

# The White Paper: When Structural Adjustment Comes to Iraq

by [Sardar Aziz \(/experts/sardar-aziz\)](/experts/sardar-aziz)

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## ABOUT THE AUTHORS

[Sardar Aziz \(/experts/sardar-aziz\)](/experts/sardar-aziz)

Sardar Aziz is a senior adviser in the Kurdish parliament as well as a researcher and writer. His areas of interest include civil-military relations, Middle East regional politics, and governing. He has a Ph.D. in Government from the University College Cork.



Brief Analysis

The Iraqi government has recently released a white paper detailing economic and financial reforms meant to lift the country out of its current economic straits. The White Paper for Economic Reforms—written by the Crisis Cell for Financial and Fiscal Reforms, established in May to manage the country’s fiscal reforms—largely proposes steps consistent with World Bank and IMF requirements for developing countries. While experts agree such tough measures are necessary, they will be difficult to implement and will likely face resistance from the Iraqi public.

In its release of the [white paper](#)

[\(http://iraqieconomists.net/ar/2020/10/13/%D8%AE%D9%84%D9%8A%D8%A9-%D8%A7%D9%84%D8%B7%D9%88%D8%A7%D8%B1%D8%A6-%D9%84%D9%84%D8%A7%D8%B5%D9%84%D8%A7%D8%AD-%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8A-%D8%A7%D9%84%D8%AA%D9%82%D8%B1%D9%8A%D8%B1-%D8%A7/\)](http://iraqieconomists.net/ar/2020/10/13/%D8%AE%D9%84%D9%8A%D8%A9-%D8%A7%D9%84%D8%B7%D9%88%D8%A7%D8%B1%D8%A6-%D9%84%D9%84%D8%A7%D8%B5%D9%84%D8%A7%D8%AD-%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8A-%D8%A7%D9%84%D8%AA%D9%82%D8%B1%D9%8A%D8%B1-%D8%A7/), the current Iraqi government has

made a new and unusual move in the country’s political history. Half of the detailed 96-page document is a diagnosis of Iraq’s economic problems and their origins. As the Iraqi Deputy Prime Minister and Minister of Finance Ali Allawi [tweeted \(https://twitter.com/AliH\\_Allawi/status/1317791830432489479\)](https://twitter.com/AliH_Allawi/status/1317791830432489479) on October 18, “Utilizing a scientific & objective vision, the White Paper identified Iraq’s economic & financial problems which are real challenges that can only be overcome through strategic planning based on objective analysis of the reality & extracting strategic goals as urgent.”

In detailing the origins of these economic and financial woes, the white paper dates the country’s current crises back to the 1970s. The report describes how, for half a century, the state relied solely on the country’s increasing oil revenues to ‘expand the public sector’ and ‘take direct and indirect state control over the economy.’ During this period, Iraq witnessed the emergence of a rentier state. These issues carried on into the 21<sup>st</sup> century through the failed implementation of “[shock therapy](https://www.jstor.org/stable/pdf/40722275.pdf)” (<https://www.jstor.org/stable/pdf/40722275.pdf>) programs under the Coalition Provisional Authority, leaving the country with economic and financial systems characterized by a command economy, sectarian governing system, and significant degree of state intervention.

In response to the country’s troubled economic past, the white paper aims to construct a balance in the Iraqi

economy by allowing the state to diversify it while creating new economic opportunities for Iraqi citizens. It builds its case for this diversity by referencing a 2019 [IMF report](https://www.imf.org/en/Publications/CR/Issues/2019/07/25/Iraq-2019-Article-IV-Consultation-and-Proposal-for-Post-Program-Monitoring-Press-Release-48527)

[\(https://www.imf.org/en/Publications/CR/Issues/2019/07/25/Iraq-2019-Article-IV-Consultation-and-Proposal-for-Post-Program-Monitoring-Press-Release-48527\)](https://www.imf.org/en/Publications/CR/Issues/2019/07/25/Iraq-2019-Article-IV-Consultation-and-Proposal-for-Post-Program-Monitoring-Press-Release-48527), which warns that in “the absence of policy changes, a widening budget deficit will divert resources away from essential investment to rebuild the country and improve public services, while eroding reserves and posing risks to medium-term sustainability.” But the goals expressed in the paper are not easily achieved, as the implementation of the reforms will require harsh measures.

In 2003, then Iraq's interim trade minister Ali Allawi, the man behind the current white paper, [stated](https://www.jstor.org/stable/pdf/40722275.pdf)  [\(https://www.jstor.org/stable/pdf/40722275.pdf\)](https://www.jstor.org/stable/pdf/40722275.pdf), “we suffered through the economic theories of socialism, Marxism, and then cronyism. Now we face the prospect of free-market fundamentalism.” This kind of free-market fundamentalism is clearly present in the white paper. The paper’s recommendations strongly resemble the structural adjustment programs imposed on low- and intermediate-income countries by the IMF and the World Bank. These programs will often require governments to cut government spending on basic needs like education, health care, the environment, and price subsidies for basic necessities such as food grains. Additionally, these programs require governments to devalue their national currencies and increase exports, reducing real wages, and subsidizing export-oriented foreign investments. All these [changes](https://www.tru.ca/library/pdf/cavanagh-mander.pdf)  [\(https://www.tru.ca/library/pdf/cavanagh-mander.pdf\)](https://www.tru.ca/library/pdf/cavanagh-mander.pdf) are meant to occur in a liberalized, open financial market.

But these types of policy changes will likely prove difficult in Iraq. In this case, reducing the rate of the wage bill to half, cutting subsidies, depreciating the currency, and borrowing are the main pillars of the white paper. None of these tasks will be simple, and many will be unpopular.

With regard to borrowing, the Iraqi government seeks to borrow \$35 billion to finance its operations. The Iraqi parliament is not allowing the government to borrow from abroad, so domestic borrowing is the only option. But in a war-torn state, sources of domestic financing are slim.

Similarly, improving efficiency and spending in Iraq’s public sectors—especially through currency depreciation and cutting subsidies—will not be simple. For example, electricity, one of the main areas of public spending in Iraq, is a complex economic, technical and geopolitical problem in the country. [IMF report 248/19](https://www.imf.org/en/Publications/CR/Issues/2019/07/25/Iraq-2019-Article-IV-Consultation-and-Proposal-for-Post-Program-Monitoring-Press-Release-48527)  [\(https://www.imf.org/en/Publications/CR/Issues/2019/07/25/Iraq-2019-Article-IV-Consultation-and-Proposal-for-Post-Program-Monitoring-Press-Release-48527\)](https://www.imf.org/en/Publications/CR/Issues/2019/07/25/Iraq-2019-Article-IV-Consultation-and-Proposal-for-Post-Program-Monitoring-Press-Release-48527) “recommended that spending measures should give priority to containing the growth in the wage bill and lowering subsidies to the electricity sector.”

However, these measures conflict with standing practices. In Iraq, there is an assumption that the state will provide and subsidize energy.

As former Iraqi Minister of Electricity Luay Al-Khatteeb [put it](https://foreignpolicy.com/2020/10/14/iraq-oil-gas-energy-electricity/)  [\(https://foreignpolicy.com/2020/10/14/iraq-oil-gas-energy-electricity/\)](https://foreignpolicy.com/2020/10/14/iraq-oil-gas-energy-electricity/), “Iraq’s power sector suffers from a plethora of problems. The country’s complex bureaucracy often hinders progress by focusing on ineffective short-term micro-technical solutions, instead of longer-term macro-institutional reforms. There is also a chronic inability to manage raw material for fuel in tandem with other energy portfolios and the wider business value chain. The sector is susceptible to the conflicting agendas of Iraq’s wide array of political actors that undermine a unified national vision for running it, entrenching it in mismanagement, and miring it in corruption.”

Given the complex nature of these issues in Iraq, political resistance to these reforms is likely. The white paper has arrived as Iraqis are discussing the process and outcomes of the general election next year, scheduled for June 2021. At such a time, it is hard to expect any political bloc to openly commit to such tough measures proposed by the White Paper. Critics also argue that it is not the duty of a caretaker government to come up with such medium-term

economic reforms that will last until 2023, years into the term of the upcoming government.

Most of the measures are likely to be unpopular among Iraq's populace as well. The focus on cutting wages is a double-edged sword. Public sector salaries are the only part of state spending that ends up in the local market and circulates among small and midsize businesses. Salaries therefore constitute an important benefit for ordinary people. The Iraqi government must execute the reduction of public wages gradually and carefully; halving salaries and devaluing the Iraqi currency would be a recipe for even more widespread poverty, already a crippling issue in Iraq.

Furthermore, devaluing the Iraqi currency may be difficult in the current global economy. From the state perspective, it is understandable to suggest devaluing the Iraqi dinar. Allawi appeared to suggest that a weaker dinar could help Iraqi goods become more competitive, potentially providing a boost to sectors like agriculture and manufacturing. "All of the countries that export to Iraq, like Turkey, Iran, China, and Saudi Arabia, have depreciated their currencies," Allawi [said \(https://www.iraqoilreport.com/news/iraq-outlines-financial-crisis-response-plan-43175/\)](https://www.iraqoilreport.com/news/iraq-outlines-financial-crisis-response-plan-43175/). "We can't be competitive if we keep staying with the same, stable dinar value."

But devaluing the dinar will help to improve Iraqi exports only if it drops to a value even lower than that of the currencies of those trading partners, which are already quite low. The [Iranian rial \(https://financialtribune.com/articles/business-and-markets/105751/forex-rates-at-new-record-highs\)](https://financialtribune.com/articles/business-and-markets/105751/forex-rates-at-new-record-highs) has plummeted against the dollar, and the [Turkish lira \(https://www.bbc.com/news/topics/c6xkk152803t/turkish-lira-crisis\)](https://www.bbc.com/news/topics/c6xkk152803t/turkish-lira-crisis) is in similar freefall. To depreciate the value of the dinar even lower than these currencies would be drastic and potentially dangerous.

As such, the Iraqi economy is trapped in a catch-22: experts have warned that Iraq will face insolvency without drastic action, but such drastic plans will likely result in great suffering for the majority of the Iraqi people. Critics have argued that the country should focus on cutting its large security and its defense budget.

The security issues in Iraq are conundrums. In destabilized areas, the Iraqi government employs youths in security sectors as a means of providing employment, which further inflates the security budget. Those who work in the security sector do not contribute to the economy, while mass employment in the security sector creates premises for corruption, ghost employees, and dual salaries. And in the case of popular mobilization forces, with an annual budget of two billion dollars, their security contribution is conditional.

With an overall annual budget of \$8 billion for the Ministry of Defense, critics have identified this sector as also needing reform, especially as throwing money at Iraq's security challenges—a method loved by politicians everywhere—has not been demonstrated to solve Iraqi security issues.

The white paper is a sign that Iraq needs a radical change not only in its economic policy but also in its other areas of governance. While all Iraqis rhetorically agree on the need for change, very few agree on the practical nature of what that change should look like. Nevertheless, the country has no easy choice even if it can agree on a way forward. The price of oil is not expected to rise soon, and budgetary issues are therefore not likely to improve. Since the current bleak outlook has convinced the Iraqi political class that the White Paper has to be supported, much will depend on the government's decisions in managing its implementation. ❖

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