of underdevelopment. Furthermore, the duality of modern and traditional sector brought the attention to the development process of continues expansion of modern urban sectors and shrinking of rural population through the transfer of surplus labor from agriculture to industry.

Growth could be considered as the necessary condition of development and the core target of development strategies. Growth is defined as the increase of per capita gross domestic product GDP or other measure of aggregate income like GNI typically reported as the annual rate of change in real GDP. Economic growth does not account for working conditions, education, political and social conditions of non renewable resources or environmental degradation. Economic growth is primarily driven by improvements in productivity which involves providing goods and services with fewer inputs of labors and capitals, energy and materials, per unit of production. Also, growth could be defined as the steady increase in potential output or productive capacity of the national economy.

Modern theory of growth started with the contribution of Sir Roy Harrod in his book entitled: "Toward a Dynamic Economics" of (1939). And, Evsy Domar in (1947). They simplified the process of growth through capital expansion as the determinant of productive capacity.

The later equal capital divided by capital output ratio which reflects the state of technology. Then, growth (the relative change of national output) will equal the ratio of investment (net addition to

capital stock) to output divided by capital output ratio or incremental capital output ratio. Since the inception, economics of growth has been mainstreamed by the major schools that dominate the profession. As a result, so many different styles of modeling introduced using the tools of microeconomics and macrocosmic. Skills of modeling and empirical research paved the way to study the sources of economic growth.

The relative contribution of the factors of production (Labor and capital) estimated and vertical based on different assumptions addressing the production function. Many attempts to separate labor and capital from the effect of technical progress have been thriving into a new line of research called source of growth.

In this regard the concepts of total factor productivity, human capital, and embodied and disembodied technical progress have been operationally defined and seriously considered in growth policies.

The greatest period of economic growth in many leading western countries occurred from the end of the 19th century until the mid 1920s. Peak economic growth of world GDP of about 5% annually occurred from the 1950s to 1960. Between 1961- 1973 the growth was in the range of 4% to less than 7%, since then ranged from 1%-5%.

The relationship between growth and income inequality has been one theme in the literature of growth and development. Functional income distribution, between wage and profit, had occupied the attention of classical, and later, keynzian economists in relation to the dynamic path of capitalist economies. The keynzians established a relationship between the functional Income distribution and saving due to different propensities to save out of profit and wage. And the saving, which equal to investment as a condition for macrocosmic equilibrium, will determine the rate of growth via capital output ratio as before mentioned.

Evolution of the contemporary socio- economic system in Iraq remarkably shaped by oil and politics .There are difficulties in modeling the long term growth of our economy and it was very difficult formulating effective development plans to guide the development process.

The implementation of the oil for food program has improved economic conditions since December 1996. And per capita food and medicine have increased steadily, particularly after December 1999 when UN Security Council authorized Iraq exports as much oil as required.

After the fall of the previous regime the state was disturbed by civil conflicts, and sever intervention by neighbor countries supporting terrorists activities lawlessness , and fragmentary politics. In this environment corruption penetrated all government entities impeding reconstruction and investment.

The performance of the Iraqi economy over the last years has been sharply improved. First, and most importantly, growth rebounded since the year 2004 lifting the per capita GDP to a bout \$ 4000 in 2008. This growing prosperity, in spite of perceived inequality and the human conditions of the households under poverty line, is an excellent achievement after along period of living standards decline as a result of wars and sanctions. Oil revenue, almost, is the only source of the recent revival.

The government seeks to increase average crude oil production and exports to p/d 3.2 million and b/p/d 2.5 million, respectively, by the year 2012. Achieving the oil target will be sufficient to finance accelerated development.

Iraq could benefit from the successful experience of emerging market economies to make a lot of difference.

Reaping the benefits of oil service contracts will depend on to what extent that Iraq will have capable organizations and policies to raise investment relative to GDP and sustain transformation process to join the group of high income economies of sizeable non-oil productive base.

Also, the large investment programs in crude oil and other sectors call on government to start immediate intervention to ensure better government services in general, and spontaneous trade finance and international payments in particular.

However, like many other countries, the prospect of sustainable growth, at least in the long run, hinges on its economic structure. At the moment, the structural problems are mainly reflected in the shrinking productive capacity of manufacturing, and under developed agriculture shown by increasing dependency on imported foods. Employment in non-oil commodity sector (agriculture and industry) represents 36%-42% of total economically active population, which, estimated as 26% of total population reflects the low level of participation in employment that should be raised up to more than 30%. These indicators disclose the structural weakness of the economy considering that the above mentioned labor force includes unemployment which has been declined to 15.2% of the labor force in 2008 according to official statistics. This contraction accentuated by chronic and built-in inflationary pressures, which should be the main focus of any successful development strategy in Iraq. It is widely understood that private capital in collaborating with foreign investment could revive industrial sector in Iraq. In agriculture the cultivated area with its prevailing low level of yield can not satisfy the domestic demand. Moreover, due to high cost of production, Iraq has no comparative advantage to compete in the regional agricultural market. Agriculture is urgently in need to a very costly program of investment to redesign and implementing a new network of irrigation, in parallel with land reclamation and overall national wide drainage system .

The shortage of electricity is the main obstacle to restore the normal state of the economy. Increasing the price of oil products and the severe shortage of electricity contributed significantly in inflation and rising cost of production.

About 80% percent of Iraq's power generation and distribution system were destroyed in the war of 1991. The generating capacity was 9000 megawatts reduced to 2200 megawatts with severe damage of transmission system included 17700 kilometers of lines. The generating capacity to date can not meet the minimum demand, for household sector and necessary services, estimated as 7500 megawatts. The potential demand might be 15000 megawatts, given restoring production and investment activities. The demand would exceed 25000 megawatts a decade from now.

Plans of electricity and refineries are relevant to the expansion of production and cost reduction as the official data shows that energy is the major source of cost increasing and inflation. The context will extend to incorporate mining and manufacturing of construction materials, railways network, and sea ports cost reduction and expand the capacity for increasing investment.

Considering the liberalization of trade and finance as an ongoing and irreversible process, Iraq does not have other choice but to upgrade its capability to make the process more responsive to development and stability.

Legislations enacted making private enterprise as the main instrument in a free market economy. Investment laws adopted to attract foreign investors and repatriating Iraqi capital. Among these legislations the law for investment in oil manufacturing activities to establish large enough capacity in refining sector for domestic demand and export. Protection of property rights, and distinguished preferences and exceptions has been given to foreign investors. Free economic areas have been delineated and new seven areas legally established to be equipped with excellent infrastructure to attract investors, service providers, and licensing would be facilitated up to best practices.

As the security situation has, and will be more, improved, a business environment conducive to active private investment will be started to create growth. Headline inflation fell to 6.8 percent by end 2008. Inflation was well below 6% in 2009, mainly because of a further decline in fuel prices. Exchange rate has been stable since beginning of 2009 at 1170 ID although it is fluctuated against other currencies as much as the US dollar has. The central Bank rate has been reduced gradually to 5%.

Although full privatizations plan was not implemented yet, but the 190 state-owned enterprises have not retained its previous role in production and investment, awaiting a well designed

arrangement of privatization. In spite of civil war, private sector has resumed business in real state, construction, wholesales and retail trades.

Capital formation and Growth:

GDP per capita reached its peak in the years 1979-1980 about \$ 4000, the level has not been regained in real terms. Following the 2003 invasion, the economy, to a great extent, collapsed and revived gradually from the damages of war and rampant crime.

In 2003 GDP drop to \$ 13.9 billion from \$20.5 billion in 2002 GNP and per capita income has been growing in a rapid manner since the year 2004.

In 2007 GDP in Iraq estimated as IQD 107.8 trillion, mounted to IQD 155.6 trillion in 2008, based on a preliminary data, which equivalent to \$130.3 billion as the average exchange rate through over the year was IQD 1193 per \$US . The contribution of manufacturing and agriculture is about IQD 7.7 trillion (\$ 6.5 billion) i.e. the share of the two sectors in GDP is 5.1%.

GDP by Main Sectors (Billion IQD)

Sectors	2007	%o total of GDP	2008	% of total GDP
Agriculture	5454	5.1	5399	3.5
Oil	58203	54.0	87538	56.2
Manufacturing	1818	1.7	2332	1.5
Commodity Activities	70537.4	65.4	102852	66.1
Commodity activities with out oil	12334.4	11.4	15314	9.8
Other sectors	37291.1	34.6	52784	33.9
Total GDP	107829	100	155636	100
Non – oil GDP	49626	46	68098	44

However, fixed capital formation is lower than minimum due to security and limited implementing capacity of government apparatus. In addition, under developed construction and contracting sector has a clear negative effect on the course of implementation.

Therefore, the shortage of capacities is accumulating everywhere, including irrigation networks and drainage in agriculture land. Pollution, mainly water, has been increasing beyond the acceptable standards.

Economic growth, beyond the crude oil sector, Exceeding 7% annually in terms of GDP requires high level of investment, may be no less than 30% of GDP. That could be achieved by a policy mix reducing the perceived risk and increasing the expected return on investment.

Iraq's, new five-year national Development plan (2010-2014), targets annual economic growth of 9.4 percent. The plan has estimated requirement of fixed investment as \$186 billion includes \$100 billion of public investment. These estimates are analytically calculated based on its growth target and capital - output ratio. It is quite possible that public investment exceeds the very conservative calculated investment. Annual growth rate of non oil economy could be elevated to 10%. That requires raising the investment in the private sector to 15% of the GDP as a take off threshold. And the public sector investment to 40% of oil revenue. On average investment to GDP may reach 35%.

Over the next five years the economic administration of Iraq should work hard to stay a head of developments, to refine legislations and regulations, and to ensure good governance. In this regard rebuilding administrative body and action oriented management is an essential prerequisite to move forward.

Anti-corruption efforts are being stepped up. But, additional measures are required. Rather the overall institutional frameworks for fighting corruption to be strengthened.

A program of action to expand absorptive capacity is suggested, because the economy can not respond to the huge backlog of infrastructure and public service basic needs unless it has the built-in ability to absorb large and growing public expenditure without inflationary pressures.

The prevailing management of public investment projects needs to be reconsidered. In this regard all the resources of the relevant organizations could be pooled together for restructuring into a new set of companies, so as to handle the process from preliminary studies to contracting. Furthermore, establishing a number of auditing units would assert integrity, cost effectiveness, and engineering and legal compliance.

The decline in public capital contributed to the collapse in economic growth. Public sector investment peaked in 1982 had declined precipitously. It appears that the decline in public investment leads the overall socio – economic deterioration. After 1983 both the public capital stock and non oil – GDP continued declining steadily in contrast with the assumption of possible substitution between oil revenues and non oil GDP. The public capital stock enters positively into the production process. Therefore the decline in per capita capital formation that occurs after 1983 contributed to the decline in non-oil productivity and production contraction in commodity sectors. There is a strong causal link going from public investment to overall economic activities.

Accordingly if policy makers chose to use public investment to compensate for the backwardness of existing regions this, most likely, will help motivate more private investment and growth.

The macroeconomic risk is negligible since the government budget is the main determinant of total effective demand and fluctuations in oil revenue can be mitigated through stabilization buffer accumulated out of unintended surplus. Political noise can not affect the international commitments of the government and the foreign partners of Iraq have to get this with certainty as a concrete fact in Iraq. The implication of political risk on domestic economic performance is just not worth worrying about. It was obvious that all political ruling powers in Iraq accepted free market economy irreversibly and well prepared to support effective enforcement of the relevant legislations and contracts. Political and, bureaucratic decisions are subject to continuous reviewing assessment, auditing and investigation. Nevertheless effective accountability similar to that in mature democratic societies is unattainable yet.

Also, information systems are not supporting good governance including the timing and periodicity of financial statements and their objectivity in expressing the actual conditions. The institutions of concern have yet to develop clear distinction between front, middle, and back offices.

Oil Revenue and Public Finance:

Prior to the out break of Iran –Iraq war in September 1980 oil production had reached 3.5 million barrels per day and exports about 3.2 million barrels per day .

In spite of diversified resource base, Iraq's economy is dominated by the petroleum sector. Exports of crude oil have traditionally provided more than 95% of foreign exchange. Furthermore, the government budget is dependent on oil by more than 90% of its resources.

The importance for many developing nations of primary- commodity exports with exogenously determined prices accounts for or important source of macroeconomic instability in these countries. Capital inflow is subject to abrupt reversals, most likely, in correlation with sudden drop in oil price. And insufficiently developed domestic financial systems would limit the speed of resource reallocation following an adverse shock and may magnify contraction in output.

The problem of public finance started since 1983 caused by massive expenditures in the war with Iran after depletion of International reserves which had been accumulated in the seventies up to

\$40 billion. Shrinking of oil exports then, enforced the government to adopt austerity measures reflected, mainly, in the suspension and /or abandoning public program of investments. Heavily borrowing during the years 1984-1988 burdened the economy with the problem of foreign debt. The employment opportunities in private commodity activities decreased relative to the total supply of labor, economically active population crowded in non-commodity activities, mainly informal private and over staffed government services.

The economy remains extremely sensitive to oil revenue. This is why the management of oil, and gas, resources is a major concern, and will be

The focus in the near future, and have implications for the long term social and political stability in Iraq.

For the period since the beginning of 2006 till the end of July 2010, \$ 108 billion of foreign exchange sold to the private sector, \$ 30 billion used as CBI's reserves, and \$ 41 billion dispersed by the government, mainly , for imports.

The intended reform of the public finance would require changing the rules of budgeting, accounting, and reporting procedures. Raising allocation to public investment out of budget and oil revenue has been considered the main challenging target. This is why the current (operating) expenditure needs to be restricted so as not exceed a maximum ratio of total expenditure and oil revenue. In this regard, total salaries and related allowances would be thoroughly revised.

In Iraq, public expenditure is the major determinant of aggregate effective demand. Therefore, we can only ensure stability by including supply side in the process of formulating and implementing the government budget.

Establishing a multi-purpose reserve fund managed by the MoF may serve the function of withstanding potential fluctuations of crude oil prices. The fund will also maintain the minimum required of public spending and foreign exchange supply to the private sector in the periods of extraordinary export shock due to non-markets reasons. The fund would enable Iraq maintaining steady growth of government expenditure over the phase of saturation level of oil revenue. These conservations are required until the non-oil taxable income of enough relative size would exist, and non-oil source of foreign exchange would become a reality but, after the social uprising establishing the fund should be postponed.

The relationship between fiscal and monetary operations needs to be highly considered with deep insight into the characteristics of the oil economy. In this respect the dualism of budget deficit and foreign exchange surplus should be resolved thoroughly. Definitely, Iraq has to adapt its system of public finance to the new level of oil revenue. Otherwise, macroeconomic performance will be severely constrained by bottlenecks. Containing the supply side within the government budgeting, and public finance management, is a first step to address the chronic illness of limited ability to invest and avoiding potential inflationary pressure.

Crude oil service Contractors are entitled to petroleum cost, supplementary cost, and remuneration. They start charging petroleum cost to the operating account as from the effective date. From the date of first commercial production contractors shall become entitled to remuneration. The remuneration shall be an amount equal to the sum of the product of the remuneration fee and net production subject to the performance adjustment factor called R-factor.

R-Factor equals the aggregate cash proceeds divided by total expenses. Both of the remunerator and denominator are accumulations from the effective date up to the end of the preceding calendar year. Aggregate expenditure includes: petroleum costs, signature bonus, plus other costs like training and scholarship. The apparent inconsistency between adjustment factor formula and contracted fee needs further clarification. According to the R- Factor, remuneration fee (RF) shall be declining to 0.2 of the maximum contracted RF When R-Factor equal 2 i.e. total expenditure represents %50 of the total receipts.

Inevitably the R-Factor will exceed 2 at the beginning of the plateau production period in which the calculated fee using the R-factor shall, be lower than the contracted fee.

If the additional production capacity could be B/day 9 million and average investment cost for B/day capacity \$ 12000, the total investment cost would be \$ 108 billion. Also, assuming that the average increment of actual production, for the period from effective date of commercial production up to the starting date of the plateau, could be B/day 4.5 million, the total operations outlay would be \$158 billion.

Then the total investment plus operation costs accumulated at the beginning of the plateau period would be \$ 266 billion, the total expenditure including supplementary cost could be \$ 280 billion.

Assuming \$60 per B the total receipts could be \$591 billion and the R-Factor would be 2.1 which may reduce the remuneration fee to less than \$ 1 per B from the beginning of the plateau period onward. The calculations presented here should be considered as very preliminary just indicating to the order of magnitude rather than proper costing. The total cost could be totally covered by the starting phase of the plateau production. The net revenue of the government shall be the total proceeds reduced by operations expenses plus remunerations and some supplementary expenses of insignificant amount.

Contractors shall pay tax defined as %35 of their realized net income arising under the contract and reported in accordance with the procedures and standards of accounting and auditing, as stipulated by the relevant laws and regulations, mentioned by guidelines of development and production service contract.

Financial system in Iraq is banking-based. And, the banking sector dominates the stock market by 89.8% of the total trading volume and 85.2% of the total value of the trading volume.

Problems in credit and banking services have been serious, and negligence or do nothing attitudes would deprive Iraq of opportunities to push the private business into the fore front of economic development.

Total credits to private sector surged in 2009 and increased to about IQD 11 trillion in 2010. It was a significant achievement in comparison with the 2008 when the total credits less than IQD 4 trillion.

The anticipated development in the country necessitates adopting realistic perspective to enhance credit to private sector. A well functioning financial sector is critical for economic growth and developing the non –bank segment of Iraq's financial industry, particularly debt markets and insurance, needs to be addressed beside a program of action aiming at enlarging of the corporate sector. The process could be coordinated with the anticipated rehabilitation and privatization of about 190 public enterprises before mentioned.

Bankers are in need to change their credit and risk management as much as they need more resources to cope with the increasing size of market and the aggregate level of investment. Also, good governance should be considered as one of the most strategic issue for the banking sector functioning and the overall economic performance.

The right to availability, free possession use of, and internal and external disposal of currency, is asserted by legislations and regulations to all residents of Iraq, and foreigners, without potential exceptional restrictions. But, all financial operations need to be in full compliance with the law of anti money laundering and criminal financing. In this respect, all the stake holders better be remind that the said compliance is internationally required and emphasized. Furthermore, the right to open and operate accounts in foreign banks and make payments out of that accounts is openly recognized and practiced with out reservation.

The banking community in Iraq has made considerable improvements in regarding their capabilities to encourage contractors and sub-contractors of oil investment to open such accounts in foreign and /or local currencies. But, sorry to say, that foreign partners are still unreasonably reluctant to open such accounts.

The foreign and national companies implementing investment programs companies of oil service contracts shall obtain and maintain insurances. And, the Iraqi insurance companies have been

given clear preference to benefit from newly created and promising market. In this regard, the companies of concern may raise their net retention to cope with the expected exposure.

Trade and Industrialization policies:

Large scale industries were mainly in public sector, while the private activities were dominated by small scale and individual firms. Until 1984 the government inclined to expand heavy industries to boost its military stance. In addition to industries that closely connected to the oil, like petroleum refineries and petrochemicals, a broad based construction, mechanical and engineering large manufacturing factories established. Also, projects specified and technical studies conducted to establish car and tractor industries along with 18 feeding related activities. Since 1985 public sector industrial investment ceased and technological decay made the manufacturing sector in Iraq about to obsolete. The lifting of sanctions in 2003 allowed repairs and replacement, and technological advancement to start but nothing significant has been achieved.

Ultimate objectives of economic development include a faster growth of national income, alleviation of poverty and reduction of income inequalities. The experience shows a close association between development and industrial expansion.

The governments have disagreed on policies toward trade and industry.

A convenient way to approach the complex issues of appropriate trade policies for development is to set these specific policies in the context of a strategy of looking outward or inward. Iraq adopted Outward- looking policies. to encourage free trade and free movement of capital and an open system of communications .But, practically speaking, export led growth represents the core of outward policy while Iraq still far behind the pre requisites of non- oil export expansion. Overvalued IQD and the absent of quantity, and tariff restrictions, deprives the industry of Iraq from opportunities of import substitution. Also, Iraqi international competitive power has detracted during the course of openness.

Import substitution advocates cite the benefits of greater domestic's industrial diversification and the ultimate ability to export by doing domestic prices to become more competitive with world prices.

Infrastructure is the biggest problem far doing business in Iraq and is acting a drag on the Iraqi economy. The government is now trying hard to mitigate this problem. Total public investment in the 2011 budget IQD is 29 trillion, mainly in infrastructure and services. Hoping the offices of concern shall enhance their implementation efficiency the power problems are severe that require companies to generate their own power and afford a higher cost of energy interacted with fuel prices to represent the major sources of cost – driven inflation. Corruption became ubiquitous at all levels and is accepted in practice. Although, morally rejected and one of the main cause of discomfort and tension between people and government. The blame for the deluge of corruption in Iraq lays in the lack of transparency, in the rules of governances, extremely cumbersome official procedures, excessive and unregulated discretionary power in the hands of politicians and bureaucrats, who are prone to abuse it, and a lax judiciary.

Foreign Trade is million USD

Year	2006	2007	2008	2009
Crude oil and other minerals export)	30298	39270	63216	39131
Non mineral Export	231	317	510	296
Total Export)	30529	39587	63726	39427
Food	2325	2562	4650	5036
Fuels imports	2060	1917	3479	3767
Machinery and transport Equipment imports	9086	7529	13666	14798
Other imports	7421	7548	13701	14836
Total imports	20892	19556	35496	38437

No. of enlisted companies in Iraq stock exchange was 91 in 2009 (94) in 2008, the trading volume was IQD 412 billion and the No. of shares is 211 billion in 2009.

Banking sector dominates the sock exchange market by 77% of the trading volume and 86% of the shares.

The market capitalization of the enlisted companies is IQD 3126 billion.

Social welfare:

In development economics the size (household) income distribution occupied increasing attention in search for better social wellbeing in the course of economic development. One line of research follows to answer the question whether more inequality enhances or inhibits the growth rate. The second approach involves examining the distribution of income. Also, growth rate and income distribution are considered both of them, endogenous outcomes of the same economic system, they are therefore subject to common influences. Policies designed to faster economic growth will almost affect the distribution of income. Likewise policies addressing distribution are likely to impact the aggregate economy's production performance. The results of empirical research tend to support the view that growth enhancing structural change are likely to be associated with higher incomes equality.

But the possibility of negative relationship cannot be ruled out

Iraq in 1990 was ranked 50 on the Human Development Index of the UNDP versus 126 just over 10 years later. The setback is accentuated by the fact that the per capita income in 1990 was considerably lower than the level of 1980 in real terms.

The population of Iraq may increase to 33.4 million in 2011, as the annual rate of growth is 3.1 %. The census of 1997 showed that 75% of the population is in urban areas, and the size of household is 6.9 persons on average.

39.8% of the population are under 15 years of age, 17.7% of adults are illiterate. Economists typically distinguished three sectors in the labor market of Iraq: the rural sector which is characterized largely, by self employees and unpaid family workers. Urban sector has been absorbing a good segment of rural manpower. Also, about 40%-50% of rural income originated in urban activities.

The second segment is the informal and small-scale enterprise urban sector, characterized by self-employed individuals of small, privately owned, like trade and transport enterprises, and small scale industries declining in size, and contraction activities. The third segment is the formal urban private sector consisting of large enterprises which still absorbs very small position of the total

employment. This sector has failed to benefit from public expenditure and availability of foreign exchange.

The fourth sector is the public (government) which is the most growing and advantaged from Oil revenue. The fourth sector consists of large state –owned enterprises, health, education and other social services, in addition to traditional government duties.

Current average adult literacy rate is acceptable. Inequalities between males and females, rural and urban are not large. Gender division of labor is minimal in civil government departments and there is no gender differential in salary. Car ownership has surged to a level was not imagined, in addition to mobile phone, household durable goods, computers and communications. Furthermore, household per capita of disposable income has been rising significantly as a result of high government expenditure and salaries. Moreover, standard of living improved significantly as the share of food declined to 35.6% of average monthly household expenditure while was 61.7% in 1993.

The inhabitants of the municipalities of the governorate centers are 58.5% of the urban population. Considering that the most recent data brings the attention to the possibility of reverse immigration and the urban population might has been reduced to about 71% of total population. The anticipated census will provide more accurate data to verify the trend.

The Governorate of Baghdad is the lowest in its relative size of rural population as only 7.3% of is total population.

While in Diala, Salahaldin and Muthanne rural population represents 55.7%, 54.7% and 50.1% of the total population respectively. Shortage of housing has become one of the major concern noting that 83.6% of households are, unsatisfied with their houses, 61.3% of the surveyed people said that their houses are old and the quality are very low , and 69.1% of them need more rooms or areas .

The socio–economic survey of 2007 indicates that sewerage system reaches 26.8 % of population and the clean waters networks reach 83.7% of them. 69.4% of total population have either air-conditions or air collar.

88% of households are the owners of their houses. The rent exceeds IQD 300 thousand per month in 2007 for 10% of the rented houses.

Shortage of building for social services, mainly education, has increased substantially in recent years; given the demand growth has out paced the expansion of supply. The basic needs for housing request at least 6% of GDP (about 20% of fixed capital formation. But, the housing sector, practically, can not be isolated from the integrated urban system.

46.2% of the households their housing area is less than 150 m. 16.4% of the houses roofed by wood and traditional simple materials.

The paved roads cover 67.0% of the housing districts.

Most of households surveyed express their suffering from the surrounding area and its overall environment of their settlements. Drainage of heavy water, electricity, solid waste, health care, school building and education, security, mismanagement, and corruption are among the deficiencies and problems wanted to be solved.

Final income distribution in Iraq depends on government allocation of oil revenue and the income received from the public budget. Government is the major source of household income. Therefore, government polices affect household final income distribution .Tax which plays important role in the redistribution of income in other, mainly non –oil, economies has insignificant effect in Iraq yet, and very much les that what subsidies can . Public expenditure shapes the overall non oil income part of social welfare regarding infrastructure and services.

The relationship between growth and inequality remains largely unsettled. And the ambiguity of the empirical evidence could be interpreted by the employment effect of growth and wage income, the type of small scale enterprises, and its involvement in development , income polices, social services, and the overall strategy of development. Accessibility of Education, health care, electricity, clean water, and housing environment are the vital elements in the level and

quality of welfare in Iraq. The site's efforts against poverty should be started with minimum income certain for all. In the second stage disparity in the quality of education and health care need to be

The standard of living, in terms of everyday comforts, greatly increased since 2003. Television, refrigerators, freezers and furniture goods became available and attainable. Car ownership rate has increased to noticeable level. Also, food, clothes, and other consumer current needs are almost shifted up to an acceptable level. In spite of this positive development still we have about 23% of population under poverty line in 2008. Furthermore, the quality of education facilities and health care is still below the standard and more are required in these areas. With the improvement in the material standard of living the service industries like wholesales and retail trades, transport, and personal services flourished, and the proportion of the white colored in the labor force increased strongly. While economic development is a process goes on to improve and sustain the economic. Growth and change the economic, social, and political structure will also be considered in the assessment of development. The decreasing sum of low income citizens and overall level of life in terms of infrastructure and social services have been the main criteria dominate the public understanding of development. The increasing standard of living may be quicker for who dominate economy's assets at the preliminary stage of development where the difference income between the poor group and the rich ones become larger.

In general the findings support the conclusion that the higher income per capita, the people who have income under poverty line will be smaller.

Nevertheless, the income distribution in several developing countries is better than in advance countries. But, the ratio of people under poverty line is higher in developing economies compared with the advanced.

Fiscal policy could be effective in linking economic growth to income distribution. A decrease in transfer payments on average in proves the rate of economic growth and worsens the final distribution of income. Furthermore evidence from south and East Asia indicates that increasing the tax ratio hinder economic growth and improves the distribution of income.

Good income distribution can support the socio political stability. But, the rising of economic growth and the low inequality doesn't guarantee the political stability. Oil exporting Countries typically have little control over the prices of the exports. Therefore, Iraq is in need to hedge against the intrinsic uncertainty of revenue.