

Economics of Iraqi Security (Part I):

Employment

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ABOUT THE AUTHORS



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Brief Analysis

This PolicyWatch is the first in a three-part series written to coincide with the Madrid Donors Conference on Iraq, which begins on October 24, 2003. [Read Part II \(templateC05.php?CID=1674\)](#) (also by Knights) and [Part III \(templateC05.php?CID=1676\)](#) (by Patrick Clawson).

A recent series of violent riots has underlined the close relationship between employment and security in Iraq. On October 12, riots broke out at a Baghdad recruiting station for the new Facilities Protection Service and at a Mosul employment office. Other protests have been launched by those demanding government severance pay. On October 4, demobilized soldiers rioted in Basra, resulting in the killing of two protestors. On October 11, an estimated 14,000 former soldiers and security personnel took part in violent demonstrations in Baghdad that ended with the killing of one protester. Without real jobs that provide both work and a salary, the Iraqi population will have little else to do but protest, highlighting the need to develop long-term employment opportunities as well as short-term social safety-net measures.

Background

July 2003 CIA data shows that Iraq's working-age population is 13.8 million. Not every Iraqi of working age is seeking employment, however; some men are outside the labor force (e.g., students and the disabled), and a lower proportion of women have traditionally sought work outside the home. The potential labor force is therefore in the range of 8 million.

There is no reliable data on private-sector employment. The October 9 joint UNWorld Bank Needs Assessment estimated that a majority of working Iraqis are employed in the informal economy. Many Iraqis work in the nongovernment service industries (e.g., wholesale and retail trade; construction). According to the U.S. Agency for International Development (USAID), at least 500,000 Iraqis are self-employed farmers, and another 250,000 small farming businesses are in operation. An unknown number of Iraqis work in the country's private manufacturing sector (e.g., industries such as food processing and packaging).

A number of factors continue to impede the rapid expansion of private employment. The most obvious problem is the lack of stability and rule of law (e.g., police protection; a legal code; functioning courts to enforce contracts). Another problem for Iraqi industries is that the Coalition Provisional Authority (CPA) drastically reduced all import duties. On September 21, Finance Minister Kamil Mubdir al-Gailani announced a flat 5 percent duty on all imports, meaning that Iraq will be a virtual free trade zone. This policy forces local manufacturing industries to compete with imports not an easy task after years of protection and subsidies. Meanwhile, Iraq faces many daunting problems in its attempts to attract foreign direct investment, such as uncertainty over the security situation and over the future governments long-term commitment to current investment measures.

Government Jobs

The 2004 CPA budget allows for 1,047,718 government jobs next year at a total cost of \$2.1 billion that is, at an average salary of \$2,000 per year. The budget also includes \$500 million in government subsidies for state-owned enterprises, which employed nearly 500,000 people in 2003. In addition, the budget provides \$745 million in grants to local and regional governments, which presumably will use some of this money to hire local staff. (If half of the funds went for staff at the same average salary as central government employees, that would be another 185,000 personnel.) Another \$250 million is allocated for stipends to demobilized military personnel, which would be sufficient to cover payments to approximately 300,000. (The budget mentions \$450 million in other transfer payments, most of which are presumably earmarked for Iraq's 350,000 pensioners). Overall, the CPA budget covers at least 1.8 million people of working age. Although the CPA has placed a freeze on government ministry recruitment, it has also forbidden reductions of ministry staffing by more than 5 percent in 2004 without permission.

It is not clear whether the budget includes certain other categories of government employees. For instance, it allocates \$2.5 billion for the public distribution system (the former oil-for-food program), but it is unclear whether that amount includes an estimated 46,000 former oil-for-food program employees. It is also unclear whether the government will employ any off-budget security personnel.

Aid-Funded Jobs

As with government employment, aid-funded jobs will increase short-term employment opportunities and give the private-sector service industries a boost. In addition to existing USAID capital construction, the \$18.6 billion U.S. funding supplemental will include \$5.6 billion for the electrical grid, \$2.1 billion for the oil industry, \$4.3 billion for other utilities, and \$1.8 billion for other urgent capital construction projects. In particular, the USAID school rehabilitation program is already employing sixty Iraqi firms and may receive a further \$415 million in contracts in 2004. The UN World Bank Needs Assessment may draw some donor funding specifically for employment creation, which is given a prominent place in the list of social safety-net priorities. The assessment calls for \$357 million toward employment creation in 2004, highlighting the need to create make work projects in order to reduce short-term unemployment. General reconstruction-related spending will also inject large quantities of cash into the Iraqi economy, indirectly spurring employment in the labor-intensive service sector.

The employment potential from aid-funded jobs can be overstated, however, and a number of obstacles will reduce the impact of such programs on the overall job market. For example, many of the construction programs outlined in the U.S. supplemental funding request, particularly in the oil industry, are not labor-intensive and will primarily benefit foreign contractors and consultants. Even those that are labor-intensive have proved disappointing to Iraqis, as the foreign contractors implementing them have used large proportions of imported third country nationals (TCNs), notably from Asia. These TCNs require lower wages and are considered to be less of a security risk, and their use has become standard operating procedure for many companies operating in the other Arab Gulf States. It would be unfortunate if Iraq became like Jordan, which suffers a high unemployment rate but supports a large TCN

population.

Aid-funded projects are also likely to take some time to mature. The UNWorld Bank Needs Assessment states that only around 14 percent of pledged funds will be disbursed in the first year, meaning that large pledges for the social safety net will not necessarily translate into greatly increased employment in the near term. The immediate impact of U.S. aid may be similarly limited.

Implications

On June 10, Paul Bremer estimated Iraqi unemployment at 50 percent and stated that reducing this figure would be among his highest priorities. Implementation of the 2004 CPA budget and the proposed U.S. supplemental spending for Iraq is sure to help considerably. If they are implemented as planned a big if CPA and foreign aid funds could directly and indirectly finance over 2.5 million jobs, and spending by these employees would give a further boost to private employment. More can be done, however. In particular, if the U.S. government wants to use economic and employment issues to justify its security measures, it should take the risk of employing more Iraqis in place of TCNs. Further thought should also be devoted to the impact of free-trade liberalization on Iraqi domestic manufacturing, with reconsideration of some form of limited relief for private industry similar to the support that the unprofitable state-owned industries are still receiving. Moreover, the security problem represented by underemployment should be considered alongside that of unemployment. Providing severance pay to soldiers may give them an income, but it will not meet their expectations or get them off the streets. Payments must be replaced with jobs (particularly security-related jobs) for demobilized soldiers as soon as possible.

Michael Knights is the Mendelow defense fellow at The Washington Institute.

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