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The effectiveness of fiscal policy in Iraq for the period 2004-2020: Future Vision

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Abstract
Iraq's financial policy has fundamental objectives, including achieving economic stability, redistributing income, and directing spending appropriately. However, the success of such a policy depends on factors like the cultural attitude of individuals toward paying taxes, the use of technology in payment processes, and the development of the banking system alongside an effective financial market that addresses these needs. Additionally, the political factor in Iraq plays a prominent role. Amid global economic crises, the Iraqi economy faces numerous challenges, and the existence of a financial policy that mitigates risks in major future plans directly influences public spending and financial policy tools.

Keywords: Financial policy, redistributing income, economic stability.

1. Introduction
The Iraqi economy faces structural problems that have worsened over the years due to events like destruction and wars, which have halted or crippled development. The deterioration of key economic sectors, disruption of trade structures, rising unemployment and inflation, income inequality, and increased external debt from wars have led to unusual phenomena in Iraqi society across various fields. This has placed a burden on decision-makers to adopt economic and financial policies to correct the course, particularly given the global and Iraqi economic circumstances. Global economic developments continue to play a significant role in fiscal policy effectiveness due to growing pressures from exchange rates, inflation, unemployment, deficits, debt, and imbalances in payments. The state's intervention in the economy aims to ensure Iraq's economic, financial, and monetary stability.

2. Problem Statement
Fiscal policy and its tools play a significant role in addressing the challenges faced by developing countries, with Iraq serving as an example in tackling trade imbalances, inflation, and unemployment. It proves to be more effective than monetary tools.

3. Hypothesis
Each financial policy tool plays a crucial and significant role in enhancing the effectiveness of the implemented policies and in responding to economic changes.

4. Literature Review
The significance of the literature lies in its focus on fiscal policy and its tools, particularly their impact on Iraq amidst ongoing economic crises. The study examines the effectiveness of fiscal policy in Iraq, addressing the long-standing debate between fiscal and monetary policy, with a focus on public spending, revenues, and the general budget.
Al-Fatlawi, Salam Kazim Shani (2022) [10] discusses the relative effectiveness of fiscal policy in Iraq during the period 1989-2017. Published in the Iraqi Journal of Administrative Sciences, the research examines how fiscal tools like taxes and expenditures can help the Iraqi government stabilize the economy by influencing real GDP and boosting private sector contribution. It concludes that current expenditures have both short- and long-term effects on GDP.

Abdul Hussein, Ali Saber (2022), in the Al-Muthanna Journal of Administrative and Economic Sciences, analyzes fiscal policy's role in money supply growth in Iraq from 1990-2003. The study highlights fiscal policy as a key method of managing the national economy. It reveals that Iraq's economic imbalances such as budget deficits, inflation, and unemployment necessitated a shift toward more effective policies impacting monetary variables.

Asmaa, Shukroudi and Ibtisam, Arfi (2022) explore the impact of oil price fluctuations on fiscal policy effectiveness in Algeria, in their master's thesis from Abdelhafidh Boussouf University Center. The study tracks global oil price developments between 2001-2019 and shows how price volatility affects fiscal policy.

Abdul, Muhannad Khamis (2019), in the Anbar University Journal of Economic and Administrative Sciences, examines fiscal policy's effectiveness in reducing unemployment in Iraq post-2003. The research reveals that increased real public expenditures lead to lower unemployment rates, a key indicator of economic health.

Abdul Latif, Hamsa Qusay (2017), in the Journal of Baghdad College of Economic Sciences, evaluates Iraq's fiscal policy performance after 2003. It emphasizes the role of taxes, government expenditures, and public debt in addressing economic challenges and crises.

5. Methodology

5.1 The Concept of Fiscal Policy

Fiscal policy refers to a program planned and implemented by the state to manage all sources of revenue and allocate spending to create desired impacts on economic, social, and political activities to meet societal goals. It encompasses all measures aimed at increasing general welfare by controlling financial resources through spending and mobilizing revenue.

5.2 The Objectives of Fiscal Policy in Developed Countries

The fiscal policy objectives in developed countries differ from those in developing countries, with two main goals:

5.2.1 Achieving Economic Stability

The Great Depression of 1929 demonstrated the failure of Say's law of markets and exposed the market's inability to recover the economy from a depression. In such cases, fiscal policy plays a crucial role in stabilizing the economy. During a depression, expansionary fiscal policy is employed, increasing government spending or reducing taxes (or both). In times of inflation, contractionary fiscal policy is applied, reducing government spending or increasing taxes (or both).

5.2.2 Redistribution of Income

Fiscal policy influences individuals' consumption, savings, and investment decisions, especially when high taxes are anticipated. When fiscal policy aims to redistribute income to achieve fairness, consumption increases while savings decrease, redistributing wealth in favor of lower-income groups (Sultan, 2006, pp. 10-16).

5.3 The Objectives of Fiscal Policy in Developing Countries

5.3.1 Redistribution of Income and Wealth

Fiscal policy plays a key role in redistributing income and wealth by imposing direct and progressive taxes on wealthier groups. This improves the standard of living and purchasing power of lower-income groups, contributing to social justice.

5.3.2 Increasing Job Opportunities

To combat unemployment, fiscal policy aims to increase job opportunities by funding public projects, encouraging private sector growth, and offering subsidies.

5.3.3 Optimal Use of Resources

Developing countries often face capital shortages necessary for development. Fiscal policy aims to allocate material and human resources to development programs, driving economic progress.

5.3.4 Directing Public Expenditures

Fiscal policy focuses on creating essential economic infrastructure, such as dams, roads, transportation, education, and healthcare (Ahmed, 2010, pp. 12-13) [1].

5.4 How Fiscal Policy Works

Fiscal policy addresses both recessionary and inflationary gaps through the following mechanisms:

1. **Recession:** When total supply exceeds total demand, resulting in unemployment and a slowing economy, an expansionary fiscal policy is adopted. This includes increasing public spending or reducing taxes, or using both tools (Al-Ashqar, 2002, p.189) [3].
2. **Inflation:** When the general price level rises, fiscal policy aims to reduce demand and purchasing power by lowering public spending, increasing taxes, or a combination of both (Al-Zaghbi, Abu Al-Zeit, 2000, p.205) [2].

5.5 Factors Determining Fiscal Policy

1. **Tax Awareness and Administrative Efficiency:** The level of tax awareness and the efficiency of the administrative apparatus in a country are crucial. In more advanced economies, higher tax capacity leads to more revenue, which is directly linked to the efficiency of the tax administration.
2. **Progress of Public Institutions:** Public institutions, which are responsible for expenditures, influence the effectiveness of fiscal policy. The general budget's role and the fiscal policy's objectives depend on the institutions' progress and efficiency.
3. **Existence of a Financial Market:** The presence of a financial market is essential to fiscal policy, as the Central Bank influences the economic situation through open market operations.
4. **Banking System Efficiency:** A capable banking system supports fiscal policy by facilitating monetary policy. Fiscal and monetary policies are closely linked through the banking system, which determines the overall capacity and effectiveness of fiscal operations (Salman, 2000, p.278)0 [7].

5.6 Types of financial policy

5.6.1 Financing Fiscal Policy

This type of policy involves financing through deficit spending and can be implemented in the following ways:

- **Expansion in Public Expenditures: The** state increases its spending on public services, infrastructure, and subsidies. This boosts individuals' ability to spend, which encourages investment and increases the money supply (Abdul Majeed, 2005, p.51) [9].

- **Accelerating Loan Repayments:** The state repays public loans before their due dates, enhancing individuals' purchasing power. This is done by converting securities in bank reserves into cash, increasing the cash supply and expanding bank credit.

5.6.2 Surplus Financing Fiscal Policy

This policy is applied during economic expansion or inflation and includes the following methods:

- **Increasing Tax Revenues:** During inflation, the state increases taxes to reduce the money supply and control inflation.
- **Expanding Public Loans:** The government borrows from the public by issuing bonds or other financial securities, which can be sold either voluntarily or mandatorily.
- **Bank Credit Management:** This is achieved through the central bank's policies, such as selling securities on the open market, adjusting the rediscount rate, or raising the reserve ratio. These actions influence the money supply, interest rates, and investment levels (Abdul-Azim, 2007, p.182) [10].

5.7 Factors Affecting Fiscal Policy

5.7.1 Political Factors

Fiscal policy, once primarily focused on funding political expenses, now also supports social and economic goals. The interaction between fiscal policy and political factors can be summarized as:

- **Financial Phenomena's Impact on Domestic Policy:** Fiscal policy influences political life through parliamentary control over financial decisions, as Parliament has authority over revenue collection and expenditure through legislation.
- **Political Factors' Impact on Fiscal Policy:** Two key elements are important here:
- **Political Structure:** The ruling class influences how finances are managed, including expenditure distribution and revenue collection, based on the prevailing political system.
- **Political Events:** Major events, like wars and reconstruction, significantly affect fiscal policy by increasing loans and other financial burdens (Abdul Wahid, 1999, pp. 143-144) [11].
- **Mutual Influence between the budget and political factors:** The budget, approved by Parliament, is a legislative tool that allows the executive authority to manage revenues and expenditures, giving Parliament legislative superiority over the executive.

5.7.2 Administrative factors' impact on fiscal policy

This sub section consist of two type that:

- **Administrative Structure's Impact:** Certain administrative sectors require significant expenditures due to the presence of numerous facilities and the need for both human and financial resources, which may not always be available in the country (Al-Qadi, 2007, p.323).
- **Administrative Policy's Impact on Fiscal Policy:** Administrative policies, such as building factories and public facilities, create financial implications. These projects generate tax revenues and increase economic activity by boosting consumption and financial resources (Abdul Wahid, 1999, p.173) [11].

Table 1: Fiscal policy tools in Iraq for the period (2004-2020)

Years	Public expenditure (billion dinars)	Overhead Expenditure Growth Rate %	Public revenues (billion dinars)	General revenue growth rate %	General budget balance (billion dinars)	General budget growth rate %
2004	33,394	-	32.989	-	-406	-
2005	35.996	8	40.436	23	4.439	-1195
2006	50.966	42	49,056	21	-1.910	-143
2007	39.308	-23	54.965	12	15.657	-920
2008	67,277	71	80,641	47	13,364	-15
2009	55,590	-17	55.244	-31	-346	-103
2010	64,352	16	69,521	26	5.169	-1593
2011	69,640	8	99.999	44	30.359	487
2012	105.140	51	119,817	20	14,678	-52
2013	119.128	13	113,840	-5	-5.287	-136
2014	113,474	-5	105.387	-7	-8.087	53
2015	70,398	-38	66,391	-37	-4.007	-50
2016	67,067	-5	54.409	-18	-12.658	216
2017	75,490	13	79,011	45	3.521	-128
2018	80.873	7	91,644	16	10,770	206
2019	111,724	38	107.567	17	-4.157	-139
2020	76,082	-32	63,200	-41	-12.883	210

6. Results and Discussion

We notice from Table 1 that total state expenditures were on the rise during the research period, despite fluctuations between increases and decreases in some years. In general, public expenditures were on the rise. In 2004, public expenditures amounted to 33,394 billion dinars, which were financed from oil revenues. These expenditures were allocated to finance the imports of ministries and were also used to rebuild areas such as Najaf and Fallujah and compensate those affected, in addition to amounts withdrawn for the account of the High Elections Commission and funds allocated to finance some electricity and health projects, among others. Public expenditures continued to rise until they reached 67,277 billion dinars in 2008, recording their highest growth rate of 71%. Of course, most of these expenditures were financed from oil revenues, while non-oil revenues suffered from a decline during that period and covered only a small part of public expenditures.

Public expenditures continued to fluctuate between rising and falling until 2013, when public expenditures reached their highest level during the research period, amounting to 119,128 billion dinars, with a growth rate of 13%. In 2014, public expenditures decreased further due to the failure to approve the budget for that year, which prompted the Ministry of Finance to restrict spending from actual expenditures for each month. Public expenditures increased in 2017 by 13% to reach 75,490 billion dinars compared to the previous year. This increase is attributed to the rise in most components of expenditures, especially capital expenditures, service requirements, and commodity requirements, as well as other expenditure items at varying rates. Public spending continued to rise in the following years until 2019, when it reached 111,724 billion dinars, recording a growth rate of 38%. In 2020, public expenditures decreased by -32%.

As for public revenues, which constitute the basis on which the state relies to finance public expenditures through its financial activities, changes in the state's general revenues during the specified time period for the research are noted. In 2004, the state's general revenues amounted to approximately 32,989 billion dinars, with oil revenues being the main source. Public revenues continued to rise in the following four years, and this increase was mostly financed by oil revenues. In 2008, oil revenues represented 96% of total public revenues, exposing the country to risks due to heavy reliance on oil revenues, such as fluctuations in oil prices at the international level. Meanwhile, non-oil revenues suffered from a significant decline in their proceeds, which was not commensurate with the trend towards finding other funding sources to reduce the burden of the budget deficit resulting from the escalating increase in public expenditures (The Annual Statistical Bulletin of the Central Bank of Iraq for 2008). Public revenues in 2009 recorded a decrease of 31% compared to 2008, amounting to 55,244 billion dinars. Public revenues increased to reach 119,817 billion dinars, their highest level during the research period, in 2012, achieving a growth rate of 20% as a result of increased oil revenues, with the average price of a barrel of oil at 107 dollars that year. Actual public revenues in 2017 recorded an increase of 45% over 2016, reaching 79,011 billion dinars, and public revenues continued to rise until they reached 107,567 billion dinars in 2019, with a growth rate of 17%. However, in 2020, public revenues experienced a significant decline, reaching 63,200 billion dinars due to the economic crisis caused by the COVID-19 pandemic and the decline in oil prices that year.

The state's general budget, which is one of the most important financial planning tools as it determines the government's goals, programs, policies, and how resources are exploited and distributed, is a financial plan that outlines the state's objectives. The previous table shows the structure of Iraq's general budget during the research period, highlighting eight years in which the budget suffered from a deficit, as public revenues were unable to meet the general need for public expenditures during this period. The changes in the general budget during the specified time period of the research were due to differences between the state's general revenues and its expenditures, as the Iraqi economy suffered from deterioration throughout the period due to irrational economic policies, in addition to the successive economic crises caused by wars and economic blockades, which negatively impacted economic resources that were spent in unjustified areas. In 2004, the general budget had a deficit of 406 billion dinars, but in the following year, it achieved a surplus of 4,439 billion dinars, with a growth rate of -1195%. The fluctuation in the budget balance continued in subsequent years. In 2011, the budget recorded its highest balance, amounting to 30,359 billion dinars, with a growth rate of 489%. However, the budget balance declined in the following years, reaching its lowest value during the research period in 2016, when it recorded a deficit of 12,658 billion dinars, with a growth rate of 216%.

The decline in oil prices in global markets had major repercussions on the state's general budget, increasing the deficit rate and exacerbating weaknesses in the budget structure due to near-total reliance on oil export revenues, in addition to the pressures resulting from increased military spending and the costs of dealing with the humanitarian crisis caused by ISIS. In 2017, the general budget began to improve, recording a financial surplus of 3,521 billion dinars. In 2019, however, the general budget recorded a deficit of -4,157 billion dinars due to an increase in public expenditures, which was not matched by a sufficient increase in public revenues. In the following year, the budget deficit increased to -12,883 billion dinars. The state's general budget, considered one of the most important financial planning tools, continues to highlight the gap between public revenues and expenditures. It is evident that the Iraqi economy suffered from deterioration due to irrational policies, wars, and crises, leading to unjustified spending of resources.

7. Conclusions

1. Lack of economic vision in Iraq and lack of good management and coordination between fiscal and monetary policies.
2. Lack of economic awareness among individuals, which negatively affects the operation of financial instruments.
3. Reliance on a depleting resource, which is oil.
4. Lack of sufficient liquidity for Iraq as an oil country.
5. Iraq's public spending is unstable.

8. Recommendations

1. The need to work on diversifying Iraq's exports.
2. Rationalization of public spending, which is rising significantly and without benefit.
3. Building a financial and economic policy that increases the efficiency of industrial, productive and agricultural industries.

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