
| RESEARCH ARTICLE

The Impact of Public Spending (Expenditures) on Economic Growth in Iraq for the Period 2004-2019

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| ABSTRACT

Although public expenditures are a tool used by the state to manage public revenues and satisfy public needs, they are one of the most important tools of the country's financial policy, through which the state intervenes in economic and social life and translates the objectives of economic policy into real projects and programs of work. It is possible to assess the performance of the government by studying and analyzing the development and structure of the general budget, and despite the high volume of public expenditures in Iraq during the research period, the state was not able to achieve the economic and social goals represented by achieving high rates of growth and economic and social balance, as there was an imbalance in the structure of public expenditures, and this leads to an imbalance in the public budget, which reinforced its deepening, which is also reflected in the imbalance in the economic structure of the country.

| KEYWORDS

Public expenditures, economic growth, GDP, average per capita, standard model.

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1. Introduction

Public spending (expenditures) is one of the tools of financial policy as it expresses the state's role in interfering in economic life and directing economic activity to achieve economic growth. Public spending (expenditures) is one of the state's tools through which it seeks to increase production, achieve economic and social goals and achieve stability through a balance between supply and demand. It is known that the process of economic development leads to structural changes that lead to the transition from a state of underdevelopment to a state of development, and the state aims from its various economic plans, which it adopts, to advance its production in all economic sectors to raise the growth rates of national output and income. From this point of view came the selection of the research tagged (The impact of public spending (expenditures) on economic growth in Iraq for the period 2004-2019) because public spending, especially investment, has a critical and important role in achieving economic growth by identifying public spending, its relationship and role in achieving growth for all economic sectors that make up the GDP, and economic growth is one of the most important topics that occupy all countries of the world today.

1.1 Research problem

As a result of the difficult security, economic and political conditions that Iraq witnessed, and the deterioration of its general economy, as well as its lack of a wide and diversified production base and government spending that is a consumer and non-productive, and therefore all these factors have made economic growth, not at the required level.

1.2 Research hypothesis

There is a direct, statistically significant relationship between government spending and economic growth.

1.3 The importance of the research

The importance of the research stems from the important role of government spending in stimulating economic growth, and this research tries to shed light on this role and give a clear vision of the Iraqi economy.

1.4 Research Objective

The research aims at the following:

- 1- Analyzing the relationship between government spending and gross domestic product in the Iraqi economy.
- 2- Analysis of the relationship between government spending and the average per capita share in the Iraqi economy.

Spatial boundaries: the Iraqi economy

Time limits: 2004-2018

1.5 Research method

The research combines the descriptive and analytical methods in presenting the economic facts contained in the research, as well as the quantitative method in building standard models.

1.6 Structure of the research

The research was divided into three chapters; the first chapter dealt with the conceptual framework of public spending (Expenditure) and economic growth, while the second chapter included an analysis of the reality of public spending and economic growth in the Iraqi economy, while the third chapter dealt with the assessment and analysis of the relationship between public spending and economic growth in Iraq.

2. The Conceptual Framework for Public spending (Expenditure) and Economic Growth.

2.1 The concept of public spending (Expenditure):

Public spending is one of the variables of aggregate demand, as it is affected by economic conditions in varying degrees, so decision users try to adapt public spending rates to suit basic needs, and financial thought includes many definitions of public spending (expenditures). Among the most important of these definitions, public spending is all payments and purchases made by different government agencies, as it includes payments and purchases that the private sector cannot provide but are important for the public interest as a whole. Examples include spending on defense, infrastructure, health, education, and social welfare payments (Tata, 2007,21).

It also defines public spending as a sum of money that comes out of the financial liability of a public legal person with the aim of satisfying public needs (Muhammad, 2013, 4).

In addition, public spending is defined as a sum of money spent by the state for the purpose of achieving a public benefit (Al-Obaidi, 2011, 56).

Also, the prevailing concept of economists for public spending as "a monetary amount paid by a public person in order to satisfy public needs" (Al-Wadi, 2009, 100).

2.2 Types of spending (Expenditure)

Public spending can be divided into two main parts, which can be represented as follows: (Daoud et al., 559: 2000).

- 1- **Consumer spending:** General consumer spending consists of two parts. The first includes the services provided by states to members of society and the means associated with these services, which include wages, salaries, and military expenditures. The second type is the aid and subsidies provided by the state to projects and individuals, usually called transformational expenditures.
- 2- **Investment spending:** Investment spending is the second component of income (individual income) after consumption, and its exposure to fluctuations affects the overall economy. Investment in its general sense is a stream of spending on new fixed capital goods and services such as machinery, factories, roads, intermediate goods, and new construction during a period, or it is spending on capital equipment for periods of time that are more than a year or building projects.

2.3 The concept of economic growth

Economic growth represents the tangible summation of economic and non-economic efforts in society, which is a necessary but not sufficient condition to improve the standard of living for individuals. According to the different viewpoints of researchers and economic writers, some of them defined it as the expansion of the real output or the expansion of the per capita share of the real national product, and it thus reduces the burden of lack of resources (Mohammed, 2013, 5).

In addition, economic growth is defined as a positive expression in the level of production of goods and services in a country during a specific period of time, usually a year (Boulhiyeh, 2016, 93).

Economic growth is also defined as a subjective process in which real income is doubled cumulatively and continuously through an extended period of time so that this increase in real income is greater than the rate of population growth (Al-Mamouri et al., 2016, 102).

Finally, economic growth represents the expansion of the expected gross domestic product under the full employment of resources or the national product of a country (Samuelson, and Nordhaus, 2001, 86).

2.4 Types of economic growth

There are many types of economic growth, so it is possible to distinguish between three types of economic growth as follows (Al-Rashdan, 2008, 51).

- 1- **Spontaneous or natural growth:** it is the growth that occurs spontaneously in the manner of economic freedom and requires great flexibility from the economic structure in order for the economic variables to interact in the country in which it occurs automatically without relying on economic plans and this type of growth has been followed by advanced capitalist countries since The Industrial Revolution.
- 2- **Transient growth:** Transient growth occurs as a result of temporary emergency factors, usually external factors, as they quickly disappear, and when these factors are eliminated, the growth that they caused will disappear with them; that is, it is the one who has the character of continuity and stability, because this growth takes place in the light of rigid social and cultural structures, which makes it unable to create many effects of multiplier and accelerator, or leads to perpetuating the phenomenon of growth by development, which prevails in most developing countries in general and Arab countries in particular.
- 3- **Planned growth:** This type of growth occurs with the intervention of the state by setting up a comprehensive planning process for the resources and requirements of society, with the capabilities of the planners and the realism of the drawn plans. It is also linked to the effectiveness of implementation, and the effectiveness of this pattern is closely related to follow-up in the planning process at all levels.

3. Analyzing the impact of public spending on economic growth in Iraq

3.1 An analysis of the reality of public spending in Iraq for the period (2004-2019)

The path of public spending in Iraq can be known through Table (1), as it is clear that public expenditures amounted to (321174919) million dinars in (2004). This stage was characterized by the lifting of the economic sanctions that Iraq was suffering from before (2003), which enabled Iraq To increase the exports of the oil sector, and thus the entry of new revenues into Iraq represented by hard currency, which increased government expenditures during that period. It is noted that the rate of government spending began to rise after (2004), and the reason for this is due to the increase in oil revenues. (Abd et al., 200, 2019).

Public expenditures continued to rise, as they rose in 2007 to reach (39031232) million dinars. This rise is due to the increase in oil revenues, which constitute the main financier of public spending. In 2014, the value of public spending decreased to (80473517) million dinars and the reason for the decrease in the value of public spending compared to its counterpart in the year 2013 to the failure to approve the 2014 budget (Central Bank of Iraq, 2014, 70).

Table (1): The impact of public spending on economic growth in Iraq for the period (2004-2019) million dinars

average per capita	Gross domestic product	public expenditure	the years
1961509	53235358	32117491	2004
2629674	73533598	26375175	2005
3274233	95587954	38806679	2006
3754986	111455813	39031232	2007
5135262	157026061	59403375	2008
4125861	130643200	65658000	2009
4988141	162064565	73823000	2010
6518752	217327107	86662767	2011
7431918	254225490	105139576	2012
7795455	273587529	109128000	2013
7648994	266332655	80473517	2014
5528730	194680971	80473517	2015

5444537	196924141	70571003	2016
5968459	225722375	70990115	2017
6685263	251064479	72052900	2018
7102012	277884011	32117491	2019

Source: Prepared by the researcher based on: Ministry of Planning, Central Statistical Organization, Annual Statistical Bulletin, separate years.

The values of public spending continued to decline during the years 2015 and 2016, as the values of public spending amounted to (8047351770571003) million dinars due to the deterioration of the security situation since June 2014, which was represented by the occurrence of three governorates under the control of terrorist groups (Ministry of Planning, 2016; 4) It also continued The decline in the values of public expenditures, which amounted to about (32117491) dinars in 2019, and the reason for this decline was the epidemic that swept the world during this year.

3.2 Analysis of the reality of the gross domestic product in Iraq for the period (2004-2019)

The reality of GDP in Iraq can be observed through what Table (1) indicates for the period (2004-2019), as it is noted that the gross domestic product amounted to about (532353558) million dinars in 2004, as it appears that the trend of the gross domestic product to increase and this is evident during the year 2007 As it amounted to about (111455813) million dinars, as it was linked to a large extent in the production of the crude oil sector, and this reflects a major imbalance in the production structure that makes the Iraqi economy and its stability subject to fluctuations that occur in the global oil markets. Also, the dominance of the oil sector over the Iraqi economy will leave imbalances future economic and market.

The GDP also continued to rise, reaching 2013 about (273587529) million dinars, which is the highest value of the GDP during the study period (2004-2019). For the years (2015 and 2016), the values of the gross domestic product (GDP) decreased, reaching (194680971) (196924141) million dinars due to the deterioration of the security situation since June 2014, which was represented by the occurrence of three governorates under the control of terrorist groups (Ministry of Planning, 2016-4).

However, the gross domestic product rose from (251064479) million dinars in 2018 to (277884011) million dinars in 2019. This rise is attributed to the financial policies adopted by the government and the wave to finance spending, not to rebuild the liberated areas.

3.3 Analysis of the reality of the average per capita share in Iraq for the period (2004-2019)

The path of the average per capita share in Iraq can be traced through the figures in Table (1) for the period (2004-2019), where we note that the average per capita share in 2004 amounted to about (1961509) million dinars, and this growth is due to the improvement in the country’s conditions after the change in the economic system In Iraq, and the export of crude oil, but it does not mean an improvement in the standard of living of the individual in light of the deterioration of infrastructure and social services, but during 2007 the average per capita share increased, reaching about (3754986) million dinars,

After that, the average per capita share decreased from (5528730) million dinars in 2014 to (5444537) million dinars in 2015 due to the deterioration of the security situation, and the average per capita share continued to rise as it rose from (6685263) million dinars in 2018 to (7102012) million dinars in 2019, and this rise is caused by the rise in global crude oil prices.

4. Measuring and analyzing the impact of government spending on economic growth

4.1 Philips-Perron (P-P) test.

The (PP) test is more accurate in small-sized samples than the (ADF) test, and as a result, we will display the results of (PP) and compare them with the results of (ADF), and the results of both tests were similar and did not settle at the level (Level), but settled at the first difference (1) With a level of significance (8%) and only at the fixed limit (intercept) for all variables, and from here we must reject the null hypothesis ($H_0 = 0$) and accept the alternative hypothesis ($H_1 = 1$), as in the following table.

Table 3: Results of the Phillips-Perron test statistic stability test

Variables	Level			1 st Difference)		
	PP	Sig.	Result	PP	Sig.	Result
G	-0.520104	0.8614	No stationary	-4.358777	0.0053	stationary
GDP	-1.389774	0.5588	No stationary	-2.778697	0.0363	stationary
AP GDP	-1.812615	0.3606	No stationary	-3.001760	0.0591	stationary

Source: The table was prepared by the researcher using the program (10Eviews).

4.2 Estimating and analyzing the relationship between government spending and gross domestic product.

4.2.1 First, the ARDL model was tested.

After we tested the static time series of economic variables (government spending) as an independent variable and (and GDP) as a dependent variable, it was found that all of them were stable at the first difference I (1) and with the availability of this condition, we were able to apply the ARDL model test, and the table below shows us the test results for this model.

Table (4) ARDL Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob*.	
LOGGDP(-1)	0.719617	0.107608	6.687390	0.0000	
LOGG	0.103887	0.128225	0.810197	0.4336	
C	3.544287	1.813081	1.954842	0.0743	
Adjusted R-squared	0.865647	Durbin-Watson stat	1.890658	Prob(F-statistic)	0.000002

Source: The table prepared by the researcher based on the appendix (-----).

Table (4) shows us that the ARDL model automatically determines the degrees of time slowdown for the two variables (GDP, G) if the degree of time slowing down of the dependent variable (GDP) is one degree while the independent variable (G) has no time delay period. The results showed (Adjusted R-squared) news that G as an independent variable explained (86%) of the changes that occurred in the dependent variable (GDP) and that (14%) was due to other factors not included in the model; in other words, (86%) is the ability of the independent variable (G) to predict the dependent variable GDP. As for the (F-statistic) test at a probability level (0.000002Prob.), less than (5%), it indicates the overall significance of the model in terms of The statistic indicates the D-W stats, which reached its peak (1.890658), and this explains that the model is free from the problem of autocorrelation.

4.2.2 The results of the limits (Bounds) test for co-integration

The Limits (Bounds) Test is used to find out the extent to which there is a long-term equilibrium relationship (the presence of co-integration) between (government spending on the education sector) as an independent variable and (GDP) as a dependent variable by comparing the F-statistic with the upper and lower critical values, as in The following table:-

Table (5) Limits (Bounds) Test Results

Statistical test used Test Statistic	Calculated value	(number of independent variables) K
F-statistic	5.358615	1
tabular value (Critical Value Bound)		
مستوى المعنوية	10 Bound	11 Bound
10%	3.02	3.51
5%	3.62	4.16
2.5%	4.18	4.79
1%	4.94	5.85

Source: Table prepared by the researcher based on Appendix (199-5).

We note from Table (5) that the calculated (F-statistic) value reached 5.358615), which is greater than the maximum and minimum tabular value, as they reached (4.16), (3.62) at the level of significance (5%), which means that we reject the null hypothesis and accept The alternative hypothesis, which means that there is a co-integration relationship between government spending and GDP, that is, the existence of a long-term equilibrium relationship. Third: Test the estimated parameters (short term) and the unconstrained error correction factor.

This test shows the estimation of the short-term parameters in order to reveal the degree of influence of the independent variable on the dependent variable, as well as to determine the type of short-term relationship, and the error correction coefficient shows the speed of return in the long term to equilibrium, and the table below shows this.

Table (6) Results of estimating the error correction model and the short-term relationship:

Variable	Coefficient	Std. Error	t-Statistic	Prob*.
C	3.544287	1.813081	1.954842	0.0743
LOGGDP(-1)*	-0.280383	0.107608	-2.605592	0.0230
LOGG**	0.103887	0.128225	0.810197	0.4336

Source: Table prepared by the researcher:

We note through Table (6) the results of estimating the parameters of the independent variable in the short term, as the table shows the direct relationship between (GDP) and (G), that is, when (G) changes by one unit leads to a change in the gross domestic product (GDP) by (10%) units at a significant level (0.4336Prob=) with other factors remaining constant, and this is consistent with the logic of the economic theory, and that the amount (10%) represents the marginal slope of GDP.

The estimated relationship also showed that the Unrestricted Error Correction Model (UECM) amounted to (-0.280383) negative and significant, with a probability (Prob = 0.0230), and this reflects the existence of a short-term equilibrium relationship between the studied variables towards a long-term equilibrium relationship, and the value of the error correction coefficient It means that (28%) of the equilibrium (short-term imbalance) in (GDP) in the previous period (t-1) can be corrected in the current period (t) towards the long-term equilibrium relationship due to any shock or change in the variable The independent, meaning that the consumption takes about (3.5) years towards the equilibrium value due to any shock in the model or a change in the independent variable.

4.3 Test the estimated parameters (long-term).

This test shows the estimation of the parameters in the long run in order to reveal the degree of influence of the independent variable on the dependent variable, as well as to determine the type of long-term relationship, as in the following table: -

Table (7): Results of estimating long-term parameters

Levels Equation				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob*.
LOGG	0.370519	0.379478	0.976393	0.3481
C	12.64089	6.872321	1.839391	0.0907

Source: Table prepared by the researcher

Table (7) shows us the results of estimating long-term parameters, as the table shows that there is a direct relationship between (G) and (GDP); that is, when (G) changes by one unit, it leads to a change (GDP) by (37%) units, while remaining The other factors are constant, and at a significant level (Prob = 0.3481), and this is very logical from an economic point of view. The higher the government spending, the higher the GDP, as (37%) represents the marginal slope of GDP, which is high if compared to the short period (10%).

5. Estimating and analyzing the relationship between government spending and average per capita share.

5.1 First, the ARDL model was tested.

After the static time series of economic variables (government spending) was tested as an independent variable and (average per capita share) as a dependent variable, it was found that all of them were stable at the first difference I (1) and with the availability of this condition, we were able to apply the ARDL model test, and the table below shows us the Test results for this model.

Table (10) ARDL Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob*.	
LOGSER01(-1)	0.624612	0.129396	4.827134	0.0004	
LOGG	0.145990	0.125351	1.164646	0.2668	
C	3.250666	1.696964	1.915578	0.0795	
Adjusted R-squared	0.80868	Durbin-Watson stat	1.891767	Prob(F-statistic)	0.000019

Source: Table prepared by the researcher.

Table (10) shows us that the ARDL model automatically determines the degrees of time slowdown for the two variables (GDP, G AP) if the degree of time slowing of the dependent variable (AP GDP) is one degree while the independent variable (G) has no time delay and may The results of (Adjusted R-squared) showed that G as an independent variable explained (80%) of the changes that occurred in the dependent variable (AP GDP), and that (20%) was due to other factors not included in the model, In other words, (80%) is the ability of the independent variable (G) to predict the dependent variable GDP AP. As for the (F-statistic) test at a probability level (0.000019Prob:), less than (5%), it indicates the overall significance of the model in terms of The statistics indicate that the D-W statistics reached its peak (1.891767), and this explains that the model is free from the problem of autocorrelation.

5.2 Results of the Bound Test

The Bound Test is used to find out the extent of a long-run equilibrium relationship (the existence of co-integration) between (government spending) as an independent variable and (an average per capita GDP) as a dependent variable by comparing the F-statistic with the limits of the highest and lowest critical values, as in The following table:-

Table (11) Bound Test Results

Statistical test used Test Statistic	Calculated value	(number of independent variables) K
F-statistic	5.024325	1
Tabular value (Critical Value Bound)		
The level of significant	I0 Bound	I1 Bound
10%	3.02	3.51
5%	3.62	4.16
2.5%	4.18	4.79
1%	4.94	5.85

Source: Table prepared by the researcher.

We note from Table (11) that the calculated (F-statistic) value amounted to 5.024325) which is greater than the maximum and minimum tabular value, as they reached (4.16), (3.62) at the level of significance (5%), which means that we reject the null hypothesis and accept The alternative hypothesis, which means the existence of a joint complementarity relationship between government spending on the education sector, the average per capita output, that is, the existence of a long-term equilibrium relationship.

5.3 Test the estimated parameters (short term) and the unconstrained error correction factor.

This test shows the estimation of the short-term parameters in order to reveal the degree of influence of the independent variable on the dependent variable, as well as to determine the type of short-term relationship, and the error correction coefficient shows the speed of return in the long term to equilibrium, and the table below shows this.

Table (12) results of estimating the error correction model and the short-term relationship:

Variable	Coefficient	Std. Error	t-Statistic	Prob*.
C	3.250666	1.696964	1.915578	0.0795
LOGSER01(-1)*	-0.375388	0.129396	-2.901078	0.0133
LOGG**	0.145990	0.125351	1.164646	0.2668

Source: Table prepared by the researcher

We note through Table (12) the results of estimating the parameters of the independent variable in the short term, as the table shows the direct relationship between (AP GDP) and (G), that is, when (G) changes by one unit leads to a change in the average per capita share of the product (APGDP) by (14%) units at the level of significance (0.2668Prob:) with other factors remaining constant, and this is consistent with the logic of the economic theory, and that the amount (14%) represents the marginal slope of the average per capita GDP.

The estimated relationship also showed that the unconstrained error correction coefficient (UECM) reached a value of (-0.37) negative and significant, with a probability (Prob = 0.0133), and this reflects the existence of a short-term equilibrium relationship between the studied variables towards a long-term equilibrium relationship, and the value of the error correction coefficient It means that (73%) of the equilibrium imbalance (short-term imbalance) in (GDP AP) in the previous period (t-1) can be corrected in the current period (t) towards the long-term equilibrium relationship due to any shock or change in The independent variable, meaning that the consumption takes about (2.7) years towards the equilibrium value due to any shock in the model or a change in the independent variable.

5.4 Test the estimated parameters (long-term).

This test shows the estimation of the parameters in the long run in order to reveal the degree of influence of the independent variable on the dependent variable, as well as to determine the type of long-term relationship, as in the following table: -

Table (13): Results of estimating long-term parameters

Levels Equation				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob*.
LOGG	0.388904	0.260851	1.490902	0.1618
C	8.659484	4.709257	1.838822	0.0908

Source: Table prepared by the researcher

Table (13) shows us the results of estimating long-term parameters, as the table shows that there is a direct relationship between (G) and (AP GDP); that is, when (G) changes by one unit, it leads to a change (AP GDP) by (38%) units, With other factors remaining constant, and at a significant level (Prob = 0.1618), and this is very logical from an economic point of view, the higher the government spending, the higher the average per capita GDP, as (38%) represents the marginal slope of the average per capita GDP.

During the estimation of the short-term parameters in Table (12), it becomes clear that there is a direct relationship between government spending and the average per capita GDP, where the parameters of the dependent variable (AP GDP) indicated that it did not exceed only (14%), meaning that the direct relationship in the short term will continue In the long term, that is, the more government spending on the education sector leads to an increase in the average per capita GDP, and this is consistent with economic theory.

6. Conclusions and Recommendations

6.1 conclusions

- 1- The fluctuation of the GDP growth rate and the average per capita share in the environment of the Iraqi economy during the period (2004-2019), and this results from the economic and political fluctuations that passed through the Iraqi economy, especially during the Iraqi-Kuwaiti war and the economic sanctions during the nineties and the repercussions of the events of 2003.

- 2- The proportions of public spending were characterized by high and low levels due to the lifting of economic sanctions on Iraq and the massive increase in military spending as a result of the instability of the security situation in the country.
- 3- The development of economic growth in positive and negative ranges and that these violent and light fluctuations throughout the study period were originally represented by the quantities of crude oil production, which constitutes more than half of the output, which was affected by local and external shocks, so these conditions produced large fluctuations in the economic growth of the country.

6.2 Recommendations

- 1- The necessity to restructure the oil sector by directing its revenues generated from export operations, and not merely for operating the state apparatus and financing public spending, most of which goes to consumption. Rather, it requires transforming oil resources to achieve human development by investing in building human capital, modernizing infrastructure, and diversifying the production base.
- 2- Formation of national manpower with high and medium technical skills and capabilities through educational and training directives based on responding to the needs of the labor market, and that is through establishing national centers specialized for this purpose that organize the movement of Iraqi labor and give it the necessary facilities and assistance for its development.
- 3- Strengthening the structure of the local economy in order to increase its ability to receive local and external shocks, thus mitigating the fluctuations that affect the country's economic growth.

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