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# EVALUATING THE EFFECTIVENESS OF FISCAL POLICY IN ACHIEVING ECONOMIC STABILITY: AN ANALYSIS OF FISCAL IMPACT WITH A FOCUS ON UNEMPLOYMENT RATE STABILITY IN IRAQ FOR THE PERIOD (2004–2024)

## *AVALIAÇÃO DA EFICÁCIA DA POLÍTICA FISCAL NA ALCANÇA DA ESTABILIDADE ECONÔMICA: UMA ANÁLISE DO IMPACTO FISCAL COM ÊNFASIS NA ESTABILIDADE DA TAXA DE DESEMPREGO NO IRAQUE NO PERÍODO DE 2004 A 2024*

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**Abstract**
The evaluation of fiscal policy performance is considered an important analytical tool for measuring the government's ability to achieve economic stability, particularly its role in strengthening labor market stability. The effectiveness of fiscal policy appears in its ability to use its main instruments, such as public expenditure and taxation policy, to influence aggregate demand and stimulate economic activity. When public spending is directed toward productive sectors, infrastructure, and labor-intensive investments, it contributes to creating new job opportunities and reducing unemployment rates, which in turn enhances the stability of the labor market. In addition, a balanced tax policy can encourage private investment and support economic projects, which positively affects employment levels. Evaluating fiscal policy performance also helps reveal the efficiency of public resource allocation and its ability to address structural imbalances in the labor market. If fiscal policy is characterized by flexibility and responsiveness to economic cycles, it can help reduce fluctuations in employment and income levels. In this context, the efficiency of fiscal policy represents a key factor in achieving balance between labor supply and demand, while also strengthening social and economic stability. Therefore, assessing the performance of fiscal policy is an important indicator for judging the state's ability to manage the labor market and achieve more effective and sustainable levels of employment.

***Resumo***
*A avaliação do desempenho da política fiscal é considerada uma importante ferramenta analítica para medir a capacidade do governo de alcançar a estabilidade econômica, particularmente seu papel no fortalecimento da estabilidade do mercado de trabalho. A eficácia da política fiscal manifesta-se em sua capacidade de utilizar seus principais instrumentos, tais como a despesa pública e a política tributária, para influenciar a demanda agregada e estimular a atividade econômica. Quando os gastos públicos são direcionados para setores produtivos, infraestrutura e investimentos intensivos em mão de obra, contribuem para a criação de novas oportunidades de emprego e a redução das taxas de desemprego, o que, por sua vez, aumenta a estabilidade do mercado de trabalho. Além disso, uma política tributária equilibrada pode incentivar o investimento privado e apoiar projetos econômicos, o que afeta positivamente os níveis de emprego. A avaliação do desempenho da política fiscal também ajuda a revelar a eficiência da alocação de recursos públicos e sua capacidade de lidar com desequilíbrios estruturais no mercado de trabalho. Se a política fiscal for caracterizada por flexibilidade e capacidade de resposta aos ciclos econômicos, ela pode ajudar a reduzir as flutuações nos níveis de emprego e renda. Nesse contexto, a eficiência da política fiscal representa um fator-chave para alcançar o equilíbrio entre a oferta e a demanda de mão de*

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**Keywords:** Fiscal Policy. Labor Market Stability. Public Expenditure. Taxation Policy. Employment Generation.

*obra, ao mesmo tempo em que fortalece a estabilidade social e econômica. Portanto, avaliar o desempenho da política fiscal é um indicador importante para julgar a capacidade do Estado de gerenciar o mercado de trabalho e alcançar níveis de emprego mais eficazes e sustentáveis.*

***Palavras-chave:*** *Estabilidade do Mercado de Trabalho. Despesas Públicas. Política Tributária. Geração de Emprego.*

## 1 INTRODUCTION

Fiscal policy constitutes one of the principal instruments through which governments guide economic activity toward achieving economic and social stability. This occurs through its direct impact on aggregate demand levels and the allocation of resources among different sectors. In this context, evaluating the performance of fiscal policy represents a crucial analytical tool for measuring the efficiency of its main instruments—such as public expenditure and tax policy—and their ability to achieve macroeconomic objectives, including strengthening stability in the labor market.

In this regard, directing public expenditure toward productive sectors, such as infrastructure projects and labor-intensive investments, can generate a multiplier effect in creating employment opportunities and stimulating economic growth. This, in turn, enhances labor market flexibility and reduces fluctuations in employment rates. Likewise, a balanced tax policy contributes to encouraging private investment and increasing demand for labor by reducing tax distortions and improving production incentives, thereby lowering cyclical fluctuations in employment levels.

On the other hand, evaluating fiscal policy performance allows for an in-depth analysis of its effectiveness in addressing structural imbalances in the labor market, whether through supporting productive sectors or through expenditure programs aimed at promoting employment and redistributing income. It also reveals the degree of flexibility of fiscal policy in responding to economic cycles, thereby limiting fluctuations that affect income and employment. Accordingly, studying the impact of fiscal policy on labor market stability represents an essential theoretical approach for understanding the

relationship between fiscal policies and labor market dynamics, which in turn helps formulate strategies that enhance economic stability.

### 1.1 Research problem

The research problem centers on the question of the extent to which evaluating the performance of fiscal policy—through its instruments represented by current and investment public expenditures and tax policy—contributes to enhancing labor market stability and influencing employment and unemployment levels.

### 1.2 Importance of the study

The importance of this research stems from the growing significance of fiscal policy in managing economic activity and achieving economic and social stability. Evaluating fiscal policy performance helps reveal the efficiency of utilizing public resources and their capacity to support economic activity and provide employment opportunities.

The study is also important because it highlights the relationship between fiscal policy instruments and labor market stability, thereby helping to understand the role of public spending and tax policies in influencing employment and unemployment levels. In addition, the research provides an analytical framework that may assist economic policymakers in adopting more effective fiscal policies to enhance labor market stability.

### 1.3 Objectives of the study

This research seeks to achieve several scientific objectives, most notably:

1. Analyzing the concept of fiscal policy performance evaluation and identifying the most important indicators used to measure it;
2. Clarifying the nature of the relationship between fiscal policy instruments and labor market stability;
3. Explaining the role of public expenditure and tax policy in influencing employment and unemployment levels;

4. Analyzing the ability of fiscal policy to reduce labor market fluctuations and enhance economic stability;
5. Providing an analytical framework that clarifies the impact of evaluating fiscal policy performance on achieving labor market stability.

### 1.4 Study hypothesis

The research is based on a main hypothesis stating that improvements in fiscal policy performance and the efficiency of employing its instruments—particularly public expenditure and tax policy—contribute positively to enhancing labor market stability by increasing employment levels and reducing fluctuations in unemployment rates.

From this main hypothesis emerge several sub-hypotheses that assume the existence of a positive relationship between the efficiency of directing public expenditure toward productive sectors and labor market stability, in addition to the significant role of a balanced tax policy in stimulating private investment and enhancing employment opportunities.

### 1.5 Study limits

1. **Temporal limits:** The study covers the period **(2004–2024)**, as this timeframe represents a stage that witnessed fundamental transformations in fiscal and economic policies;
2. **Spatial limits:** The spatial dimension of the study is represented by **the Iraqi economy**.

### 1.6 Study methodology

The research adopts a **deductive approach** and a **descriptive–analytical method** to present the theoretical aspect of the study variables, analyze fiscal policy performance, and identify its strengths and weaknesses. The study also relies on data and statistics that are analyzed based on economic reports and data issued by relevant governmental and international institutions.

Furthermore, the study employs a **quantitative approach** using economic and statistical data for economic analysis in order to interpret the evaluation of the relationship between fiscal policy and unemployment rates.

### 1.7 Structure of the study

In order to achieve the research objectives and test its hypothesis, the study is organized into **three sections**, as follows:

## 2 THEORETICAL AND CONCEPTUAL FRAMEWORK

### 2.1 The concept of fiscal policy performance evaluation, its importance, and its objectives

Evaluating the performance of fiscal policy plays a fundamental role in determining the extent to which the state is capable of managing its resources and directing public expenditure to achieve its economic and social objectives. The importance of such evaluation has increased in light of the challenges facing public policy, particularly in developing economies that suffer from limited public revenues and increasing expenditure pressures.

Fiscal policy performance evaluation refers to a **comprehensive and systematic analytical process** aimed at assessing the efficiency and effectiveness of the financial instruments adopted by the government—such as taxes, public spending, and public debt—in achieving macroeconomic objectives, including economic growth, price stability, income distribution, and the reduction of unemployment rates. This process covers both quantitative and qualitative aspects of fiscal policy and also takes into account the impact of policies on financial sustainability and social justice.

Fiscal policy performance evaluation has been defined as **“a quantitative and qualitative analysis of the extent to which fiscal policy instruments such as taxation and public expenditure succeed in achieving the objectives of economic stability, growth, and equitable distribution in resource utilization”** (Musgrave, 1989, p. 45).

Evaluating fiscal policy performance is also considered one of the main pillars in shaping effective economic policies, as it serves as an analytical tool used to determine the efficiency of fiscal policy in achieving the economic and social objectives of the state. Its importance arises from several theoretical and practical considerations, foremost among them the pivotal role of fiscal policy in guiding economic activity and achieving balance between revenues and expenditures, thereby influencing indicators of stability and growth.

From a theoretical perspective, **Keynesian economic thought** indicates that fiscal policy—particularly during periods of recession—plays a fundamental role in stimulating aggregate demand through increasing public expenditure or reducing taxes, which leads to economic recovery and higher employment levels. However, unless the effectiveness of these measures is carefully evaluated, they may produce adverse outcomes, such as increased fiscal deficits or rising inflation (Keynes, 1936, p. 526).

At the practical level, performance evaluation represents a systematic method for determining whether fiscal policy is consistent with the declared objectives of economic plans and the extent of its efficiency in using available financial resources and achieving distributive justice among members of society.

The importance of fiscal policy evaluation also increases in economies where the public budget suffers from structural imbalances, such as a high dependence on oil revenues, inflated current expenditures, and weak non-oil revenues. These conditions require accurate evaluation tools to monitor performance efficiency and correct fiscal paths when necessary. Moreover, evaluation serves as a tool for enhancing financial accountability and transparency by revealing the extent to which fiscal objectives have been achieved, measuring the efficiency of resource allocation, and monitoring deviations between planned and actual implementation. This helps decision-makers adopt more effective policies that respond to economic and social realities (Abdul Hassan, 2021, p. 88).

The importance of evaluating fiscal policy performance is reflected in several key aspects (Rosen&Gayer, 2014, p. 131):

1. **Achieving fiscal discipline:** Evaluation helps control levels of deficit and public debt through continuous monitoring of expenditures and revenues and ensuring compliance with approved fiscal rules;

2. **Enhancing transparency and accountability:** Evaluation provides a monitoring tool that reveals deviations between fiscal plans and actual implementation;
3. **Improving the efficiency of resource allocation:** Through performance analysis, governments can adjust spending priorities and direct resources toward sectors with higher economic and social returns;
4. **Responding to economic fluctuations:** Evaluation enables fiscal policy to become more flexible in dealing with economic fluctuations and recessionary or inflationary cycles;
5. **Supporting long-term financial planning decisions:** Evaluation provides reliable information that can be used in designing fiscal strategies.

It has also been emphasized that **"the importance of fiscal policy evaluation lies in its role as a tool for ensuring consistency between government financial plans and actual economic outcomes, while also helping to reduce financial risks through efficient spending allocation."** Thus, evaluation represents the element that transforms fiscal policy from merely theoretical instruments into measurable and improvable practices (IMF, 2014, p. 12).

The objectives of fiscal policy performance evaluation are diverse and stem from the need to rationalize financial decision-making, improve the efficiency of public resource allocation, and enhance long-term fiscal sustainability. Evaluation serves as a knowledge bridge between planning and implementation, enabling policymakers to review assumptions, assess outcomes, identify deviations, and take appropriate corrective measures (Al-Amarah&Al-Halfi, 2018, p. 62).

Among the most important objectives are:

1. **Measuring the efficiency of public expenditure**, particularly its ability to direct resources toward activities that generate the highest economic and social returns, such as education, health, and infrastructure;
2. **Analyzing the impact of fiscal policy on macroeconomic indicators**, such as inflation, unemployment, economic growth, and fiscal deficits, which reflect the effectiveness of fiscal policy in achieving overall economic stability. Weak coordination between public spending and revenues may lead to severe economic imbalances affecting macroeconomic performance (Auerbach, 2009, p. 73);

3. **Promoting distributive justice** by examining the impact of expenditures and revenues on different social groups and their role in reducing economic disparities;
4. **Assessing fiscal sustainability**, by evaluating the state's future capacity to finance its expenditures without excessive borrowing or imposing unjustified burdens on future generations.

## 2.2 The concept of labor market stability, unemployment, its causes, types, and economic and social effects

Labor market stability refers to a situation in which a relative balance is achieved between the supply of labor and the demand for it, such that employment levels remain relatively stable while unemployment rates decline toward their natural levels. This reflects the economy's ability to provide sufficient job opportunities for the labor force while limiting sharp fluctuations in employment levels and wages.

Labor market stability is closely linked to the economy's capacity to achieve economic growth capable of generating new employment opportunities that correspond to increases in the size of the labor force. It also depends on the efficiency of economic policies in addressing imbalances that may arise in the labor market, such as high unemployment, skill shortages, or low productivity.

Labor market stability is typically measured through several economic indicators, including the unemployment rate, labor force participation rate, employment rate, and real wage levels. When these indicators remain stable and reflect the economy's ability to absorb the labor force, the labor market can be considered more stable and efficient (Ni'mat Allah, 1999, p. 91).

Unemployment is considered one of the most prominent economic and social problems faced by many countries. It refers to a situation in which an individual is capable of working and willing to do so but cannot find a suitable job despite actively seeking employment. Unemployment is an important indicator of the efficiency of an economy in utilizing its human resources.

Unemployment arises from several economic and structural factors, including weak economic growth, insufficient productive investment, and structural imbalances in

the economy. It may also result from a mismatch between the skills of the labor force and the needs of the labor market—known as **skill mismatch**. Other causes include technological changes that may replace certain types of labor, as well as economic fluctuations and business cycles that sometimes lead to reduced demand for labor. Therefore, addressing unemployment requires effective economic policies aimed at stimulating economic activity and expanding employment opportunities.

Unemployment takes several forms depending on its causes and the nature of the economy, the most prominent of which include:

1. **Frictional unemployment:** This arises from the natural movement of individuals between jobs or from new entrants to the labor market, such as recent graduates. It is usually temporary and short-term because it is associated with the job search process;
2. **Structural unemployment:** This occurs due to a mismatch between workers' skills and labor market requirements or as a result of structural changes in the economy and shifts between sectors;
3. **Cyclical unemployment:** This type is associated with economic fluctuations and business cycles. During economic recessions, demand for goods and services declines, leading to reduced demand for labor and higher unemployment rates;
4. **Seasonal unemployment:** This arises in certain economic activities that depend on specific seasons, such as agriculture and tourism;
5. **Disguised unemployment:** This occurs when more individuals are employed in a job than are actually needed for the level of productivity required.

Unemployment leads to a range of negative economic and social consequences. High unemployment rates reduce income and living standards, which in turn lowers individuals' purchasing power and consumption levels. This can slow economic activity and reduce economic growth rates. Socially, unemployment may increase poverty and inequality, as well as produce psychological and social effects such as insecurity and social anxiety.

High unemployment also increases pressure on public finances due to higher spending on social support programs and unemployment benefits. Therefore, reducing unemployment and achieving labor market stability are among the primary objectives of

economic policies, given their important role in enhancing economic and social stability and achieving sustainable economic development (Borjas, 2016, p. 19).

## 2.3 The relationship between evaluating fiscal policy performance, unemployment, and labor market stability

Unemployment is considered one of the most important macroeconomic indicators reflecting the soundness of a country's economic structure and the depth of its capacity to generate employment opportunities. Unemployment rates are closely linked to the effectiveness of fiscal policy through its instruments—public expenditure, taxation, and public borrowing. Hence, evaluating fiscal policy performance becomes a key entry point for diagnosing its direct and indirect effects on the labor market and determining the extent of its ability to support employment and reduce unemployment.

### *2.3.1 The role of evaluating public expenditure in reducing unemployment*

Public expenditure represents one of the most important instruments influencing employment levels. Government spending, particularly public investment in infrastructure, acts as a direct stimulus to aggregate demand, leading to the expansion of economic activity and an increased demand for labor. However, the impact of public spending on unemployment depends not only on its size but also on its quality and efficiency.

Unproductive or poorly directed expenditure that involves waste does not necessarily generate employment opportunities and may even lead to fiscal imbalances that increase unemployment in the long run. Therefore, evaluating the performance of public expenditure helps in redirecting spending from low-impact consumption items toward productive investments with greater job-creation potential. It also facilitates measuring the employment impact of expenditure, identifying sectors most capable of absorbing labor, and supporting training programs and labor market initiatives in a balanced manner without imposing excessive fiscal pressures. Effective government investment is thus considered one of the main mechanisms for increasing labor demand and reducing cyclical unemployment (Samuelson&Nordhaus, 2001, p. 215).

*2.3.2 Evaluation of tax policy and its impact on employment decisions*

Taxation directly influences corporate behavior and their capacity to expand and employ workers. High taxes on income or profits reduce investment incentives and increase labor costs, which may prompt firms to reduce hiring or shift toward automation.

Evaluating the performance of tax policy contributes to measuring the actual tax burden on the business sector and adjusting taxes in ways that encourage investment and employment. It also supports broadening the tax base rather than increasing the burden on producers, thereby reducing pressures on wages and employment and limiting unemployment resulting from weak economic incentives. Accordingly, tax systems designed on the basis of careful evaluation of their economic effects can help reduce unemployment by stimulating private sector activity (Rosen & Gayer, 2014, p. 292).

*2.3.3 Evaluation of public debt management and its role in reducing unemployment*

Public debt influences unemployment through its effects on interest rates and the capacity of the private sector to expand. High levels of public debt may lead to the **crowding-out effect**, where government demand for credit increases interest rates and reduces firms' ability to borrow for financing employment and investment.

Evaluating fiscal policy performance in the area of public debt helps improve the path of fiscal sustainability and reduce crowding-out effects. It also enables policymakers to determine borrowing levels that support economic growth without harming employment and to restructure public debt in ways that reduce pressure on private investment. Uncontrolled public debt is considered one of the main causes of slow job creation in economies facing structural fiscal problems (Al-Mahjoub, 2003, p. 391).

*2.3.4 Coordination between fiscal and monetary policy and its impact on unemployment*

Reducing unemployment requires close coordination between fiscal policy and monetary policy. The absence of such coordination may lead to counterproductive outcomes, such as fiscal expansion combined with contractionary monetary policy, which weakens the economy's capacity to generate employment.

Regular fiscal evaluation helps reveal inconsistencies between economic policies and supports integration between public expenditure management and monetary liquidity control. It also enhances the effectiveness of stimulus measures directed toward the labor market. Therefore, coordination between economic policies contributes to reducing unemployment by regulating aggregate demand and stimulating economic growth (Mitchell, 2008, p. 157).

## 3 INDICATORS OF FISCAL POLICY PERFORMANCE EVALUATION AND THEIR RELATIONSHIP WITH GDP IN IRAQ FOR THE PERIOD (2004–2024)

### 3.1 Structural indicators of the public budget and their relationship with gross domestic product

Structural indicators of the public budget represent some of the most important tools used in evaluating fiscal policy performance in any country. They reflect the nature of the relationship between the size of public expenditure and public revenues on the one hand, and gross domestic product (GDP) on the other. The essence of these indicators lies in their ability to provide a quantitative picture of the extent of government intervention in economic activity and the degree to which the national economy depends on public revenues to finance economic activity and achieve stability and growth.

In the case of the Iraqi economy, these indicators have gained increased importance after **2003**, due to the restructuring of the economy and the adoption of a **rentier economic pattern** that relies primarily on oil revenues.

#### *3.1.1 Indicator of the ratio of government expenditure to GDP*

This indicator represents one of the most important tools for measuring the size and role of government in influencing the economy. A high ratio indicates that government spending constitutes a significant component of GDP formation, while a lower ratio reflects limited government intervention in economic activity.

In Iraq, this ratio has experienced noticeable fluctuations due to volatility in oil prices, which directly affects the government’s ability to finance public expenditure. This

indicator is considered a dual measure: on one hand, it reflects the strength of the government's role in stimulating growth through investment spending; on the other hand, it may indicate excessive government spending, especially when expenditure is directed toward non-productive current expenditures (Musgrave, 1989, p. 214).

An analysis of the data in Table (3) for the period **2004–2024** shows clear fluctuations reflecting the rentier and cyclical nature of the Iraqi economy. In **2004**, government expenditure amounted to **59.2% of GDP**, which is an extremely high ratio reflecting the limited size of GDP after 2003 compared to the large government spending required for rebuilding state institutions.

However, this ratio gradually declined to **35.3% in 2007**, due to GDP growing at a relatively faster rate than government spending. With the rise in oil prices in **2008**, the ratio increased again to **42.8%**, reflecting fiscal expansion driven by higher oil revenues.

Despite the oil price shock in **2009**, the ratio did not decline sharply, reaching **42.6%**, indicating the adoption of a relatively expansionary fiscal policy aimed at maintaining economic stability, even at the cost of increasing the fiscal deficit.

During the period **2015–2017**, with declining oil prices, the ratio decreased to **36.2% and 33.4%**, reflecting a policy of relative expenditure restraint under fiscal pressure.

In **2020**, despite the **COVID-19 pandemic**, the ratio reached **34.6%**, indicating the state's commitment to maintaining a certain level of expenditure despite shrinking GDP.

In the most recent years **2023 and 2024**, the ratio increased again to **43.2% and 43.4%**, respectively, reflecting clear fiscal expansion supported by improved oil revenues. These relatively high levels indicate the growing role of the state in the economy, but they also raise questions about the efficiency of resource allocation and the sustainability of such levels of spending.

Thus, a persistent rise in this ratio indicates an expansion in the role of the public sector. However, when the increase is associated with oil price cycles, it reflects a **pro-cyclical fiscal pattern**, meaning that fiscal policy moves in line with economic cycles rather than acting as an automatic stabilizer.

*3.1.2 Indicator of the ratio of current and investment expenditure to GDP*

Analyzing government expenditure in its two main components—current and investment expenditure—represents an essential analytical step, as the economic effects of each differ significantly.

- **Ratio of Current Expenditure to GDP**

The table indicates that current expenditure constitutes the largest share of total spending throughout the study period. In **2004**, it reached **51.8% of GDP**, which is a very high level reflecting the nature of reconstruction spending and wage payments.

Although it declined to **29.4% in 2007**, it fluctuated between **26% and 36%** during most of the following years.

In **2020**, current expenditure rose to **33.2% of GDP** due to the crisis associated with the COVID-19 pandemic, implying increased fiscal deficits financed through internal and external borrowing.

In **2023 and 2024**, the ratio reached **35.8% and 36.1%**, respectively. This reflects the dominance of operational expenditures (salaries, subsidies, and transfer payments) in the structure of public spending.

From the perspective of economic stability, high current expenditure can stimulate short-term aggregate demand, but it does not create new productive capacity. Consequently, it may exacerbate inflationary pressures if not accompanied by an expansion in aggregate supply.

- **Ratio of Investment Expenditure to GDP**

Investment expenditure, on the other hand, represents the most important indicator for measuring the developmental dimension of fiscal policy.

Its ratio reached **7.4% in 2004**, then declined to **2.7% in 2006**, before rising significantly to **14.8% in 2013**, which was the highest level during the study period. This increase reflected an expansionary orientation toward public investment during a period of financial abundance.

However, the ratio dropped sharply to **1.5% in 2020**, an extremely low level reflecting the pressures of the financial crisis and declining fiscal capacity.

In recent years (**2023 and 2024**), the ratio stabilized at **7.3%**, representing a relative improvement, though it still remains below previous peak levels.

This analysis clearly shows that the decline in investment expenditure relative to the rise in current expenditure indicates a **structural imbalance in the composition of public spending**, where consumption-oriented expenditure dominates over developmental expenditure. This weakens the ability of fiscal policy to achieve long-term stability based on economic growth.

By examining these two indicators together, several conclusions can be drawn:

- The size of the state in the Iraqi economy is relatively large and moves cyclically with oil prices;
- The expenditure structure clearly favors current expenditures;
- Fluctuations in investment expenditure reflect weak medium-term planning.

Therefore, enhancing economic stability requires not only controlling the overall level of expenditure but also **restructuring its components in a way that strengthens productive investment spending while limiting unproductive current expenditure**.

**Table 1**

*Government Expenditure (Current and Investment) and Its Ratio to Gross Domestic Product in Iraq for the Period (2004–2024)*

| Investment Expenditure to GDP (%) | Current Expenditure to GDP (%) | Government Expenditure to GDP (%) | GDP (Million IQD) | Investment Expenditure (Million IQD) | Current Expenditure (Million IQD) | Government Expenditure (Million IQD) | Year |
|---|---|---|---|---|---|---|---|
| 7.4 | 51.8 | 59.2 | 53,235,358 | 3,924,260 | 27,597,167 | 31,521,427 | 2004 |
| 5.1 | 36.8 | 41.9 | 73,533,598 | 3,765,018 | 27,066,124 | 30,831,142 | 2005 |
| 2.7 | 36.5 | 39.2 | 95,587,954 | 2,576,852 | 34,917,607 | 37,494,459 | 2006 |
| 5.9 | 29.4 | 35.3 | 111,455,813 | 6,588,511 | 32,719,837 | 39,308,348 | 2007 |
| 9.5 | 33.3 | 42.8 | 157,026,061 | 14,976,016 | 52,301,181 | 67,277,197 | 2008 |
| 7.4 | 35.2 | 42.6 | 130,643,200 | 9,648,658 | 45,941,063 | 55,589,721 | 2009 |
| 9.6 | 33.7 | 43.3 | 162,064,565 | 15,553,341 | 54,580,860 | 70,134,201 | 2010 |
| 8.2 | 28.0 | 36.2 | 217,327,107 | 17,832,114 | 60,925,554 | 78,757,668 | 2011 |
| 11.5 | 29.8 | 41.4 | 254,225,490 | 29,350,954 | 75,788,622 | 105,139,576 | 2012 |
| 14.8 | 28.8 | 43.5 | 273,587,529 | 40,380,750 | 78,746,805 | 119,127,555 | 2013 |
| 13.3 | 29.3 | 42.6 | 266,332,655 | 35,487,351 | 77,986,166 | 113,473,517 | 2014 |
| 9.5 | 26.6 | 36.2 | 194,680,971 | 18,564,676 | 51,832,838 | 70,397,514 | 2015 |
| 8.1 | 26.0 | 34.1 | 196,924,141 | 15,894,008 | 51,173,425 | 67,067,433 | 2016 |
| 7.3 | 26.1 | 33.4 | 225,722,375 | 16,464,461 | 59,025,654 | 75,490,115 | 2017 |
| 5.5 | 26.7 | 32.2 | 251,064,479 | 13,820,332 | 67,052,856 | 80,873,188 | 2018 |
| 8.8 | 31.6 | 40.5 | 276,157,867 | 24,422,590 | 87,300,932 | 111,723,522 | 2019 |
| 1.5 | 33.2 | 34.6 | 219,768,798 | 3,208,905 | 72,873,537 | 76,082,442 | 2020 |
| 4.4 | 29.7 | 34.2 | 301,152,818 | 13,322,973 | 89,526,686 | 102,849,659 | 2021 |
| 3.1 | 27.4 | 30.5 | 383,064,152 | 12,018,491 | 104,941,090 | 116,959,581 | 2022 |
| 7.3 | 35.8 | 43.2 | 330,046,390 | 24,192,859 | 118,242,777 | 142,435,636 | 2023 |
| 7.3 | 36.1 | 43.4 | 347,165,901 | 25,313,302 | 125,214,044 | 150,527,346 | 2024 |

Source:

- Columns (2, 3, 4): Ministry of Finance / Economic Department, *Economic and Statistical Report*, various years.
- Column (5): Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, reports for various years.
- Columns (6, 7, 8): Calculated by the researcher based on the data in columns (2, 3, 4).

## 4 LABOR MARKET STABILITY INDICATOR

### 4.1 Unemployment rate indicator and labor market stability

#### *4.1.1 General analytical framework of unemployment according to Table (2)*

Table (2) reflects the development of unemployment in Iraq during the period **(2004–2024)**, a period characterized by significant economic and structural fluctuations. It should be noted that the analysis of unemployment is not limited to the level of the unemployment rate alone; rather, it extends to include the **dynamics of annual changes**

**in unemployment** (upward and downward trends) and the **unemployment gap**, which expresses the extent to which actual unemployment deviates from its natural or targeted level. This approach makes the analysis more closely related to the concept of **economic stability**.

*4.1.2 Analysis of the level of the unemployment rate and its time trends*

In the **first phase**, a sharp rise and instability can be observed during the years **(2004–2007)**. In **2004**, the unemployment rate reached **26.8%**, which represents the highest level in the time series and reflects a profound imbalance in the labor market. During the period **(2005–2007)**, the rate declined gradually to **18% in 2005**, then to **17.5% in 2006**, and finally to **11.7% in 2007**.

This sharp decline coincided with significant negative rates of change in unemployment, reaching **–8.8% in 2005** and **–5.8% in 2007**, while the unemployment gap shifted from **positive (12.6%) in 2004** to **negative (–2.5%) in 2007**. This indicates a rapid improvement in labor market absorption; however, it was not necessarily stable, as such rapid declines are often driven by temporary factors rather than sustained structural improvements.

The **second phase** represents a period of **fluctuation around a moderate level during (2008–2016)**. Beginning in **2008**, the unemployment rate rose again to **15.3%**, with a **positive change rate of 3.6%** and a **positive unemployment gap of 1.1%**, indicating renewed pressures on the labor market.

During the period **(2009–2016)**, unemployment rates experienced relative stability within a range between a **lowest level of 10.5% in 2014** and a **highest level of 12% in 2011**. In this phase, most annual change rates were negative or close to zero. Meanwhile, the unemployment gap remained consistently negative, ranging between **–3.1% in 2009** and **–3.4% in 2016**.

This situation reflects an apparent stability in unemployment levels. However, the negative unemployment gap suggests that this stability was not necessarily the result of high labor market efficiency; rather, it may reflect **structural distortions or an expansion in low-productivity or non-productive employment**.

During the period **(2017–2022)**, unemployment variables indicated a renewed increase in labor market pressures. In **2017**, the unemployment rate rose to **14.8%**, accompanied by the **highest positive change rate in the series (4%)**, while the unemployment gap turned positive at **0.6%**.

Unemployment then increased significantly in **2021**, reaching **16.5%**, with an annual change rate of **2.8%** and an unemployment gap of **2.3%**. In **2022**, the unemployment rate increased further to **17.6%**, with an annual change rate of **1.1%** and an unemployment gap of **3.4%**.

These figures clearly reflect a deterioration in labor market stability, as rising unemployment rates are accompanied by **expanding positive unemployment gaps**, indicating the inability of the economy to generate sufficient employment opportunities relative to the size of the labor force.

During the period **(2023–2024)**, the labor market experienced **relative improvement without full stability**. In **2023**, the unemployment rate declined to **16.7%**, with an annual change rate of **–0.9%** and an unemployment gap of **2.5%**. In **2024**, the rate decreased further to **14.3%**, with an annual change rate of **–2.4%** and a gap of **0.1%**.

This indicates a relative improvement in the labor market. However, it does not necessarily reflect the achievement of full equilibrium and stability; rather, it indicates that actual unemployment has approached its reference level without eliminating structural imbalances.

On the other hand, the analysis of **annual changes in unemployment** reveals that unemployment in Iraq is **highly sensitive to economic shocks** and lacks a stable long-term downward trajectory. Periods of sharp decline—such as **2005, 2007, and 2024**—are offset by periods of strong increases—such as **2008, 2017, and 2021**. This pattern reflects the limited capacity of economic policies to stabilize the labor market and suggests that unemployment dynamics depend more on short-term factors than on sustained productive growth.

*4.1.3 Significance of the unemployment gap in the context of economic stability*

The **positive unemployment gap** observed during the periods **(2004, 2008, 2017, 2021, and 2023)** indicates that actual unemployment exceeded the economically acceptable level, which reflects an imbalance in economic stability.

Conversely, the **negative unemployment gap** during the period **(2007–2020)** reflects a situation where unemployment appears lower than the reference level. However, the persistence of a negative gap over a prolonged period may indicate **structural distortions in the labor market or an expansion of low-productivity employment**.

Therefore, the **unemployment gap is considered a deeper and more comprehensive indicator than the unemployment rate itself**, as it reveals not only the **size of employment** but also the **quality and efficiency of labor market absorption**.

**Table 2**

*Unemployment Rate, Annual Rate of Change, and the Unemployment Gap in Iraq for the Period (2004–2024)*

| Unemployment Gap (%) | Annual Change in Unemployment (%) | Unemployment Rate (%) | Year |
|---|---|---|---|
| 12.6 | — | 26.8 | 2004 |
| 3.8 | -8.8 | 18.0 | 2005 |
| 3.3 | -0.5 | 17.5 | 2006 |
| -2.5 | -5.8 | 11.7 | 2007 |
| 1.1 | 3.6 | 15.3 | 2008 |
| -3.1 | -4.2 | 11.1 | 2009 |
| -3.2 | -0.1 | 11.0 | 2010 |
| -2.2 | 1.0 | 12.0 | 2011 |
| -2.3 | -0.1 | 11.9 | 2012 |
| -3.2 | -0.9 | 11.0 | 2013 |
| -3.7 | -0.5 | 10.5 | 2014 |
| -3.6 | 0.1 | 10.6 | 2015 |
| -3.4 | 0.2 | 10.8 | 2016 |
| 0.6 | 4.0 | 14.8 | 2017 |
| -0.4 | -1.0 | 13.8 | 2018 |
| -1.4 | -1.0 | 12.8 | 2019 |
| -0.5 | 0.9 | 13.7 | 2020 |
| 2.3 | 2.8 | 16.5 | 2021 |
| 3.4 | 1.1 | 17.6 | 2022 |
| 2.5 | -0.9 | 16.7 | 2023 |
| 0.1 | -2.4 | 14.3 | 2024 |

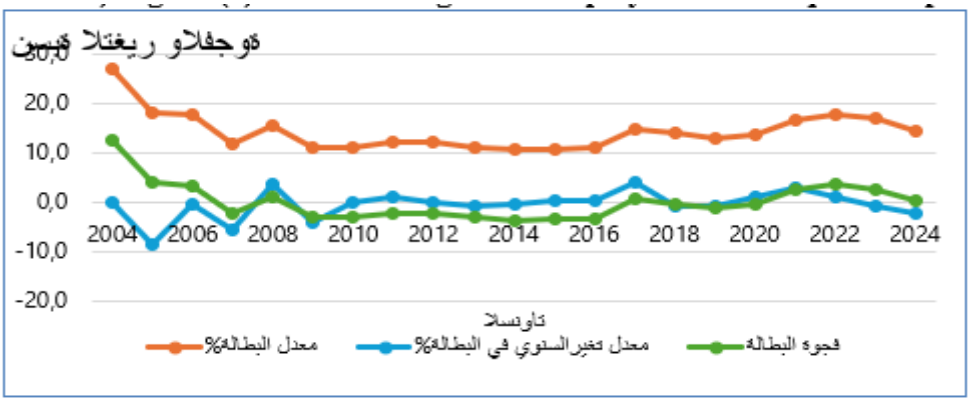
Total Unemployment Rate: 298
Total / Number of Years: 298 ÷ 21
Average Unemployment Rate: 14.21%

Source:

- Column (2): Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, statistical bulletins for various years.
- Columns (3) and (4): Calculated by the researcher based on the data in column (2).

**Figure 1**

*Rate of change in unemployment in Iraq for the period* **(2024-2004)**




Source: From the researcher's work based on the data in Table **(2)**

## 5 EVALUATING THE PERFORMANCE OF THE RELATIONSHIP BETWEEN FISCAL POLICY AND LABOR MARKET STABILITY

The data presented in Table (3), which concern government expenditure in Iraq and unemployment rates during the period (2004–2024), indicate that fiscal policy experienced a noticeable expansion in public spending. However, its impact on the labor market and economic stability was uneven and inconsistent. In the early years of the period under study, the government increased the volume of public expenditures, which amounted to (31,521,427) million Iraqi dinars in 2004 and then rose to approximately (67,277,197) million dinars in 2008. Nevertheless, unemployment remained relatively high, as its rate declined only modestly from (26.8%) to (15.3%). This suggests that most of these expenditures were directed toward current spending (such as salaries, transfers, and subsidies), while investment spending was insufficient to generate productive employment opportunities capable of absorbing the labor force.

During the period (2009–2014), the impact of fiscal policy became more evident, as investment spending increased significantly. It reached approximately (9,648,658) million dinars in 2009 and continued to rise until it reached (35,487,351) million dinars

in 2014. This development was reflected in a decline in unemployment rates to (10.5%), which represents the lowest level recorded over nearly two decades. It can therefore be argued that this period represented the most effective phase of fiscal policy in stimulating economic activity and generating employment opportunities, particularly in light of improved oil prices and the availability of financial resources.

However, the subsequent period (2015–2020) witnessed major challenges, most notably the financial crisis resulting from the collapse of oil prices and the prevailing security instability. These factors led to a significant decline in investment spending, which dropped to approximately (3,208,905) million dinars in 2020. This decline was accompanied by a rise in the unemployment rate once again to (13.7%). This situation highlights that the weakness of public investments considerably limited the ability of fiscal policy to address the unemployment problem, as most public expenditures were largely confined to covering wages and operational expenses.

In the period (2021–2024), the volume of public expenditures increased to record levels, reaching approximately (150,527,346) million dinars in 2024, which represents the highest level during the period under study. Despite this expansion, unemployment rates did not decline significantly, remaining within the range of (14%–17%). This indicates that the majority of expenditures continued to be directed toward current spending rather than productive investments capable of generating sustainable employment opportunities. Consequently, the relationship between government spending and unemployment remained weak and unstable due to the inefficient structure of expenditures and the limited focus on productive investment.

Based on the above, it can be concluded that fiscal policy performance in Iraq has not achieved the desired impact in reducing unemployment and ensuring sustained economic stability. This is mainly attributed to two key factors: first, the dominance of current expenditures within the structure of the public budget; and second, the heavy dependence of public revenues on oil revenues and the volatility of oil prices. These factors have made fiscal policy vulnerable to external shocks and limited its ability to implement long-term spending strategies. The findings therefore emphasize that achieving economic stability in Iraq requires redirecting public expenditures toward investment projects, infrastructure development, and human capital development, as these

areas are more capable of reducing unemployment and generating real employment opportunities that contribute to economic growth and stability.

**Table 3**

*The Importance of the Relationship Between Government Expenditure and Unemployment Rates in Iraq for the Period (2004–2024)*

| Unemployment Rate (%) | Investment Expenditure (Million Dinars) | Current Expenditure (Million Dinars) | Total Public Expenditure (Million Dinars) | Years |
|---|---|---|---|---|
| 26.8 | 3,924,260 | 27,597,167 | 31,521,427 | 2004 |
| 18.0 | 3,765,018 | 27,066,124 | 30,831,142 | 2005 |
| 17.5 | 2,576,852 | 34,917,607 | 37,494,459 | 2006 |
| 11.7 | 6,588,511 | 32,719,837 | 39,308,348 | 2007 |
| 15.3 | 14,976,016 | 52,301,181 | 67,277,197 | 2008 |
| 11.1 | 9,648,658 | 45,941,063 | 55,589,721 | 2009 |
| 11.0 | 15,553,341 | 54,580,860 | 70,134,201 | 2010 |
| 8.3 | 17,832,114 | 60,925,554 | 78,757,668 | 2011 |
| 11.9 | 29,350,954 | 75,788,622 | 105,139,576 | 2012 |
| 11.0 | 40,380,750 | 78,746,805 | 119,127,555 | 2013 |
| 10.5 | 35,487,351 | 77,986,166 | 113,473,517 | 2014 |
| 10.6 | 18,564,676 | 51,832,838 | 70,397,514 | 2015 |
| 10.8 | 15,894,008 | 51,173,425 | 67,067,433 | 2016 |
| 14.8 | 16,464,461 | 59,025,654 | 75,490,115 | 2017 |
| 13.8 | 13,820,332 | 67,052,856 | 80,873,188 | 2018 |
| 12.8 | 24,422,590 | 87,300,932 | 111,723,522 | 2019 |
| 13.7 | 3,208,905 | 72,873,537 | 76,082,442 | 2020 |
| 16.5 | 13,322,973 | 89,526,686 | 102,849,659 | 2021 |
| 17.6 | 12,018,491 | 104,941,090 | 116,959,581 | 2022 |
| 16.7 | 24,192,859 | 118,242,777 | 142,435,636 | 2023 |
| 14.3 | 25,313,302 | 125,214,044 | 150,527,346 | 2024 |

Source:

- Columns (2, 3, 4): Ministry of Finance, Economic Department, *Economic Reports for Various Years*.
- Column (5): Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, *Statistical Bulletins for Various Years*.

## 6 CONCLUSIONS

### 6.1 Findings

1. The analysis of the relationship between fiscal policy and the labor market indicates that the efficiency of fiscal policy is one of the key determinants of labor market stability. The effectiveness of fiscal policy instruments, particularly public expenditure, directly contributes to stimulating economic activity and increasing

aggregate demand, which in turn leads to the creation of new employment opportunities and a reduction in unemployment rates. Therefore, evaluating the performance of fiscal policy represents an important indicator for measuring the government's ability to achieve stability in the labor market;

2. The results show that the weak efficiency of public financial resource allocation limits the effectiveness of fiscal policy in addressing unemployment. Expansion in public expenditure that is non-productive or directed toward consumption rather than investment does not positively contribute to the creation of sustainable employment opportunities, which leads to the persistence of labor market imbalances and higher levels of structural unemployment;
3. It is evident that labor market stability does not depend solely on the size of public expenditure, but also on its quality and efficiency. Directing fiscal policy toward labor-intensive productive sectors such as industry, agriculture, and productive services contributes more significantly to employment stability compared with non-productive current expenditure;
4. The results of the analysis of the relationship between fiscal policy and the labor market confirm that weak coordination among fiscal instruments reduces the effectiveness of efforts aimed at reducing unemployment. Achieving overall economic stability requires integration among fiscal policy tools to ensure sustainable economic growth and higher levels of employment.

### 6.2 Recommendations

1. The need to enhance the efficiency of fiscal policy performance evaluation by adopting clear quantitative indicators to measure the impact of fiscal policies on the labor market, such as job creation indicators, the employment-to-population ratio, and unemployment rates. This would contribute to improving the design of fiscal policies and directing them toward achieving labor market stability;
2. Directing fiscal policy toward increasing productive investment expenditure, particularly in labor-intensive economic sectors, which would contribute to expanding the productive base of the national economy and achieving economic growth capable of absorbing the labor force and reducing unemployment rates;

3. Strengthening coordination and integration between fiscal policy and monetary policy in order to achieve macroeconomic stability. Sustainable economic growth requires a stable economic environment that supports investment and production and increases employment opportunities;
4. Adopting fiscal programs aimed at developing human capital, such as increasing expenditure on education and vocational and technical training. This would improve the skills of the labor force and align them with labor market requirements, thereby reducing structural unemployment and enhancing labor market stability.

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## Authors' Contribution

All authors contributed equally to the development of this article.

## Data availability

All datasets relevant to this study's findings are fully available within the article.

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