



IRAQ'S CONSUMER SPENDING AFTER 2003: FACTS AND INDICATORS

Prof. Dr. Souad Qassim Al-Moussawi

College of Administration and Economics, Al Farahidi University, Iraq

Email: S.Qasim@uoalfarahidi.edu.iq

Article history:	Abstract:
<p>Received: 11th July 2022 Accepted: 11th August 2022 Published: 24th September 2022</p>	<p>Household consumer spending is deemed as one of the main determinants of building national income, as it represents a large percentage of total expenditure in many countries of the world, in addition, it plays a significant role in the economy's entertainment and growth, as it is one of the most important components of aggregate demand, which has earned it a d and pivotal importance in countries' economies and making it an essential field, in which many pieces of research reached scientific facts that serve the decision.</p> <p>In Iraq, and in the context of the state's tendency to switch to a market mechanism, the state resorted to following expansionary financial policies to reduce the problem of widespread unemployment and the low standard of living of the individual who was afflicted by the embargo of the years that preceded the political change that occurred after the year 2003, by absorbing the numbers of increasing un unemployed numbers, the doubling of the bonuses, so the government's current and investment expenditures rose, driven by the increase in oil revenues, which led to an increase in aggregate demand. maker to achieve a vision and future planning for economic policies. It also led to the removal of trade restrictions and the opening of the local market-wide to the global market, based on Paul Bremer's decision issued in 2003, setting a fee of 5% On imports, with the exemption of foodstuffs and medicines, which led to an increase in private consumer spending, especially luxury goods, not productivity, which constituted a waste of economic resources on the one hand and impeded the process of economic growth on the other.</p>

Keywords: Household consumer spending private consumption expenditure, economic globalization , luxury consumption.

INTRODUCTION

Household consumer spending is deemed as one of the main determinants of building national income, as it represents a large percentage of total expenditure in many countries of the world, in addition, it plays a significant role in the economy's entertainment and growth, as it is one of the most important components of aggregate demand, which has earned it a d and pivotal importance in countries' economies and making it an essential field, in which many pieces of research reached scientific facts that serve the decision.

In Iraq, and in the context of the state's tendency to switch to a market mechanism, the state resorted to following expansionary financial policies to reduce the problem of widespread unemployment and the low standard of living of the individual who was afflicted by the embargo of the years that preceded the political change that occurred after the year 2003, by absorbing the numbers of increasing un

unemployed numbers, the doubling of the bonuses, so the government's current and investment expenditures rose, driven by the increase in oil revenues, which led to an increase in aggregate demand. maker to achieve a vision and future planning for economic policies. It also led to the removal of trade restrictions and the opening of the local market-wide to the global market, based on Paul Bremer's decision issued in 2003, setting a fee of 5% On imports, with the exemption of foodstuffs and medicines, which led to an increase in private consumer spending, especially luxury goods, not productivity, which constituted a waste of economic resources on the one hand and impeded the process of economic growth on the other.

Our research stems from the hypothesis that private consumer spending that is luxuriant and unjustified has become a phenomenon that the Iraqi economy suffers from, in general, and society in particular, and this has negative repercussions



affecting individuals and their purchasing power on the one hand and the economy on the other hand.

Therefore, this research aims to study the phenomenon of private consumer spending (luxury), the reasons for increasing its rates and ways to address this private consumption pattern that negatively affects the economy and the country's financial resources.

THE FIRST AXIS: CONSUMER EXPENDITURE/ CONCEPT AND IMPORTANCE

First. The concept: It is well known that private consumption expenditure is economically defined as:

The total of goods and services that individuals receive, and represents the largest part of the total demand for goods and services.

It is also defined as the expenditure of the family sector on durable goods such as cars, and furniture and non-durable goods such as food and cleaning materials. It also includes spending on services provided by the doctor, teacher, electrician and others. Or it is the money spent by an individual and families to purchase final goods and services for personal use and enjoyment.

That is, the goal of per capita consumer expenditure lies in achieving the satisfaction of essential needs that cannot be dispensed with, or even to make life easier by acquiring luxury products.

The Arab Labor Organization also defined it as the sum of living expenses that the family must bear to satisfy the family's needs and fulfil its legal obligations.

SECONDLY. ITS IMPORTANCE:

The importance of private consumption expenditure is as follows:

1. Private consumer expenditure is a major and pivotal component of the national economy and, it is the driving force and most important one among the elements of aggregate demand in the economy, many economists who belong to the Knyzan tradition believe that consumer expenditure is the most important determinant of economic performance in the short term. Thus, the government must stimulate expenditure when the economy is exposed to recession and economic slowdown by increasing its spending and reducing taxes to stimulate economic activities on the supply side and the demand

side to increase demand and create job opportunities.

2. Its role is important to enhance local economic stability, because of its impact on maintaining economic growth in general, and the growth of the private sector in particular. It is the sector to which the countries' aspirations are directed to raise its contribution to domestic production, which qualifies it on the ground to be the largest employer of human resources patriotism, And then contribute to reducing the unemployment rate in addition to increasing its contribution to boosting the growth rates of the national economy through the high contribution of the private sector in diversifying the local production base, pumping more investments and creating promising job opportunities in the country.
3. Consumer spending is, of course essential for companies. The more consumers expense on the production of a particular company, the better the company's performance. Most investors and companies often pay attention to consumer spending figures and patterns, and investors and companies follow consumer spending statistics closely when making forecasts.
4. The importance of private consumer spending is based on the fact that while the rest of the domestic growth drivers are negatively affected, such as the decline in oil and the decline in government spending, we find that the contribution of private consumer spending to growth is increasing in the positive trend that promotes and maintains growth. Noting that its contribution to growth rises by a greater percentage if the rest of the growth engines witness an improvement in their conditions. Rather, their contribution to economic growth exceeds the contributions of the rest of those engines and gives the utmost importance to all of the foregoing, in the event that the role played by private consumer spending is linked with the growth of the sector The private.

The third axis: the determinants of consumer expense

It is well known that consumer spending, as we mentioned earlier, is a vast component of the GDP, but many determinants determine the volume of growth in consumer spending. These determinants may indicate an increase in the amount of consumer



spending growth's gross or a decline, and these factors or determinants include the following:

The first determinant, The economic activity and the level of employment of the state:

Whenever economic activity improves and employment increases, consumer expense rises similarly. In light of what the state is witnessing of a decline in economic activity and a decrease in employment in the public and private sectors, we find it is not surprising to see an incline or slow growth in consumer spending, barely exceeding the natural rate of population growth.

The second determinant, The growth in the level of wages, or what is known as wage inflation:

This factor is inversely proportional to unemployment rates. If unemployment levels decline, and the demand for labour increases, the employer will find himself compelled to improve his employees' wages to keep them and vice versa. So, in light of the high unemployment rates in the country and their reaching Standards levels, the conclusion is that workers' wages will not see any significant increase in the foreseeable future, which will negatively affect consumption expenditure.

The second determinant, consumer wealth:

The wealth obtained by the consumer, such as inheriting, owning shares, or any other income is a source of power, such as obtaining an inheritance.

Fourth determinant, purchasing power:

This factor is related to inflation rates. The higher inflation will be, the lower of purchasing power and lower of consumption expenditure will be. In a country that imports most of its goods from abroad, it eventually imports its inflation, and thus affects the purchasing power of individuals and consequently their consumer spending.

The fifth determinant, the indebtedness of individuals:

Usually, individuals resort to borrowing to fill any shortfall that arises from the difference between their incomes and their needs.

So, these determinants of consumer spending essentially affect the consumer spending of individuals, and since the components of the economy are interconnected, they affect and are affected by each other. If individuals' spending declines, companies' sales and profits decline. If companies' profits decline, their appetite for employment declines, or they may resort to laying off a number of their employees to control spending. This vicious cycle will inevitably lead

to further deterioration, and more consumer spending and economic growth.

The third axis, consumer spending in Iraq after 2003:

Studying the reality of the Iraqi economy after 2003 shows us the transformation of the Iraqi economy into a consumer state that is financed by rentier revenues provided by a single sector, which is the export of crude oil. Data from the Central Bank of Iraq indicate that the value of Iraq's imports after 2003, especially in 2010, amounted to approximately 40 billion dollars, in which the importation of foodstuffs and final consumption goods for personal use, such as cars and household equipment, shaped more than 40%. National Accounts indicate that consumer spending in Iraq in 1970 was (577.7) million dinars, then went to reach (13616500.9) million dinars in 2003, gradually rising for the period from 2004-2014 due to the rise in oil prices Globally, which had an impact on increasing the state's general budget and its expenditures on the use of manpower in government jobs, then it raised to (68256193.2) million dinars in 2009 and then to (111317232.1) million Iraqi dinars in 2014 due to the collapse of oil prices on the one hand and ISIS's occupation of the lands of Mosul and Salah Al-Din, Al-Anbar and part of Diyala Governorate, on the other hand, which caused its decreased to (107245801.3) million Iraqi dinars in 2015 due to the drop in global oil prices. This was reflected in the oil revenues generated from Iraq's oil exports, as these revenues decreased by about 35 billion dollars in 2015, which led to a slowdown in economic efficacy and reached 0.7% in 2014, then to rise to 4.8% in 2015. As for non-oil efficacy, it was negatively affected as a result of the crisis, to decline by 21.6% percentage during the period 2014-2016, which led the state to adopt an austerity policy and to make a significant reduction in non-security spending.

In 2016, private consumption rose slightly due to the rise in global oil prices to reach (1051452606) million dinars due to the increase in global oil prices.

What we referred to above about the rise in private consumer spending or the so-called family expense came out of nowhere, but it was a result of the fiscal policy that represents the foundation of economic life and the axes of its orientations. From the standpoint of equitable distribution, after 2003, the state embraced nearly half of the Iraqi labour force in jobs dominated by the semi-productive service nature that was financed by high-value oil revenues then, it has mostly turned into wage payments, aid and subsidies under various headings of low productivity



and low returns. it did not move away from its consumer disputes that intensified to compensate for the deprivation of the past and was built on new consumer values and products, a high simulation of the products of globalization's markets, which were harmonized at the same time, rebuilding the middle class (functional) and building consumer models and living patterns that mimic the new or updated consumer conflicts in an unprecedented way In the consumer history of Iraq.

Also, the Iraqi society now suffers from the phenomenon of ostentatious consumption, which is one of the concepts that explain consumption patterns of a class nature, that it is the process through which individuals spend money on consuming expensive and luxury goods and services with the aim of showing off the social class of the consumer, that is, it is a means of expressing wealth and status. Social and power, that is, the process of ostentatious consumption is a means to achieve an important goal, which is to build a new social identity, meaning that the individual, through his consumption behaviour, creates for himself and his family members a higher social class.

These consumer patterns came out of nowhere but were the result of the wide-open policy that followed 2003, not to mention the weakness of controls and laws to control this policy for more than eighteen years. It was the fastest outlet to meet the new consumer lifestyle and the emerging standard of living that left the Virtue of Saving and directed towards spending and consumer extravagance, and if there is a virtue to saving, it is the one that is directed toward saving abroad, especially in neighbouring countries, and rentier investment with commercial or real estate characteristics in a chain of depletion that did not end under the pretext of economic freedom and the open-door policy.

Economic globalization towards Iraq at its end and its connections with the national economy have enabled the following:

1. Availability of fast-consuming, intense-flowing commodities of questionable quality that must pass through the gate of the intermediate regional commercial origin and within limits starting from the ends of the Gulf shores to western Anatolia and do not depart from this intermediate commercial incubator.
2. The middle trade chain surrounding Iraq came as a natural phenomenon of the war economy, economic sanctions in the nineties, and political and economic change after 2003. All

these variables led to the emergence of a commercial centre that coexists with the Iraqi economy and is linked to a local commercial class that interacts with the regional mediation class, which made Iraqi money and the country's domestic financial surpluses subject to regional commercial intermediaries and regional trade policies.

3. The Iraqi monetary policy, accompanied by the Iraqi economic model which are today in front of a test of consumptive attrition, was not far from those regional trade sources and its policies that were found in the intervention of the monetary authority and its philosophy a way to maintain overall and monetary stability, in particular far from the constants generated by the paradoxes of the commercial and Finance Policies of consumptive style, (which was associated with a lifestyle that expressed the behavior of the Iraqi middle class, which today represents more than 60% of the country's family composition), far from the constants generated by the distributive consumer trends of the general budget. This made it impossible for the central bank's financial policy in the money market to impose stability that serves the highly globalized lifestyle and standard of living that is attracted to the outside, leaving behind a lukewarm developmental thought that no one wants to read and buried in the books of the academic and official economic milieu without any managed or forgotten action In the high unemployment market shelves which is looking for a job opportunity to join the model of simulating the consumption pattern of the middle class is nothing else. When the intervention of the monetary authority in the local money market became possible to control the levels of excess liquidity generated by the spending of the general budget (As an additional demand force that is not commensurate with the amounts of national production and the absence of development policy and interest in creating the middle class for building high-consumption lifestyles), through the movement and strength of the oil balance of payments (the gateway active in completing the cycle of the consumer economy), the Central Bank's policies in the money market ended with the withdrawal of excess liquidity or (sterilization) and



intervention to take the share of the Central Bank's reserves in foreign currency to finance consumer behaviour related to the regional trade chain mainly, At the same time, the financial transformations related to foreign trade connected with the private sector, which represents the final link to the policy of the Central Bank's intervention in the money market and to address liquidity levels through the sale of foreign currency, continued to witness transfers concentrated to the regional countries' banks, as one country neighbouring Iraq has acquired 80% Among these transfers, after the Iraqi commercial centre and its companies became dependents of the regional commercial centre and its dominance in the distribution of those surpluses to feed the trade of consumer imports or the acquisition of the accompanying surpluses or the external entry that was incorporated under the cover of these highly polarized trade routes in the regional economy and whose structure resulted in the deviations of the three decades past. The policy of the Central Bank's intervention in the money market to impose stability in the exchange rate of the Iraqi dinar has become closely linked to the external trade focus of the private commercial sector and within the scope of regional trade generation, even if the commercial origins of goods supplied from the ends of the world. Thus, regional trade has become the source of value-added and the transfer of surpluses from the national market to the regional market, accompanied by a large resident Iraqi commercial community that coexists with those regional trade routes and effective tools in transferring surpluses reserves that increase with the level of needs of the markets of those countries through the outlet of the open-door policy abroad. And the economic freedom of Iraq, which is relegated inward to leave the development, to generate the added value that settles outside the borders, The regional commercial pillars and their dominance over the current consumer economic model in Iraq are the central force that is unique in moving the country's surpluses and drying them or managing them according to the needs of the regional economic conditions so that the movement of this model withdraws according to the economic processes and its

requirements at the expense of the local market conditions, stability and development because the main goal is to generate profit and maximize The added value and the economic surplus across borders, so that the above model deemed as one of the draining models for the country's economic future. The country's financial surpluses are moving in a tight harmony and agreement with the regional situations and the commercial behaviors associated with neighboring countries or the region more broadly. It is no secret that there are four essential regional economies on which two-thirds of the free trade related to the private sector is lean on, as we have previously expressed. At the same time, those four economies are one of the essential pillars of commercial control and the distribution and sharing of the surpluses of the Iraqi economy to the extent that they correspond with each other in the degree of their relations with the outside world and the course of the economic conditions of their countries, as it is noted that the activity of the national market and its trends are moving with the movement of these economies, negatively and positively, and this indicates the intensity of the demand for foreign currency or the movement of demand for goods and services.

CONCLUSIONS

1. The open-door policy followed by the state after 2003 and successive governments, and the weakness of laws and controls against imported goods, played a major role in transforming society into a consumer, not a productive one.
2. Imports of consumer goods represent part of the leakage of part of the income and the absorption of purchasing power from the internal spending stream to the external spending stream, which has a significant impact on the economic development process.
3. Consumer spending, especially ostentatiousness, has become a feature of Iraqi society and luxury goods that individuals used to consume, especially the youth group, whose luxury consumption approach has prevailed over the savings approach, which causes a gift of financial resources for the country and the individual.



4. Luxury consumption is a threat and a drain on economic security at the level of the individual, the family, and the state.
5. The private banks, and even the governmental ones, and by granting unspecified loans, had a role in increasing consumer spending, especially the purchase of cars, and in cooperation with the private sector, which was primarily profitable, which burdened the citizen with non-productive loans.

RECOMMENDATIONS

In conclusion, we must suggest some recommendations through which it is possible to rationalize consumer spending to serve the national economy:

1. The restructuring of the Iraqi economy requires reducing consumer spending by setting specific criteria to reformulate spending priorities, especially in the long run through rationalizing consumer spending in order to avoid waste and loss of national financial resources.
2. Consolidating the values of saving among Iraqi families and the need to work out a budget that legalizes unnecessary expenses through the media, which must restore family programs that care about the problems of the Iraqi family, and that the audio-visual media take their role in spreading the culture of necessary consumer awareness, especially for housewives and urging them to save without consuming others Necessary and luxuries that burden the family budget.
3. That the Ministry of Commerce take its role in preventing the import of luxury and unnecessary goods of poor quality and encourage the import of well-made and suitable goods at a reasonable price.
4. Giving a greater role to the Consumer Protection Association in order to educate and protect the consumer.
5. Building a trade policy in line with the country's economic policy framework and moving towards reforming this policy, while following the new protection policy by activating a balanced tariff, and imposing taxes on recreational and unwanted goods such as cigarettes, spirits, luxuries and other unnecessary goods.
6. The educational curricula's inclusion of vocabulary and stories about saving and its

- importance to the individual and society, and to educate children and school students on necessary consumption habits, not luxury.
7. Directing universities to urge graduate students to conduct practical research on consumer spending for Iraqi families and the repercussions of this spending on the economic situation of the family and society in general, and to reach scientific facts that serve the decision maker to achieve a vision and future planning for economic policies.
8. That the clergy have a role in spreading the Islamic vision of consumption and educating individuals through religious lectures and speeches that Islam rejects luxury and ostentatious consumption and considers it wasteful in resources and that everything that is spent above what is acceptable and common is extravagance and this is what the Islamic religion, which is characterized by moderation, does not accept.
9. Maintaining consumptive behavior while directing it and raising the level of local content of goods and services, thus increasing the contribution of private consumer spending to economic development and reducing financial flows through imports.
10. Codifying the policies of banks, especially the private sector, in granting consumer loans that are not expected to be productive, but rather are aimed at profit and increasing wealth at the expense of the middle and poor classes.

REFERENCES:

1. International Labor Organization/The Seventeenth International Conference of Labor Statisticians/2003/International Labor Office/Geneva.
2. Iraq, First Voluntary Report on the Sustainable Development Goals 2019.
3. Al-Omari ,Abdul Hamid: The Role of Private Consumer Spending in Stirring the National Economy, Al-Arab International Economic Journal,2019.
4. Bin Juma D. Fahad: Decline in consumer spending harms the economy, Al-Riyadh newspaper, Internet research, 2021.
5. Mahmoud, Donia: The phenomenon of ostentatious consumption and its negative effects on society, Internet research, 2021.



6. Youssef, Muhammad Hassan: The importance of public spending and its effects, Cairo, Arab Thought House, undated.
7. Mahjob, Refa'at : Public Expenditures and Public Revenues, Cairo, undated.
8. Sobeih, Amira: Consumer Spending in Islamic Economic Thought.
9. Nasser, Zine El Abidine: Principles of Public Finance, without publisher, 2006-2007.
10. Iraq, the first voluntary report on the sustainable development goals, 2019.
11. Al-Zarkani, Kamel Nahi Hamid: Analysis of the relationship between foreign trade and indebtedness (Iraq is a case study for the period 2004-2017), a master's thesis submitted to the Board of the College of Administration and Economics, Wasit University, 2019.