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The Role of Corruption in Income Inequality in a Rentier Economy: The Case of Iraq

Sohaila Abdul Zahra Al-Hajimi
University of Al-Mustansiriya
Mustafa Kamel
dr_mustafa_kamel@uomustansiriyah.edu.iq
University of Al-Mustansiriya
Munther Aliwi Al-Kubaisi
monther.alewi@uofallujah.edu.iq
University of Fallujah
Haidar Ali AlDulaimi
Haidar.ali.aldolami@uomus.edu.iq
Al-Mustaqbal University
Corresponding Author : Sohaila Abdul Zahra Al-Hajimi Mustafa Kamel Munther Aliwi Al-Kubaisi Haidar Ali AlDulaimi

Abstract : The Iraqi economy suffers from a grim rentier reliance on the oil sector, exacerbated by decision-makers' reluctance to diversify the economy to alleviate this dependency. This situation has led to high levels of administrative and financial corruption, creating a significant barrier to private sector involvement in economic activities. The research problem lies in the increased administrative and financial corruption in the public sector, resulting in its bloated inefficiency and low productivity. This contrasts with the rising incomes of those who benefit from poor economic conditions and weak law enforcement, at the expense of the majority of the population who suffer from varying degrees of poverty.The research aims to analyze the relationship between corruption and income inequality in Iraq, based on the hypothesis that "a higher degree of corruption drives a deeper income distribution gap among the population." The research found a strong relationship between the level of corruption in the public sector and income inequality in the Iraqi economy. The study recommends the importance of supporting small projects to provide adequate income sources for most population segments, ensuring them a decent and dignified standard of living.

Keywords: Corruption Perceptions Index, Income Inequality, Per Capita National Income, Per Capita GDP.

Introduction: The poor utilization of natural resources leads to waste and extravagance of these resources within local economic activities and operations. This occurs in the absence of an ambitious future vision by the government regarding the development of its capabilities and improvement of its efficiency in managing economic resources.

The Iraqi economy suffers from weak economic performance and a decline in quality in favor of quantity in the outcomes of the political process and the ensuing economic events and financial burdens. This has, in some way, encouraged administrative and financial corruption and reduced the achievement rates of all public sector institutions. In the context of the declining role of the private sector, the public sector has become the main player in economic activities. However, political and sectarian quotas and individual interests have driven most public institutions to become more consumptive than productive, with a significant decline in the quality of performance and services provided.

Since most capital comes from the government sector, which is characterized by a high degree of corruption, this has contributed to increasing income inequality among the population. This has, to some extent, led to numerous social problems, the spread of crime, the disintegration of family structures, and the decline of societal values.

Research Significance

The high degree of income inequality strips most social classes in favor of enriching a small, specific group while impoverishing the general population. This causes societal collapse, family breakdown, and the erosion of value systems, encouraging crime and other issues. This inequality in income distribution is fueled by the state of chaos and weak law enforcement in the Iraqi economy, leading to severe economic consequences such as the wastage of public funds in economically inefficient areas.

Research Problem
The research problem lies in the fact that the increasing level of administrative and financial corruption in the public sector has caused it to become bloated and inefficient. At the same time, the incomes of those benefiting from the poor economic conditions and weak law enforcement have increased, at the expense of the majority of the population who suffer from varying degrees of poverty.

Research Hypothesis
The hypothesis of the research is that the high level of corruption in the public sector leads to a deepening of the income inequality gap among the population.

Research Objective
The research aims to analyze the relationship between corruption and income inequality in Iraq by using specific indicators for these economic variables.

Research Methodology
The research employs a deductive methodology to analyze the relationship under study, using relevant economic indicators and analyzing them descriptively and graphically. It relies on literature, research, periodicals, and official databases.

Sectionr One: Theoretical Introduction to Corruption and Income Inequality

a. The Concept of Corruption and Its Dimensions

Corruption is one of the greatest obstacles to development, destroying countries and societies by squandering their wealth, wasting public funds, deteriorating the quality of state infrastructure, and driving away foreign investments. There are numerous definitions of corruption by international organizations related to anti-corruption efforts. Transparency International defines corruption as the abuse of entrusted power for private gain (Transparency International, 2007). The World Bank defines it as the misuse or abuse of public office for private benefit, occurring when officials accept or solicit bribes or other forms of improper payments, exploit public office for personal advantage, or embezzle public funds (World Bank, 1997, p. 112). The United Nations, through its development programs, defines corruption as the misuse of entrusted power for private gain, whether by exploiting influence to expedite services, bribery, nepotism, or embezzlement of public funds (Ackerman, 2003, p. 223).

Types of Corruption

Corruption takes various forms, with the most severe types outlined below (Hasan, 2014, pp. 9-10):

- **Political Corruption**
- **Administrative Corruption**
- **Economic Corruption**
- **Financial Corruption**

Several reasons have led to the rapid expansion and spread of corruption globally, including (Al-Subai'i, 2010, p. 56):

1. **Unstable Political Conditions**: This leads to feelings of anxiety and instability.
2. **Poor Economic Conditions**: This drives individuals toward corruption due to low wages and widespread economic deprivation.
3. **Weak Government Administrative Processes**: These are characterized by a lack of transparency and legal accountability.
4. **Weak Religious, Educational, and Social Aspects**.

Concept of Income Inequality and Measurement Indicators

Income and expenditure distribution among individuals in society is a subject of special importance to economists, sociologists, and politicians. Researchers have focused on achieving more equitable distribution of income or expenditure in both developed and developing countries. Excessive inequality in income or expenditure distribution results in the majority of people experiencing misery, deprivation, and poverty, leading to severe negative consequences on economic welfare, which is a fundamental component of overall welfare.

Income inequality can be defined as the numerical representation of the differences in income among individuals in a society. The term "numerical" implies that all the various characteristics of inequality are condensed into a single figure. Indicators of income inequality can be divided as follows:

1. **Range** (Waheba & Asmaa, 2017, p. 69)
2. **Relative Mean Deviation** (Al-Faris, 2001, p. 101)
3. **Variance and Coefficient of Variation** (Al-Batran, 2013, p. 23)
4. **Lorenz Curve** (Ben Jlili, 2008, p. 22)
5. **Gini Coefficient** (Al-Muhammadi & Muhannad, 2016, p. 159)

Relationship Between Corruption and Income Inequality

Corruption leads to an illegal redistribution of income among individuals. It causes rapid and abrupt changes in the social structure, which entrenches social inequality and increases the likelihood of political instability due to wealth concentration in the hands of those who can best exploit non-transparent activities. This action results in a significant rise in unemployment and increased disparity between social classes, creating large income gaps among individuals. Consequently, society divides into two classes: a poor, struggling majority living below the poverty line, and a minority of excessively wealthy individuals who benefit from administrative corruption, with the middle class disappearing either due to economic inflation and damage or transforming into a wealthy class by exploiting corruption for personal gain.

On the other hand, corruption is linked to deteriorating income and wealth distribution, as those in power exploit their privileged positions within society and the political system. This allows them to monopolize a large share of the economic benefits provided by the system and continually accumulate assets, thereby widening the gap between this elite and the rest of society.

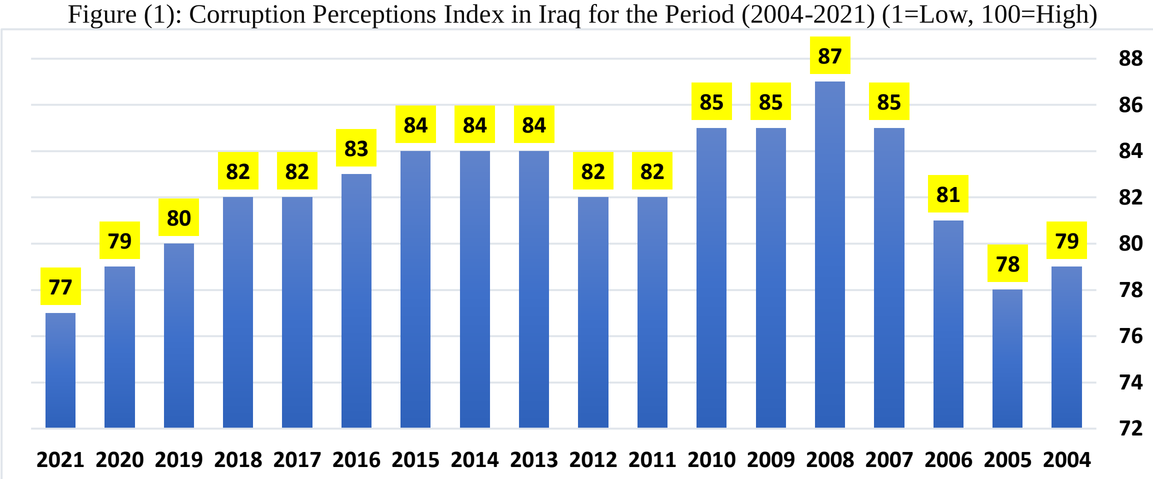
Section Two: Evolution of Corruption and Income Inequality Indicators in Iraq

1. Corruption in the Public Sector

Table 1 highlights significant administrative and financial corruption within public sector institutions. The Corruption Perceptions Index (CPI) was recorded at 79 in 2004, indicating a very high level of corruption. This index increased, reaching its highest level of 87 in 2008. After this peak, the CPI fluctuated, reaching a minimum of 77 in 2021 and recording values of 85 in both 2009 and 2010.

The pervasive administrative and financial corruption has led to reduced productivity in the public sector and the waste of financial resources on inefficient uses. This situation has encouraged many individuals to engage in brokerage and mediation to finalize commercial and investment deals, thereby corrupting large segments of the population.

Figure (1): Corruption Perceptions Index in Iraq for the Period (2004-2021) (1=Low, 100=High)



Source: global economy, indicators, variety years.

The data in Graph 1 illustrates the significant level of administrative and financial corruption within Iraq's public sector. The Corruption Perceptions Index (CPI) reached a very high level of 79 in 2004, increased to its highest level of 87 in 2008, and fluctuated between a minimum of 77 in 2021 and 85 in both 2009 and 2010. This pervasive corruption has resulted in decreased productivity in the public sector and the squandering of financial resources on inefficient uses, prompting many individuals to engage in brokerage and mediation for completing commercial and investment deals, thereby corrupting large segments of the population.

Individual Income Share from National Income (2005-2021)

Despite the official data, the economic reality for most Iraqis is far bleaker. The average individual's share of national income ranged from a minimum of $8,560 in 2005 to a maximum of $14,210 in 2016, averaging $11,790 annually or approximately $982.5 per month. While this figure might seem adequate for basic sustenance in Iraq's economic context, the reality is starkly different. Most Iraqis live on less than 500,000 dinars per month, equivalent to roughly $333, highlighting a severe income disparity, especially considering the high unemployment rates and the number of impoverished and marginalized people in society.

Individual Share from GDP (2005-2019)

Similarly, the individual's share from the Gross Domestic Product (GDP) ranged from a minimum of $11,500 annually in 2005, equating to about $958 monthly, to a maximum of $15,520 annually in 2019, or about $1,293 monthly. However, the reality is marked by low productivity and declining economic performance due to ongoing instability in security, politics, and economics throughout the research period. On average, the share amounted to $13,630 annually, which translates to approximately $1,135.8 monthly.

These figures reflect a significant disparity between official income statistics and the actual economic conditions faced by the majority of the Iraqi population.

Table 1: Individual Share of National Income and National Product in Iraq (2004-2021) (in thousand dollars)

Year	**Individual Share of National Income**	**Individual Share of National Product**
2004	9.49	11.63
2005	8.56	11.5
2006	9.55	11.89
2007	9.83	11.9
2008	11.27	12.64
2009	11.5	12.8
2010	11.73	13.27
2011	11.85	13.68
2012	12.99	14.87
2013	13.31	15.24
2014	12.7	14.56
2015	12.94	14.57
2016	14.21	16.01
2017	13.43	15.2
2018	13.25	15.11
2019	13.73	15.52
2020	11.05	12.69
2021	10.89	12.42
Average	**11.79**	**13.63**

Source: World Bank, Economic Indicators, Various Years.

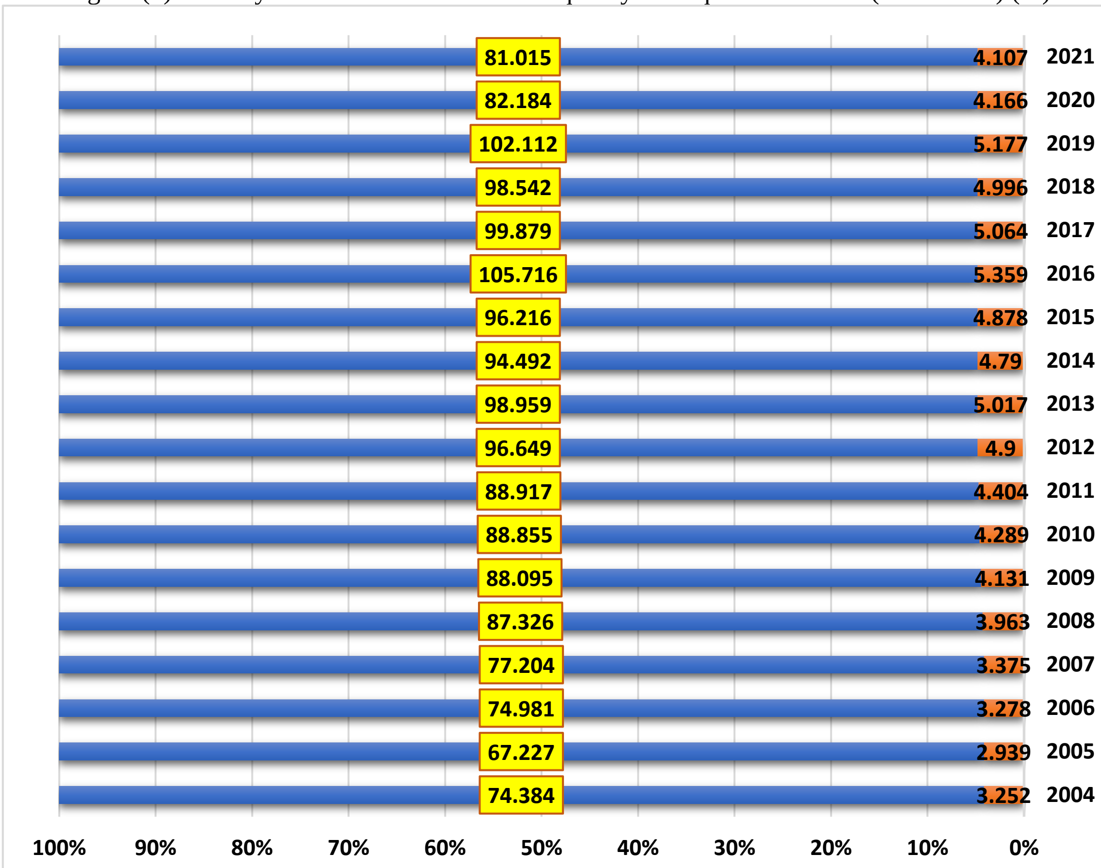
Income Inequality Indicators

Figure 2 illustrates the extent of income disparity among different population groups. Although this indicator is approximate, it provides clear evidence of a significant gap between the rich and the poor. The share of total income for the wealthiest 10% of the population was 74.3% in 2004, 88.9% in 2011, and reached 98.5% in 2018. In 2019, it even exceeded 100%, reaching 102.1%. In contrast, the share of total income for the poorest 50% of the population was 3.2% in 2004, 4.2% in 2010, 5.3% in 2016, and 4.1% in 2021.

Analysis

The data in Table 1 confirms the significant income disparity, as indicated by the rise in individual income share amid increasing poverty rates and high unemployment in Iraq. Most of the unemployed belong to the youth demographic, which has a high marginal propensity to consume. The local economy's weak infrastructure, declining economic activities, high administrative and financial corruption, low private sector contribution, and limited investment in specific areas have all contributed to the increased income disparity. Additionally, the growth of informal economy activities and illegal operations has exacerbated class differences and societal gaps, fostering social resentment and a lack of national loyalty due to the state's insufficient attention to its citizens.

Figure (2) Severity of Income Distribution Inequality in Iraq for the Period (2004-2021) (%)



Source: World Bank, Economic Indicators, Various Years.

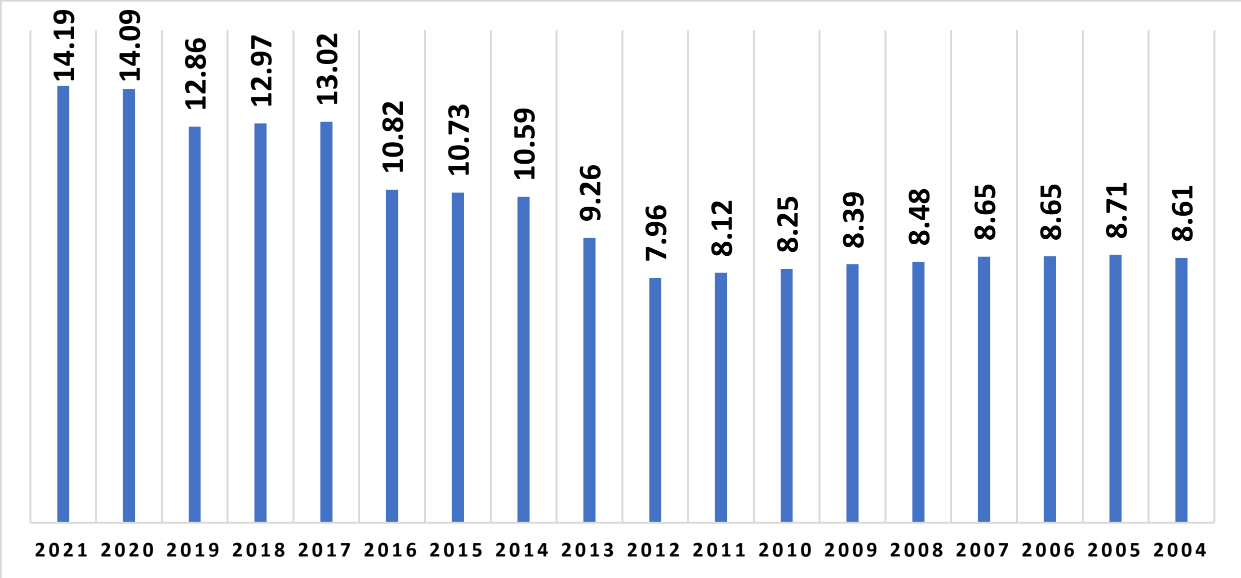
Figure 3: Unemployment Rates in Iraq (2004-2021)

The unemployment rates in Iraq have shown a continuous increase throughout the research period, reaching 8.6% of the labor force in 2004, 9.2% in 2013, and further rising to 13% in 2017. This upward trend can be attributed to the failure of macroeconomic policies, the decline of the private sector's role, and the dominance of the public sector, among other factors that collectively contributed to the decline in local economic activity. In 2021, the unemployment rate reached 14.1%, heavily influenced by the COVID-19 pandemic, which resulted in many households losing their jobs and sources of income due to lockdown and quarantine measures implemented at the end of 2019 and in 2020.

These rising unemployment rates reflect the challenges faced by the Iraqi economy, exacerbated by both structural issues and external shocks like the pandemic. Addressing these issues will require comprehensive economic reforms, increased investment in job creation programs, and effective measures to stimulate private sector growth and reduce reliance on the public sector. Additionally, targeted policies aimed at mitigating the impact of external shocks, such as pandemics, are essential for ensuring economic stability and resilience in the future.

These circumstances have intensified the severity of income distribution disparities among population groups, exacerbated by the political, factional, and nepotistic conflicts that have bolstered informal economic activities and weakened law enforcement.

Figure (3) Unemployment rates in Iraq for the period (2004-2021) (%)



Source: World Bank, Economic Indicators, Various Years.

Conclusions

1. The proliferation of administrative and financial corruption in Iraq within the activities of the public sector has formed the gateway behind which lies the shadow economy and illicit activities, resulting in a significant increase in income for those groups outside the law.
2. The individual's share of income and output indicates a relatively good standard of living for the population, which contradicts reality as Iraq suffers from a deteriorating standard of living and class disparity, leading to a social gap that widens over time between the poor and the wealthy.
3. The increasing severity of income distribution disparities among population groups, as indicated by the total income for the wealthy and the poor, where the wealthy dominate over two-thirds of the income compared to a decrease in the individual's share of income for the poor, serves as a factor for class resentment, social alienation, and a lack of citizenship awareness in light of weak law enforcement.
4. The rise in unemployment rates exacerbates the state of poverty and social deprivation, especially among youth, contributing to increased social and economic problems.

Recommendations

1. Reinstating the rule of law for all without exception and ensuring its respect by all is necessary to improve the deteriorating economic situation in Iraq. Combating corruption, nepotism, and political conflicts is crucial.
2. Building a genuine national strategy to alleviate poverty, involving both the private sector and international institutions according to a specified timeline that includes youth employment and workforce development to address new job market conditions.
3. Strengthening the structure of the local economy and revitalizing service and industrial sectors to increase investment and employment, thereby reducing the severity of poverty and corruption.

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