

# Unemployment in Iraq after the war

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## 1 Introduction

A key priority for the Coalition Provisional Authority that took over after Saddam Hussein's downfall on April 9<sup>th</sup> 2003 was to create “a well-functioning market economy that is growing, creating jobs and is promising a future” for the Iraqi people<sup>2</sup>. Creating jobs was a priority not least because it was feared that widespread unemployment and misery would complicate the task of building a democratic Iraq. However, the general picture in the media as well as among politicians and expert commentators is that the CPA has failed to achieve this goal, and that unemployment has been extremely high during the whole period after the invasion.

Reviewing three recent household surveys, we will show that unemployment rates in Iraq are lower than most observers assume. Furthermore, unemployment is not higher a year after the US-led invasion than it was at the end of December 2002, and it may indeed be substantially lower. The majority of the unemployed are young men, who have never previously been employed, indicating that unemployment is not caused by job losses after the invasion. Nevertheless, unemployment rates are high, and the spectre of unemployment is an important concern for Iraqis. The decrease in unemployment is probably caused by a number of factors, including the strong demand shock generated by the CPAs budgets, the lifting of sanctions, and the structural reforms carried out by the CPA.

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## 2 Contradictory labour market statistics

Since the American-led invasion, Iraqi labour market statistics have been scarce to non-existent, but this has not stopped the media and other observers from speculating on the state of the labour market, and in particular on the unemployment rate. The Brookings Institution's Iraq Index reported unemployment rates "between 30 and 45 per cent" for the first five months of 2004 (The Brookings Institution 2004), reflecting the uncertainty surrounding this indicator. A small number of non-official polls have produced estimates that vary widely: Gallup found that 18 per cent of men in Baghdad were unemployed in the last week of August 2003, in what was one of the very first polls in Iraq after the invasion. (The Gallup Poll of Baghdad, [www.gallup.com](http://www.gallup.com)) One year later, a widely quoted study by the college of economics at Baghdad University put the unemployment rate in Iraq at 70 per cent<sup>3</sup>, but around the same time, National Review columnist James Robbins quoted the International Republican Institute poll as finding "unemployment [...] just under 12 percent in August [2004]"<sup>4</sup>.

Those official statistics that exist are also contradictory. Iraq's statistical agency, the Central Organisation for Statistics and Information Technologies (COSIT)<sup>5</sup>, has reported unemployment rates three times: 28.1 per cent in October 2003, 10.5 per cent in May 2004, and 26.8 per cent in July 2004. Adding to the confusion, Iraqi officials have claimed much higher unemployment rates at various times. The Iraqi Trade minister said in an interview with BBC in January 2004 that between 50-60% of the labour force was unemployed or underemployed<sup>6</sup>, and the Ministry of Labour and Social Affairs has reportedly placed "unemployment [...] at more than 60 percent"<sup>7</sup>.

### 2.1 Defining and measuring unemployment

At least some of the differences between reported unemployment rates for Iraq are caused by the use of different definitions. The author would argue that the international standard definitions made by the International Labour Organisation (ILO) should be used, not least because much of the debate takes place between non-Iraqi observers who compare the labour market situation in

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<sup>3</sup> <http://english.aljazeera.net/NR/exeres/A66151CB-2105-418B-BFAA-73211A631611.htm>

<sup>4</sup> <http://www.nationalreview.com/robbins/robbins200409240828.asp>

<sup>5</sup> Formerly the Central Statistical Office of Iraq

<sup>6</sup> <http://news.bbc.co.uk/1/hi/programmes/newsnight/3372029.stm>

<sup>7</sup> [http://www.irinnews.org/report.asp?ReportID=44392&SelectRegion=Middle\\_East&SelectCountry=IRAQ](http://www.irinnews.org/report.asp?ReportID=44392&SelectRegion=Middle_East&SelectCountry=IRAQ)

Iraq to what can be found in other countries. We will therefore begin by briefly reminding the reader how the two broadest indicators of the labour market are calculated: The unemployment rate and the labour force participation rate.

The ILO framework classifies the working-age population into three mutually exclusive categories: The employed, the unemployed, and the economically inactive (Husmanns 1990). The employed persons are those who worked for at least one hour during the reference period (normally the seven days before the interview). Work includes not only paid work for an employer, but also self-employment or unpaid work in a family farm or enterprise. The unemployed persons, on the other hand, are those who simultaneously were without work, were available for work, and were seeking work during the reference period. The last point is particularly important, because it implies that a person who was not seeking work because he or she believed there was no work to be found, should not be classified as unemployed, but rather be part of the economically inactive population. Such persons are often referred to as “discouraged workers”, and we will return below to the classification of this group in the Iraqi context. The economically inactive persons are those that are neither employed nor unemployed, while the employed and the unemployed persons are referred to as economically active.

When the population is classified into these three groups, the two indicators are calculated as follows: The unemployment rate is the number of unemployed persons divided by the number of economically active persons (i.e. the sum of the employed and the unemployed). The labour force participation rate is the number of economically active persons divided by the working-age population.

Media coverage of the labour market tends to focus on the unemployment rate, but the understanding of the labour market is incomplete without the participation rate. This is true in a situation of particular relevance to Iraq. In a crisis when unemployment is high and increasing, unemployed persons may give up looking for jobs. These persons are then classified as inactive, and the effect is not to increase the unemployment rate, but to lower the participation rate. Hence, looking only at the unemployment rate gives a misleading impression of the labour market situation.

## 2.2 Data sources

There is no central registration of unemployed persons in Iraq, as there are no unemployment benefits to be collected<sup>8</sup>. Consequently, the only possible source for labour market statistics is household survey data. As mentioned above, COSIT has carried out three household surveys after the war that cover labour market activities:

- The Labour Force Survey (LFS), October 2003 round<sup>9</sup>
- The Iraqi Multiple Indicator Rapid Assessment (IMIRA) April/May 2004<sup>10</sup>
- The Labour force survey, July 2004 round

From all of these three surveys, COSIT has published unemployment rates and labour force participation rates, along with other labour market data, such as industry and occupational structure. To the author's knowledge, no labour force surveys were carried out in the years before the war, but the 1997 decennial census included questions on the labour market activity on the day of the census.

While COSIT is responsible for producing official Iraqi statistics, the CPA rapidly legalised the operation of private polling organisations, and the first opinion poll was conducted by Gallup in late summer 2003. Some of the confusion around the level of unemployment stems from these opinion polls, or rather, from the analysis and comments made on the basis of these polls. The Center for Strategic and International Studies reports on 19 opinion polls in Iraq between August 2003 and October 2004. (Zirpoli 2004) It appears that none of them produce labour force statistics, and they do not report unemployment or participation rates. However, some of the polls include a question on the employment status of the respondent but the

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<sup>8</sup> A national scheme for unemployment benefits was introduced by the Ministry of Labour and Social Affairs in March 2005.

<sup>9</sup> The LFS of October 2003 was the first nation-wide household survey after the war. This survey, as well as the LFS July 2004 round, used a sample of 24,000 households, covering the 15 southern governorates of Iraq. The aim of the surveys was to produce labour market data, but data on a number of socio-economic and demographic parameters were also collected for use as background variables. (Central Statistical Office 2004)

<sup>10</sup> The IMIRA is the first survey in recent years to cover all 18 governorates of Iraq. It is of the same type as the World Bank's Living Standards Measurement Surveys, producing data on a large number of topics including labour market activities. The survey uses a sample of 22,000 households. Fieldwork was carried out in April and May 2004, except for the two Kurdish governorates of Erbil and Dahouk where it was carried out in August 2004. (Pedersen 2005)

question is not formulated so as to produce labour market statistics consistent with standard definitions of employment and unemployment, and consequently should not be used for analysing the labour market situation. The reason for this is presumably that it would take up too much of the questionnaire<sup>11</sup> (i.e. it would be too expensive), and the pollsters prefer to ask one single question for use as a background variable.

The polling organisations are normally aware of this limitation, but not always the commentators. A typical example is the comments of the International Republican Institute polls mentioned above. The polling organisation appears not to have reported unemployment rates but the number of respondents that are unemployed, and the columnist then goes on to interpret this number as the unemployment rate. (Robbins 2004)

It has not been possible to get access to the widely quoted study by the college of economics at Baghdad University, but an unemployment rate of 70 per cent is quite simply not compatible with the standard definition of the unemployment rate. In all likelihood, this study uses a definition different from what is commonly understood by “unemployment rate”, and as long as we do not know what these differences are, we cannot use it for assessing the labour market situation.

### **2.3 Unemployment rates from the COSIT surveys**

Unfortunately, the three COSIT surveys use different definitions of unemployment. The IMIRA survey follows the ILO definitions, while the labour force surveys use an adapted version of the ILO framework, developed by the COSIT. The result is that the two labour force surveys find substantially higher unemployment rates than the IMIRA survey: The labour force survey produces an unemployment rate of 28.1 per cent in October 2003 and 26.8 per cent in July 2004, while IMIRA finds it to be 10.5 per cent in May 2004. (Table 1.)

Sletten and Rashid (Sletten & Rashid 2004) find that this is not caused by measurement error (e.g. sampling errors or poor data management) or by dramatic fluctuations in the unemployment rate, but is a result of differences in the definition of unemployment<sup>12</sup>. The most important difference is that the LFS includes the discouraged workers – persons without work, currently available for work, but not seeking work because they believe there is none to be found – in the group of the unemployed. The second difference is that the LFS defines “being without

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<sup>11</sup> A typical labour force survey uses at least ten questions to determine the labour market status of respondents.

<sup>12</sup> Note that the differences are not caused by the inclusion of the three Kurdish governorates in the IMIRA data; on average these have the same participation and unemployment rates as the 15 other governorates.

work” as working less than 15 hours per week, while the ILO recommends using one hour as the cut-off point. Recalculating the IMIRA unemployment rate with these two groups counted as unemployed yields an unemployment rate of 22.5 per cent<sup>13</sup>. Sletten and Rashid conclude that the remaining difference is probably caused by differences in the structure of the questionnaires. Table 1 gives the labour market indicators of the three surveys, with the IMIRA data recalculated using the same definitions as the LFS surveys.

**Table 1: Labour market data for Iraq**

	LFS October 2003	LFS July 2004	IMIRA (standard definition)	IMIRA (relaxed definition)	IMIRA (LFS definition)
Working-age population (15+)			16,447	16,447	16,447
Economically active population			6,735	7,384	7,384
Unemployed persons			710	1,359	1,664
Labour Force Participation Rate	44.1%	48.5%	40.9%	44.9%	44.9%
Unemployment Rate	28.1%	26.8%	10.5%	18.4%	22.5%
Male working-age population (15+)			8,118	8,118	8,118
Economically active men			5,613	6,094	6,094
Unemployed men			568	1,048	1,260
Male Labour Force Participation Rate	73.7%	77.4%	69.1%	75.1%	75.1%
Male Unemployment Rate	30.2%	29.4%	10.1%	17.2%	20.7%
Female working-age population (15+)			8,329	8,329	8,329
Economically active women			1,122	1,290	1,290
Unemployed women			142	310	403
Female Labour Force Participation Rate	14.2%	17.9%	13.5%	15.5%	15.5%
Female Unemployment Rate	16.0%	15.0%	12.7%	24.0%	31.3%

All population figures in thousands.

Source: IMIRA and LFS data made available by COSIT

While IMIRA data can be recalculated using a definition close to what is used in the LFS surveys, the reverse operation is not possible. Nevertheless, the conclusion of Sletten and Rashid is that the IMIRA data are consistent with the LFS data. This leads us to conclude that the IMIRA data are credible, and that the best available estimate of an unemployment rate for Iraq

<sup>13</sup> Note that when the LFS definition is used, IMIRA finds the female unemployment rate to be much higher than what is found in the LFS. The main reason for this, is probably that the LFS uses the category of “full-time housewife”, and this tends to reduce the number of unemployed women.

(based on ILO definitions) is therefore 10.5 per cent, measured in May 2004. The labour force participation rate was 41.4 per cent, and there were 6.7 million persons in the labour force, including 710,000 unemployed.

#### **2.4 Hidden unemployment: The discouraged workers**

The major difference between the LFS and the IMIRA is the treatment of the category of discouraged workers. This is not necessarily a straightforward issue, and there is room for discretion depending on the situation analysed. The ILO notes that “While the concept is not very precise and its definition varies from country to country, the term ‘discouraged workers’ generally refers to persons who want a job and are currently available for work but who have given up any active search for work because they believe that they cannot find it.” (Husmanns p. 107.) There are arguments for and against counting such workers as unemployed instead of as inactive (i.e. not in the labour force), and the arguments depend on the characteristics of the discouraged workers and the degree to which their labour market behaviour can be expected to be the same as the unemployed.

We will take a closer look at the characteristics of unemployed and discouraged workers further on, but indicate already that the two groups are strikingly similar. It therefore seems a reasonable assumption that these two groups will behave in the same manner in the labour market: Both groups wish to enter the labour market, and both experience important difficulties in doing so.

The ILO recommends the use of a “relaxed definition of unemployment” in situations where the “conventional means of seeking work are of limited relevance, where the labour market is largely unorganised or of limited scope, where labour absorption is at the time inadequate, or where the labour force is largely self-employed”. This entails counting the discouraged workers as unemployed rather than inactive, and is closer to the definition used in the LFS surveys. If the relaxed definition of unemployment is used, the unemployment rate jumps to 18.4 per cent rather than the 10.5 found when using the standard definition. The labour force participation rate would then be 44.9 per cent, and there would be 7.4 million persons in the labour force, including 1.4 million unemployed.

The author would argue that for purposes of comparison with other countries, the standard definition should be used – i.e. the unemployment rate is 10.5 per cent – while for analysing the unemployment problem in Iraq (in a national context), the relaxed definition is more appropriate, and the unemployment rate of 18.4 per cent should be used. The answer to the

question ‘How high is the unemployment rate in Iraq’ should therefore begin with ‘That depends...’

## **2.5 Unemployment is a major concern for Iraqi households**

Both the standard and the relaxed unemployment rates are substantially lower than what has been reported in the media, and are well below the 30-45 per cent range given by Brookings’ Iraq Index. However, a relaxed unemployment rate of 18.4 per cent, or even a standard unemployment rate of 10.5 per cent, is still high, and one should not conclude that there is no unemployment problem in Iraq.

Iraqi households themselves consider unemployment one of their most urgent problems. In the various opinion polls conducted since the autumn of 2003, unemployment is consistently ranked as a major concern, although the manner of asking the question varies. In the International Republican Institute (IRI) polls<sup>14</sup>, respondents were asked which of ten different issues were the three most important. In four polls during the autumn of 2004, unemployment was consistently among the top three concerns, although normally named as the second most important – healthcare and crime being the two other major concerns. (Referanse)

The importance of unemployment problems for Iraqi households was confirmed by a poll conducted by COSIT on behalf of the UNDP in December 2004. Here, respondents were asked they agreed or disagreed with a series of statements about various policy issues. A total of 92 per cent agreed or agreed strongly with the statement “Unemployment is the main challenge for Iraq today”, and two thirds – 67 per cent – agreed strongly. (Referanse)

Furthermore, households believe that unemployment is a general problem, and even those that have jobs are afraid of losing them: In four IIACSS polls conducted for the CPA during the spring of 2004, between 28 and 39 per cent of employed respondents were “very concerned” about losing their jobs, and another 23 to 25 per cent were “somewhat concerned”. ((Zirpoli 2004)

There is a risk that an unemployment rate of 10.5 per cent is interpreted as no unemployment – at least compared to the reports of 70 per cent, or even “between 30 and 45 per cent”. This would be a grave mistake, caused by the exaggerations in some of the previous claims. Unemployment is considered a major problem by Iraqi households, and reducing unemployment should still be one of the prime concerns of the incoming Iraqi government.

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<sup>14</sup> Conducted by the Independent Institute for Administrative and Civil Society Studies (IIACSS) in Baghdad.



### **3 Stylised facts of the Iraqi labour market**

Before proceeding, we will present a few stylised facts of the Iraqi labour market, to contextualise the unemployment problem. We will mainly refer to the IMIRA data and use the strict definition of unemployment, but the conclusions would be the same had we used the relaxed definition of unemployment or LFS data.

The labour force participation rates in Iraq are broadly similar to what is found in other countries in the region. Men are economically active, in particular in the age group 25-54, while most women are inactive. The overall male participation rate (men aged 15 and above) is 69 per cent, and increases to 88 per cent in the age group 25-54. This is slightly lower than what is found in the OECD, but still indicates that almost all men participate in the labour market.

For women, the labour force participation rates are much lower, with only 13 per cent of women aged 15 and above being economically active (19 per cent in the age group 25-54). The exception is women with higher education, where 59 per cent are economically active. This is of course a small group, and overall, female participation in the labour market is low. Iraq is often seen as one of the more progressive Middle Eastern regimes regarding the status of women, presumably because of the Baath party's claim to a secular ideology, but this perception is not supported by the labour market behaviour of Iraqi women. We note that the pattern of labour market participation is consistent with the labour market data reported from Iraq's 1997 census, and does not appear to have changed dramatically after the war. (Foote et al. 2004)

The labour force is almost exclusively domestic. There was a large inflow of workers from other Arab countries (in particular Egypt) during the war with Iran, as the Iraqi army took up an increasing share of the domestic labour force. Most of these left during the first Gulf war, when other Arab states joined the coalition against Iraq, and today there are no foreign workers in Iraq. Contractors for the coalition forces would not be included in the IMIRA data if they live on military bases (interviewers only entered households, institutions and barracks were excluded); however, their number is still small relative to the total labour force and does not change the overall picture.

The labour market is primarily in the formal sector: 57 per cent of Iraqi workers are wage employees, and 7 per cent are employers. (The private sector primarily consists of very small enterprises.) A little over one third are either self-employed or unpaid workers on a family farm or in a family enterprise, and there is a clear gender difference in the informal sector: Men are self-employed and women are unpaid family workers.

The public sector is an important employer, but it is not dominating: Thirty per cent of the workforce is employed by local or central government, or by state-owned enterprises. It is more important for women than for men, with 53 per cent of all employed women working in the public sector. Public sector workers have higher hourly wages than workers in private firms, although this is partly explained by the fact that public sector workers on average have higher education: Even though the public sector accounts for less than one third of total employment, it employs more than half – 58 per cent – of the workers with secondary or higher education. The use of human capital is correspondingly less intensive in the private sector.

Employment is, unsurprisingly, concentrated in the non-tradables sector. The oil industry, which generates around two thirds of GDP, accounts for less than one per cent of employment. Manufacturing is also of limited importance, and the most important industries (outside of the public sector) are trade and services. Overall, trade and services account for 33 per cent of all employment, public administration (including public security, health, and education) for 32 per cent, construction and manufacturing (including the oil industry) for 18 per cent, and agriculture for 17 per cent.

## **4 A closer look at unemployment**

### **4.1 The unemployed and the discouraged workers: Young men trying to enter the labour market**

With this context in mind, we will now take a closer look at the unemployment problem. We begin with a description of the 1.4 million unemployed and discouraged workers, presented in Table 2. Although the description of the group is unsurprising insofar as it is similar to what is found in neighbouring countries, it has certain implications for how unemployment is understood. The following features stand out:

- They are predominantly men: 80 per cent of the unemployed and 74 per cent of the discouraged workers are men.
- They are young: Among the men, half of all the unemployed and 60 per cent of the discouraged workers, are aged 15-24. A similar pattern is found among the women, although less marked. Note that these young men (and women) are not students; only a tiny minority

among both unemployed and discouraged workers are currently enrolled in schools or universities<sup>15</sup>.

- They are new entrants to the labour market: 78 per cent of unemployed and 93 per cent of the discouraged workers have never previously been employed.

**Table 2: Characteristics of the discouraged workers and the unemployed**

		Discouraged worker	Unemployed	Working-age population
Male		74	80	49
Female		26	20	51
<b>All</b>		<b>100</b>	<b>100</b>	<b>100</b>
Male	15-24	60	48	36
	25-54	35	47	52
	55+	5	4	12
	<b>All</b>	<b>100</b>	<b>100</b>	<b>100</b>
Female	15-24	48	33	35
	25-54	46	64	52
	55+	6	2	13
	<b>All</b>	<b>100</b>	<b>100</b>	<b>100</b>
Ever been employed		7	22	39
Never been employed		93	78	61
<b>All</b>		<b>100</b>	<b>100</b>	<b>100</b>
Number		649,000	710,000	16,447,000

Source: IMIRA dataset made available by COSIT

Another way of looking at unemployment is by considering the unemployment rates in different subgroups. As shown in Table 1, the female unemployment rate is actually higher than the male: 24.0 per cent against 17.2 per cent (using the relaxed definition, i.e. including the discouraged workers). This is a result of the low female activity rate: Only 15 per cent of women participate in the labour market, so even if a large proportion of them are unemployed, they make up less than one fourth of the total number of unemployed. In other words, unemployment is a bigger problem for those women who want to work than for men, but a reduction in female unemployment will have only a minor impact on the overall unemployment rate.

<sup>15</sup> It is possible to be a student and be counted as unemployed, as long as the respondent is also without work, currently available for work, and seeking work. This implies that the student in question is willing to stop studying immediately if a job becomes available.

Table 3 gives the standard and relaxed male unemployment rates by age and highest completed level of education. Youth unemployment is extremely high, at 32.1 per cent in the age group 15-24 (relaxed definition). It drops to 11.2 in the age group 25-54, and as noted above, the labour force participation rate is also higher in this group.

Disturbingly, the unemployment rate is higher among young men with higher education, with an apparent threshold at the secondary level. An astonishing 37.2 per cent of men aged 15-24 with completed secondary or higher education, are unemployed (relaxed definition). Furthermore, among young women with the same age and education, it reaches 52.8 per cent<sup>16</sup>. Although there is no shortage of problems for the new Iraqi government, the massive youth unemployment, in particular among the best educated, is arguably one of the most urgent and important.

**Table 3: Male unemployment by age and education**

	Unemployment rate				Unemployment rate (Relaxed definition)			
	15-24	25-54	55+	All	15-24	25-54	55+	All
Never attended school	14.2	5.2	5.8	7.2	31.8	10.4	12.2	15.7
Less than elementary	17.9	7.4	4.2	12.3	31.4	11.1	9.8	21.4
Elementary	18.0	7.4	5.2	10.7	31.1	11.3	8.5	18.2
Intermediate	21.1	6.6	5.7	10.0	33.8	10.0	6.9	16.1
Secondary or higher	24.9	7.8	7.4	9.3	37.2	11.9	9.7	14.4
All	18.7	7.2	6.1	10.1	32.1	11.2	10.7	17.2

Source: IMIRA dataset made available by COSIT

The first implication of this description has already been mentioned: Since the discouraged workers as a group are relatively similar to the unemployed, many of them are also likely to behave as the unemployed. This would be an argument for relaxing the “seeking work”-criterion for defining a person as unemployed, and classifying them as unemployed instead of inactive. As already mentioned, this would increase the unemployment rate from 10.5 to 18.4 per cent. This also means that if the labour market improves and more people find work, discouraged workers might begin searching for jobs and hence be reclassified as unemployed. The core unemployment rate of 10.5 per cent would then not decrease, but the relaxed unemployment rate

<sup>16</sup> This group is of course small: There are 164,000 men and 80,000 women aged 15-24 with completed secondary or higher education that are economically active.

would fall and the labour force participation rate would increase. It is therefore important to follow both of these indicators.

A second implication is that an important part of unemployment is caused by young men waiting for the right job opening, supported by parents or older siblings. As we have seen, the labour force participation rate is lower and the unemployment rate is higher for young men. This is linked to household position: Family fathers have to work in order to provide for the household. Sletten (2005) points out that this relationship is even stronger for young men: Almost all young men who are head of household are employed, compared to only half of those who still live with their parents, or with older siblings. The causality probably runs both ways: Young men are unable to marry before they find work, and on the other hand, married men have much stronger incentives to work in order to support their family. Hence, it is reasonable to assume that when today's unemployed and discouraged young men grow older, they will marry and begin working.

It should be stressed that this does not imply that youth unemployment is a “luxury problem”, and that these young men are simply waiting around. Waiting for a job means loss of human capital, wages foregone, and marriage postponed. Furthermore, many of these young men are likely to have to settle for lower-paid, lower-skilled work, than they are hoping for – unless the economy grows rapidly. However, it is not necessarily an irrational strategy, as it may make sense both for the individual and the household to wait for a well-paid job. Sletten and Jacobsen (2005) show that having one family member working in the formal sector (as opposed to being self-employed or an unpaid family worker) increases household earnings by 10-15 per cent. The strategy of waiting (or queuing) for a job opening is known from other countries in the region, in particular Egypt where the state provided an employment guarantee to all graduates from secondary education since the 1960s (Assaad 1997), but is also found in Tunisia, where no such guarantee existed (Rama 1998)

#### **4.2 A typology of unemployment**

Putting this together, the 1.4 million unemployed and discouraged workers can be divided into three distinct groups. The relevant distinction is not between unemployed and discouraged workers, but between men and women, and between those who have lost jobs and those that are first-time job seekers.

The first group consists of those that most people think of when they hear the term unemployed: Men who previously have been employed, and are now out work. This is the smallest group, 191,000 persons, or 14 per cent of the total. Naturally, they are somewhat older:

Most of them (75 per cent) are 25 years or older. Half of them are household heads, while the other half live with parents or siblings. Most of them are unemployed under the standard ILO definition, only 22 per cent are discouraged workers.

The second group is the men who have never worked before, the new entrants to the labour market. This is the largest group, 857,000 persons, or 63 per cent of the total. They are young: 60 per cent are younger than 25 years. Most (86 per cent) live with parents or siblings, and only 14 per cent are household heads. A sizeable minority, 20 per cent, have completed secondary or higher education, but one third of them have only completed elementary school, and another third have not even completed this. Only half of them are unemployed under the standard ILO definition, the other half are discouraged workers.

The third group is the women: They are 310,000, making up 23 per cent of the total. Almost all (97 per cent) have never worked, and they are young: 42 per cent are younger than 25 years. Some are married (26 per cent), but the majority (64 per cent) live with their parents. Like the second group, they are equally divided into core unemployed and discouraged workers. But they differ from the unemployed young men by the fact that most of them probably do not expect ever to be employed: Only a small minority of women in Iraq are.

## 5 A map of unemployment

Moving from who the unemployed are to *where* they are, the first point to be made is that unemployment is an urban phenomenon: Of the 1.4 million unemployed and discouraged workers, 1.1 million - 81 per cent – live in urban areas. This is partly because unemployment is more severe in urban areas (the urban unemployment rate is 20.1 per cent, compared to 13.6 per cent in rural areas), but mainly because a larger part of the labour force is urban<sup>17</sup>. Baghdad alone is home to 25 per cent of the Iraqi labour force, and 30 per cent of Iraq's unemployed.

The map below is taken from the socio-economic atlas of Iraq, and shows the distribution of unemployment in Iraq in more detail. Areas with higher unemployment rates (using the relaxed definition of unemployment) have darker shade. The map is constructed by calculating the unemployment rate for each IMIRA survey cluster, and then estimating unemployment rates over areas as weighted averages of neighbouring clusters (using inverse

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<sup>17</sup> A possible explanation for the lower unemployment rates in rural areas, is that agriculture functions as an absorber of surplus manpower. This also results in higher activity rates in rural areas, in particular among women and young men.

distance weighting). This technique works best when the density of survey clusters is high. No useful estimates can be made when there are very few or no clusters, such as in the south-western desert areas of Iraq, and in areas with low cluster density, estimates are imprecise. In other words, the map is most precise in the cities, and less precise between them. The map should therefore be seen together with the average unemployment rates for the governorates, which are given in Annex 1.

There is an unemployment belt stretching across the southern inland, in the governorates of Najaf, Al-muthanna, Thi-Quar, Missan, and Wasit, while the southernmost governorate of Basrah is faring somewhat better. Baghdad has, as already mentioned, a higher unemployment rate than the national average. The governorates to the north of Baghdad all have lower unemployment rates (although with pockets of higher unemployment), except for the northernmost governorate of Duhok.

There may be a number of causes for this variation, such as natural conditions, the state of infrastructure (roads and electricity), presence of state-owned industry or other types of public-sector employment, and so forth. However, the variation does not seem to be caused by the insecurity, as unemployment rates are not particularly high in the areas where conflict has been most intense: Al-Anbar governorate, with the cities of Fallujah and Ramadi has an unemployment rate of 15 per cent, lower than the national average.

## **6 An unemployment crisis after the invasion?**

When commentators claim there is massive unemployment in Iraq, they often implicitly or explicitly go on to claim that it is either caused by the war, the insecurity and instability after the war, or by the policies of the CPA. Unemployment is assumed to have exploded with the war, and possibly to have increased since. However, the IMIRA and the LFS data indicate that unemployment is no worse in May 2004 than it was at the end of 2002, and that unemployment was falling from autumn 2003 to the summer of 2004.

The IMIRA survey is probably the best source of data on the effect of the war on unemployment, as it contains questions about the labour market activities of respondents in the last week of December 2002. It is unreasonable to expect respondents to have a clear recollection of their activities one and a half year prior to the interview, and the questions asked were therefore less detailed. Hence, the IMIRA survey did not try to classify persons as employed, unemployed, or inactive in the last week of December 2002, but only asked whether the respondent worked or was temporarily absent from work.

It turns out that 5,193,000 persons worked (or were temporarily absent from work) in December 2002, compared to 6,025,000 in May 2004. This does not mean that employment increased by 800,000 persons during this period, as at least some of this difference is caused by difficulties in measuring labour market activities long before the interview.

Two particular difficulties can be pointed out: First, IMIRA only finds 173,000 persons reporting to be employed by the Iraqi army in December 2002, while the International Institute of Strategic Studies (IISS) estimated total armed forces at 389,000 in 2002. (The International Institute for Strategic Studies 2002) The discrepancy of 216,000 persons may be caused by respondents not considering military service as employment, or because respondents are unwilling to disclose military service to interviewers. Secondly, persons with a casual connection to the labour market may be more likely to report that they did not work in December 2002 than persons who held a regular employment. This could for instance be the case of self-employed persons, of whom there were 1,635,000 in May 2004, and unpaid family workers, of whom there were 534,000. Within these two groups, a total of 390,000 persons reported not to be working in December 2002.

Nevertheless, it remains that of the 5,193,000 that were counted as working in December 2002 very few were not employed in May 2004. Only 155,000 (three per cent) were unemployed, and 159,000 were inactive – i.e. had left the labour force. Employment appears to have been surprisingly stable: Of those that were working in both December 2002 and May 2004, 89 per cent were in the same job. Table 4 shows the change of employer between December 2002 and May 2004. The table only shows the type of employer, not whether the employer is actually the same. With this caveat in mind, the table shows that 88 per cent of those that were employed by the government in December 2002 are still employed by the government today. Stability is even larger within the private sector (94 per cent) and family businesses (95 per cent), and together these three accounts for 91 per cent of current employment. The slightly lower stability among public-sector employees could be a result of the de-Baathification policy of the CPA; however, it tempers the claims that this process led to high unemployment. Foote et al. (2004) claim that no more than 15,000-30,000 persons lost their jobs because of Baath party membership; this tallies well with the stability of public sector employment.

The one group for whom employment has been unstable is military personnel. As pointed out there are some limitations on the IMIRA data on this group, but we assume that the respondents are not systematically different from the ones that are not in the data set. IMIRA finds that only 11 per cent of those employed by the Iraqi army in December 2002 are employed by it today. Close to one third are not working; 12 per cent are unemployed and 17 per cent are



inactive. There are 38 per cent working in private companies, and 10 per cent working for the government. Furthermore, among those working, 31 per cent are self-employed, and report that they work for private companies.

**Table 4: Change of employer since December 2002**

	Employer December 2002								uwn
	Local or central government, government companies	Private company	Cooperative or joint sector	Iraqi army	Family business	NGO	Private household	Other	
<b>Employer May 2004</b>									
Local or central government, government companies	88	2	9	10	1	7	10	15	7011
Private company	5	94	9	38	1	5	11	21	12,761
Cooperative or joint sector	0	0	68	2	0	0	1	0	629
Iraqi army	0	0	0	11	0	0	0	0	186
Family business	0	0	1	5	95	1	1	2	4,209
NGO	0	0	1	3	0	78	0	2	758
Private household	0	0	0	0	0	0	60	0	205
Other	0	0	0	1	0	0	0	30	144
Unemployed	2	2	7	12	1	4	4	17	710
Not in the labour force	4	1	4	17	1	4	13	12	811
All	100	100	100	100	100	100	100	100	27,424

Source: IMIRA dataset made available by COSIT

The conclusion that the labour market has been relatively stable since December 2002 is surprising, but consistent with other findings in the IMIRA survey. In particular, characteristics of the unemployed and discouraged workers described above, such as their age, matrimonial status, and position within the household, fit with their being new entrants to the labour market. This implies that unemployment is not caused by job losses, and is consistent with a stable labour market.

While the preceding discussion is based on the IMIRA dataset, the two labour force surveys yield one important indicator: The change in the unemployment rate between October 2003 and July 2004. The labour force surveys find a reduction of the unemployment rate from 28.1 to 26.8 per cent, combined with a jump in the activity rate of more than four percentage

points, from 44.1 to 48.5 per cent. This indicates that labour market conditions did improve dramatically during this period, with a large number of persons entering or re-entering the labour market and finding work.

The emerging picture is therefore that while there is currently high unemployment, in particular among young men, this is not caused by job losses after the invasion. Employment appears to have been surprisingly stable for all those that were employed in December 2002, except for members of the armed forces. Unemployment has probably decreased since the period immediately after the invasion, and employment may have increased since December 2002, although it is hard to say whether this increase is important, as there are problems with both the IMIRA and the LFS surveys.

## **7 Economic policies of the CPA and labour market developments**

The finding that unemployment was no higher in May 2004 than in December 2002, and that unemployment has been declining between October 2003 and July 2004, runs counter to the common perception of developments in Iraq, at least among media and politicians in Europe. Iraq has gone from a situation of relative stability, to one of widespread insecurity and guerrilla warfare, and this is believed to have ruined the economy. However, Iraq was in a situation where internal and external factors had already completely ruined the economy, and from where things could only improve. (See Alnasrawi (2001) or Mahdi (2003) for a description of the Iraqi economy under Saddam Hussein.) The removal of Saddam Hussein and the establishment of the CPA led to three changes that are likely to have had a strong effect on the labour market: Fiscal expansion, lifting of sanctions, and structural reform.

It is difficult to say exactly how strong the increase in public spending has been, as there is a lack of good data on the state budget under Saddam Hussein, partly because the regime did not publish much data, and partly because the bulk of public spending was “off-budget”, and consisted of goods imported under the Oil-for-Food program. Furthermore, the possible corruption that occurred under the Oil-for-Food program along with revenues from smuggling of oil and other goods, presumably gave the regime resources spent outside of the budget. In its budget document for 2004, the CPA puts “on-budget” public spending in 2002 at US\$ 1.3 billion (CPA 2003). The Oil-for-Food program was organised in phases of six months, and during the two phases that ran in 2002, total imports of US\$ 9.5 billion were approved, dwarfing the “on-budget” expenditures. However, this implies that most public spending in 2002 (at least US\$ 9.5 billion) was spent on imports, and did therefore not have a direct expansionary effect on the Iraqi economy.

The CPA budgeted for total public spending of US\$ 13 billion in 2004 and a similar level of spending was maintained during the CPA's six first months in 2003 (CPA 2003). This is an increase of only US\$ 2.2 billion over the total public spending in 2002, but it is a ten-fold increase when the Oil-for-Food part of 2002 spending is excluded. Although 2004 public spending also paid for imports, the share is likely to have been much lower than what was spent under the Oil-for-Food scheme, and the result must have been a considerable fiscal stimulus. One particular element of this fiscal expansion has been a substantial increase in salaries of civil servants, directly increasing the purchasing power of private households.

The second change is the removal of the sanctions on Iraq by the UN Security Council immediately after the establishment of the CPA. The most important negative effect of the sanctions regime was without doubt the restrictions on oil exports, and due to the ongoing insurrection, oil exports have remained at the same level as before the invasion. However, the other elements of the sanctions regime are also believed to have had a strong negative impact on the economy: The ban on trade led to a lack of spare parts which over time led to a deterioration in infrastructure – in particular regarding power supply – and a lack of industrial and agricultural inputs and spare parts that reduced productivity or shut down production altogether (Alnasrawi 2001; Foote et al. 2004; World Bank 2004). Correspondingly, it is reasonable to assume that the lifting of sanctions has had a positive effect on the economy, although it is difficult to assess the importance relative to other changes taking place.

The third change is the various reforms that the CPA carried out – as well as the ones it did *not* carry out. These include monetary reform, the removal of trade barriers, tax reform, reform of the banking sector, legal and administrative reform, and the decision to postpone reform of the state-owned enterprises. A review of these policies is beyond the scope and ambitions of this paper, and we will only give a short overview here. For a detailed review of these reforms, see Foote et al. (2004) or (International Monetary Fund 2004). For a more critical perspective, see The International Crisis Group (2004) or Crocker & (2004).

The monetary reform was carried out in the autumn of 2003, and entailed the introduction of the New Iraqi Dinar, which replaced the so-called “Saddam dinar” that was in use in the part of Iraq controlled by Saddam Hussein, and the “Swiss dinar”, used in the three northern governorates. The Saddam dinar was close to a total collapse in the spring of 2003 and bills of higher denominations were trading at a discount due to fear of counterfeiting. Needless to say, lack of a currency would be a problem for economic activity. The replacement of the old currency took place in October 2003, and is arguably one of the major achievements of the CPA.

The CPA removed all trade barriers on June 8 2003, declaring a “tariff holiday” that would last until December 31 2003, at which point a 5 percent “reconstruction surcharge” was to be levied on all imports going into Iraq. All other taxes were also suspended in 2003, and a new income tax was to be introduced in April 2004, with a top individual tax rate of 15 per cent. Corporate profits were to be taxed at a flat rate of 15 per cent. These reforms, together with other legal and administrative reforms, have completely changed the environment in which Iraqi firms operate, offsetting some of the negative effects of the insecurity. A poll of owners or managers of small-to-medium sized businesses in the cities of Baghdad, Hilla and Erbil in November 2004, found that two thirds believed that the new laws and regulations would improve their situation, and only four per cent thought the impact would be negative. Half of the businessmen said the business environment was better at the end of 2004 than before the invasion, and only 20 per cent said it was worse (Zogby 2004).

A final element is the structural reforms that the CPA did *not* carry out, namely the reform of the state-owned enterprises. It was expected that the CPA would immediately move to privatise the SOEs, but this did not happen. Why the CPA backtracked on this policy is not clear, but it is certain that this is one of the main reasons why employment has remained stable after the invasion. Reform of the SOEs will certainly entail large-scale down-sizing, and the associated reduction in household income will lead to a reduction in private demand. The CPA instead opted to keep the SOEs running, and paid salaries at least up to the transfer of power to the Interim government.

These three changes – fiscal expansion, lifting of sanctions, and structural reform – are probably only parts of the explanation of the unexpected development of unemployment in Iraq in 2003 and 2004. They are presented here to try to contextualise the labour market developments, but further research on this topic is no doubt needed.

## **8 Conclusion**

This paper has used data from three nation-wide household surveys to argue that the best available estimate of the unemployment rate in Iraq is 10.5 per cent in May 2004, or 18.4 per cent if the relaxed definition of unemployment is used (i.e. counting discouraged workers as unemployed). This is a very high unemployment rate, although not as high as some observers expected, and Iraqi households consider unemployment to be one of their most pressing problems. Unemployment rates are substantially higher in certain subgroups of the population, in particular is youth unemployment extremely high, at 33.4 per cent (relaxed definition). The majority of the unemployed are men, and most of them have never been employed. 30 per cent

of all unemployed Iraqis live in Baghdad. The high level of unemployment appears not to have been caused by the war and the following situation of insecurity, as most of the unemployed are new entrants to the labour market, and employment appears to have been surprisingly stable since December 2002. The unemployment rate declined in the period between October 2003 and July 2004, and employment appears to have increased substantially during the same period. Fiscal expansion, lifting of sanctions, and structural reform have mitigated the negative effect of the conflict, and are part of the explanation of the surprisingly positive labour market development.

Obviously, these findings have implications for the design of policies to alleviate the unemployment. First, a significant reduction in unemployment can only be achieved by targeting the large group of young men searching for their first job. This group has low human capital; they have no work experience, and little education. A mix of policies is required to bring them to work, and both training programs and active labour market policies are likely to part of this mix. If the government manages to get a sustained reconstruction program underway, this should be designed to maximise employment creation, and could include schemes targeted directly at first-time job seekers.

Secondly, the government must take great care not to exacerbate the unemployment problem when it begins the process of reforming the state-owned enterprises. According to the World Bank (2004), the SOEs employ 500,000 persons, or eight per cent of all Iraqis currently employed. The postponement of these reforms is one important reason why unemployment is lower than most observers expected. When these reforms begin in earnest, appropriate safety nets must be set up. The World Bank (2004) has already proposed a range of such measures, including severance payments, retraining, and public works programs, but it is in all likelihood inevitable that these reforms will increase unemployment in the short run. The timing and speed of these reforms should therefore be carefully planned.

More broadly, the findings presented in this paper have a bearing on the interpretation of the ongoing conflict in Iraq. The assumption of a Catch-22 situation, where high unemployment leads to insurgency, which in turn makes it impossible to reduce unemployment, must at least be nuanced.

To begin with the causality loop from unemployment to insurgency, we note that even if unemployment is lower than expected, there is nevertheless a large pool of unemployed, and presumably discontent, young men. However, they were also unemployed under Saddam Hussein, and in order to explain insurgency by unemployment, it is necessary to identify changes in their situation that make insurgency a more relevant strategy now than before. Possible

explanations include the role of propaganda under Saddam Hussein, the severity of repression, or the perceived likelihood of succeeding in changing the regime.

For the causality loop from insurgency to unemployment, the findings presented seem to indicate that, depending on the situation before the insurgency breaks out, the right policy mix can mitigate the negative impact of violence and insecurity on the labour market – at least in the short run. Whether this mitigating effect can be sustained if the insurgency continues for several years, remains to be seen.

## Annex 1

	Labour force participation rate	Unemployment rate	Labour force participation rate (Relaxed def.)	Unemployment rate (Relaxed def.)
Duhouk	35.7	15.9	40.2	25.3
Nineveh	41.4	8.2	44.8	15.2
Sulaimaniya	44.8	10.7	47.3	15.3
Al-Tameem	38.5	9.4	41.7	16.4
Erbil	38.9	4.7	42.3	12.4
Diala	41.1	8.7	44.6	15.8
Al-Anbar	42.0	8.4	45.2	15.0
Baghdad	40.0	13.5	44.4	22.0
Babil	42.7	8.9	47.1	17.3
Kerbala	41.4	7.6	43.7	12.6
Wasit	43.7	7.9	49.2	18.2
Salahuddin	46.7	6.5	50.1	12.8
Al-Najaf	40.0	11.4	45.2	21.8
Al-Qadisiya	45.2	7.8	49.7	16.1
Al-Muthanna	36.9	22.0	42.8	32.7
Thi-Qar	34.5	15.2	40.3	27.5
Missan	39.3	11.1	45.3	23.0
Basrah	42.5	10.6	44.5	14.7
All	40.9	10.5	44.9	18.4

Source: IMIRA dataset made available by COSIT

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