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The role fiscal policy's tools in diversifying the gross domestic product in Iraq for the period (2004-2020)

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Abstract

The fiscal policy is one of the economic policies that It has a major role in influencing economic diversification in Iraq through the use of many of its tools, whether in the field of revenues, expenditures, or public budgets. or the internal debt in the analysis to know the effects that resulted from it in the possibility of achieving economic diversification. This policy may be more urgent in developing countries ,especially the oil ones, whose economies are characterized by rentierism or unilateralism .

Key words:- fiscal policy, economic diversification, gross domestic product

An introduction:-

The Iraqi economy is considering one of the economies that is characterized by the diversity of its sources of revenue through the nature of its land and its geographical location, which called for leaving the rentier character and seeking to build a diversified production structure, to address the structural imbalances in its economy, which led to a decline in economic performance in general, an increase in the budget deficit, a high Inflation and unemployment rates. Therefore, the fiscal policy, through its tools, constitutes a system for economic stability, this represents support for the process of this policy in promoting economic diversification, which is a strength for the Iraqi national economy in the context of the great challenges it faces internally and externally due to dependence on a single revenue source.

research importance:

The importance of the research stems from the following:

1-Fiscal policy is one of the main macroeconomic policies for promoting economic growth and diversification.

2- In the Iraqi economy, fiscal policy is almost the only means for the government to transfer oil sector revenues to the non-oil sector.

The research problem :

The research problem stems from the following question: Is there an effect of fiscal policy on bringing about economic diversification in Iraq for the period (2004-2020).

The research hypothesis :

The research proceeds to the hypothesis that there is an impact of fiscal policy through its tools in bringing about economic diversification in Iraq

The research objective :

This research aims to know the most important financial policy developments in the Iraqi economy, and to evaluate its descriptive and analytical effects through financial policy tools to achieve economic diversification.

The research Structure :

In order to achieve the goal of the study, it was divided into two main sections. The first section dealt with the theoretical and conceptual framework of the study, the concept, objectives and tools of financial policy and economic diversification, while the second topic dealt with analyzing the contribution of financial policy tools to diversifying the GDP for the period (2004-2020).

The first topic: Fiscal policy and economic diversification, a conceptual framework

First, the concept of fiscal policy :

The term fiscal policy is derived from the French word "Fisc", which means purse or treasury (1), and this concept remained as a synonym for the concept of public finance and public budget until the last third of the nineteenth century after the Great Depression, so fiscal policy took its current form of intervention In managing the economy and facing crises, this was reflected in the development of the state's financial and economic role on the concept of financial policy, and consequently the emergence of many concepts in which financial thought abounded.

As the fiscal policy occupies great importance in economic activity through its tools, which are part of the economic policy, the fiscal policy is in its content the use of its revenues, expenditures and public debt to achieve a balance between the two sides of the state's general budget and to achieve high levels of total output and full employment.

There were many definitions that dealt with the term fiscal policy, as fiscal policy was defined as "a set of goals, directions, procedures and activities adopted by the state to influence the national economy and society with the aim of maintaining and developing general stability and solving its problems and problems" (2)

The fiscal policy has also been defined as: the policy that includes the use of government spending, taxes, borrowing operations, or public debt, in order to influence the overall economic activities in society and in the desired ways.

The fiscal policy also represents the use of government spending and taxes to influence economic activity and quality, as well as improving overall output and creating job opportunities, with the aim of achieving macroeconomic growth through sustainable economic growth. (3)

Second: the objectives of the fiscal policy

Fiscal policy in all countries of the world seeks to achieve a set of objectives. Fiscal policy objectives vary according to time. In the short term, governments may focus on macroeconomic stability - for example, stimulating a faltering economy, combating rising inflation, or helping reduce external weaknesses. In the long term, the goal may be to support sustainable economic growth or poverty reduction with supply-side measures to improve infrastructure or education. Although these goals are widely shared across countries, their relative importance varies with country circumstances. (4) Among these objectives are the following:

1- Achieving economic balance

The meaning of economic balance is to reach the optimum size of production, and therefore the government must balance the private sector and the public sector together to reach the maximum possible production, and the balance between the public and private sectors is achieved when the total benefits resulting from private and public institutions have reached the maximum extent possible. That is, exploiting society's potential in the best way to reach the optimum volume of production.

2- Achieving external balance

This objective reflects the reality of balance in the balance of payments, as the position of the balance of payments reflects the position of a particular economy towards the rest of the other economies, as the imbalance of payments

It causes an increase in the country's indebtedness and a deterioration in the value of its currency. As for balancing the balance of payments, it allows obtaining currency stability and developing economic exchanges with other economies.

3- Achieving economic stability

The conomic stability means achieving full employment of the available economic resources and avoiding sudden changes in the general level of prices

While maintaining an appropriate real growth rate in the national product. Full employment here does not mean bringing the unemployment rate to zero, but rather reducing it and creating job opportunities for young people. It must also limit large and sudden relative changes in the prices of goods and services. On the other hand, we find that the economic equilibrium .It is the state of reaching the optimum volume of production by ensuring appropriate intervention for private and public investment in order to obtain the greatest profits, and economic equilibrium leads to economic development through public spending. Investment and production support.

4- Achieving economic development

The process of economic development has become one of the priorities of fiscal policy at the present time, especially with regard to developing countries, after the great developments

That occurred on the nature of the state's intervention in economic activity and directing and mobilizing available resources in accordance with the requirements of economic development processes in these countries.

In order to get rid of economic and political dependence, break the cycles of poverty and get out of the cycle of underdevelopment, the state is required to formulate and implement integrated development plans, and provide the necessary financial resources to finance and implement them. Development efforts require an effective financial policy to mobilize resources, develop private savings, increase the ability to save and direct them to financing development programs.

Fiscal policy should be oriented in the first place towards achieving two main objectives, namely (5):

• Mobilizing financial resources to finance economic and social investments ,It plays a guiding role through the incentives and financial guarantees it provides for private efforts and through improving the motives for work and investment.

The financial policies can also play an important role in enhancing human capital. Public spending on education directly affects education outcomes and raises the balance of human capital, and tax exemptions or deductions for education expenditures can mitigate the negative impact of progressive income taxes on human capital accumulation.

Third: Financial Policy Tools :

1.Policy Agreement

The public spending policy is one of the most important financial policy tools through which the volume of aggregate demand can be stimulated. When the national economy faces an inflationary or deflationary gap, the public spending policy is used to either increase or decrease the volume of aggregate demand, and economic activity is divided into real expenditures (current, investment) and transfer expenses (economic, social) and others. The public spending policy contributes to a large extent to achieving economic development by moving the investment wheel, and it also has an important role in achieving social justice by redistributing income to groups with low purchasing power, which makes this spending economical. (6)

The objectives of the spending policy differ from one country to another according to the nature of the existing economic system. The spending policy in the capitalist countries aims to achieve economic stability and then reduce unemployment rates, combat inflation, and expand the domestic market, in a competitive and attacking country. Basic consumer goods for the population, and of course, each of the capitalist and developing countries, the fiscal policy with its various tools must strive to achieve the goals required to be implemented.

2- The public revenues:

The role of the state has evolved and its transition from the custodian state to the intervening state and then to the producing state has led to the development of the theory of public revenue and its multiple forms. Public revenues are defined as a group of cash or money obtained by the state for the purpose of covering public expenditures and putting the state's financial policy into practice (7). Therefore, taxes have become one of the most important financial tools that the state uses to influence economic activity in achieving economic, social and political goals, after If its role is a set of programs that are limited to the financial goal only, using all its tax sources to achieve its economic, social and political effects, and to avoid unwanted effects in order to contribute to the achievement of community goals.

3- The public budget :

The general budget is among the most important financial policy tools that the government adopts to implement its economic and financial policy, and through it it determines how to obtain public revenues and uses them to ensure the regulation of public spending and achieve economic stability. The mechanisms for using public revenues to alleviate the deficit differ according to the revenues available to the state, the different economic situation, and the extent of the deficit that the state suffers from. All these factors indicate the adequacy of the state's use of this tool.

4- The Public debt:

The Public debt is another source of financing public expenditures, but it is sometimes considered as an exceptional source. When expenditures are greater than public revenues, that is, traditional revenues are unable to meet the state's spending obligations, this means that the state budget is in deficit and to cover this deficit, the state resorts to borrow from natural and legal persons inside the country, and accordingly, the internal public debt is defined as the money that the state obtains by resorting to the public, commercial banks or other financial institutions in return for its undertaking to pay a specific annual interest on the amounts paid and to recover the value of these Amounts in one go or in installments according to the terms of the debt (8).

Fourth: The concept of economic diversification

The economic diversification has diverse concepts that differ according to the different vision through which it is viewed. The truth is part of the concept of economic diversification and an essential part of diversification of production structures. Therefore, economic diversification does not necessarily mean an increase in non-oil exports only, but can also include the substitution of imports.

On this basis, there are many definitions that dealt with economic diversification, as it was defined as the process of transforming the state from a single income and production to its dependence on oil to a state characterized by multiple sources of income as a result of the high rates of contribution of other sectors to the formation of the gross domestic product.

Also, diversifying the national economy means that the state depends, for its revenues, mainly on the development of the physical production sectors on the one hand, and on legislation and tax collection on the other (9).

He also defined economic diversification as a strategy to transform the economy from using a single source to multiple sources of income distributed over the primary, secondary and tertiary sectors, which include large sectors of the population with the aim of improving economic performance to achieve sustainable growth, such as building resilience against fluctuations in economic activity outside the region. Reducing exposure to income loss due to product price volatility in the international market, creating job opportunities and alleviating poverty.

Economic diversification can be defined as the shift towards a more diversified structure of domestic production and trade with the aim of increasing productivity, creating job opportunities and providing the basis for sustainable growth to reduce poverty. (10)

There is another definition of economic diversification, which is that it is a relative process of empowering the national economy by linking diversification to policies aimed at reducing dependence on a limited number of exported commodities whose price and volume fluctuate, or are subject to chronic deterioration.

According to United Nations experts, economic diversification means reducing dependence on one sector, creating new exports and different sources of revenue other than traditional well-known sources, abandoning the leadership role of the public sector and strengthening the role of the private sector in all. In order to ensure lasting and stable returns.

Diversification in general indicates that the state must produce to issue a wide list of goods and services. That is, economic diversification in its broad form includes: (11)

1. Diversification of production: through the relative contribution of all economic sectors to the generation of output and national income. However, diversification of production necessarily imposes a trend towards the relative increase of industry in the overall economic activity as it is the backbone of any economy, and the point of integration between the various other sectors, and there are two types Of the diversification of production are:

1. The Horizontal diversification: It means creating new benefits and opportunities for goods produced in the same sector, which bears the indication of a quantitative increase in goods and products.

2. The Vertical diversification: It requires adding new production stages to the existing ones, and (vertical) diversification and industrialization have become synonymous and aims to spread risks by creating a variety of sources of income; Manufacturing with the widest understanding is the process of creating these diversified sources of income 2. Diversification of exports: This is the strategy aimed at increasing and developing exports by providing material and in-kind incentives to investors, to increase the competitiveness of local goods in foreign markets, and some studies believe that the growth of exports is not limited to On the expansion of the quantities of goods themselves, but rather the growth of exports by expanding the number of exported products, the result of export growth may be more promising, as other research has proven that poor countries tend to have very homogeneous (specialized) export structures, and therefore the wide margin It is generally more important for poor countries.

Export diversification is an objective in itself to reduce exposure to adverse terms of trade shocks and stabilize export earnings, as well as to drive production diversification. Indeed, diversification of exports appears to be associated with lower production volatility in low-income countries as well as faster sectoral reallocation. Empirical evidence also shows that raising the quality level of export products is closely related to a greater impact of domestic production diversification on productivity growth.

Fifth: The characteristics of economic diversification

There is a group of characteristics that characterize economic diversification, including the following (12).

1. Economic diversification is relieved on one master commodity: The adoption of the economy on the production and export of one president as a single source of income and financing development, is a threat to its fate, especially if this economy is increasingly dependent on the production and export of primary crude materials, They often have substitutes to compensate for them, or the term of their depletion is limited, or their price and returns are constantly subject to sharp fluctuations and fluctuations, and therefore economic diversification includes the meaning of freedom of trade, at the cost of free trade.

2- Economic diversification is a cumulative process to increase the contribution of the different economic sectors to output and productivity: Diversification is the process that aims to balance the economic structural structure when a proportional situation is achieved in the relative contribution of the economic sectors to the total combined income and the increase in output. Production in quantity and quality, up to the stage of accumulation and achieving complete self-sufficiency. Branch and related activities, and all this means destroying the single national economic structure.

3- Economic diversification is an expansion of sustainable development efforts: Economic diversification is a process that aims to add a kind of stability that ensures a strong presence of the private sector without neglecting the sector.

The general public contributes to supporting the development process, so that some see that diversifying sources of income and not relying on a single economic resource, is a strategic direction for development, in order to achieve sustainable development that has the elements of sustainable development and economic growth. They represent two basic elements in achieving a sustainable economy, so economic diversification can reduce the country's economic fluctuation and increase the performance of its actual activity.

Economic diversification is also considered from the perspective of sustainable development as a guarantee of economic stability in the long run, considering that it is the process of expanding the scope of economic activities through the production and distribution of goods and services, as it does not mean a profitable increase in the economy; Also, economic diversification has the tendency to meet the basic needs of sustainable development, such as meeting the basic needs of the poor, opening up various fields of economic activity away from the exploitation of one aspect of the natural resources threatened with extinction, and adding to it (adds to adding to justice). both.

The second topic: the contribution of fiscal policy tools to the diversification of GDP

First : The overhead

The overhead constitutes one of the main components of spending - demand - aggregate, and contributes to the formation and diversification of the gross domestic product. The overhead not only contributes to increasing economic diversification, but also to stable capital formation through investment in and development of pivotal structures, as well as its contribution to human capital formation through spending on health and education. Table (9) shows that the contribution of public expenditure in the formation of the GDP for the year 2004 amounted to (60.3%), which is the largest contribution of public expenditure during the period (2004-2020), which decreased to reach (35.8%) in 2005. The decrease in the percentage of public expenditure in the formation of output was reflected in the decrease in its current two parts from (54.4%) to (29.6%) and investment from (5.6%) to (6.2%) for the two mentioned years. This contribution decreased for the following two years to reach (35.28%) for the year 2007. Then the percentage of contribution of total public expenditure and current and investment expenditure in the formation of the output fluctuated between high and low at other times, reaching this contribution to (43.9%) for the year 2013, and then decreased again for the period (2014-2016) and an average rate of (33%) for total public spending, (9%) for investment spending, and (23%) for current. Contribution of public spending expenditure continued

Table (9): The relationship of fiscal policy tools with the gross domestic product for the period (2004-2020)

Year	Public Expenditure/ GDP %	Investment Spending/GDP %	current spending / GDP %	Public Revenues/GDP %	Oil Revenues/GDP %	tax revenue / GDP%	Internal Debt / GDP %	net budget/GDP %
2004	60.3	5.6	54.4	61.9	61.6	0.3	11.1	1.6
2005	35.86	6.2	29.65	55	54.5	0.6	8.5	19.1
2006	39.22	6.19	33.5	51.3	50.7	0.6	5.5	12.1
2007	35.26	5.91	29.35	49.3	47.7	1.58	4.35	14.0
2008	42.8	9.5	33.3	51.3	49.5	1.8	2.83	8.5
2009	42.5	7.38	35.16	42.3	39.7	2.5	6.5	(0.2)
2010	43.27	9.6	33.67	43.3	42.3	0.9	5.7	(0.02)
2011	36.2	8.2	28.0	47.8	47.2	0.6	3.4	11.6
2012	41.8	11.5	29.8	47.9	46.2	0.9	2.5	5.7
2013	43.9	14.9	29.0	41.9	41.0	0.9	1.5	(1.9)
2014	32.06	9.7	22.4	34.7	33.7	0.8	3.6	2.5
2015	33.86	8.93	24.97	31.93	30.9	0.96	22.4	(1.9)
2016	33.2	8.97	24.26	37.3	35.8	1.4	24.5	4.0
2017	37.44	8.1	29.2	38.3	36.89	0.5	25.5	0.8
2018	40.2	7.7	32.4	53	51.5	0,7	20.8	12.7
2019	52.7	9.8	42.9	50.7	49	0.74	18.1	(1.96)
2020	53.4	6.9	45.8	52.7	50.3	1.9	55.2	(3.1)

Source: based on tables (1), (4), (5), (6), (7), (8)

The increase in the GDP for the period (2017-2020), achieving a high contribution rate

It has reached (53.4%) in 2020. It is noticed from the table data that the majority of the contribution of public spending was in its current part, while the percentage of the contribution of investment spending in the GDP did not exceed (8.5%) as the average period investigated (2004-2020), despite the importance of this type of public spending, which is a source External expenditures that stimulate private investment, diversify the economy and increase long-term growth opportunities. This is a result of the dominance of the current public spending, as it exceeded (75%) of the total public expenditure implemented for the period (2004-2020).

Second: The Public Revenues

The revenues have a clear role in the formation of the GDP, as the greater the proportion of the government's dependence on public revenues in the formation of the GDP, the more this indicates an increase in the role of the public sector and a decrease in the role of the private sector in the formation of output, which is an indicator that reflects the weakness of economic diversity and vice versa in what If the percentage is low, this indicates the marginality of the government role in the range (13) . Public revenues achieved high percentages of GDP in the first years of the investigated period, amounting to (61.9%) and (55%) for the years 2004 and 2005, respectively. Since the Iraqi economy is unilateral based on a single resource - oil -. The dominance of oil revenues over most of the revenues derived from the government's general budget, as it exceeded (95%) of the total revenues, so its percentage to the GDP was (61.6%) and (53.4%), while the tax revenues did not exceed in the best case the percentage (0.6%) for the aforementioned two years. This means that out of every (100) dinars achieved by the Iraqi economy, the general budget acquired (61.6) dinars and (54)

The dinars in the form of oil revenue, (0.4) dinars and (0.5) in the form of taxes for the two years mentioned. The share of public revenues in the gross domestic product fluctuated between decline and rise during the period (2006-2013) and reached an average (47%), of which the proportion of oil revenues was (46%), while tax revenues did not exceed (1%). The low ratio of tax revenues to output reflects the backwardness of the tax system in Iraq and its weak effectiveness in providing financial resources, dependence on the oil source in financing the government's general budget and cases of tax evasion, administrative inefficiency, financial and tax corruption and multiple tax exemptions.

The importance of public revenues in output continued to decline during the period (2014-2017) for the reasons referred to previously, and its share reached an average of (35.5%), including (34.3%) oil and (1.2%) tax, and the highest tax revenue was achieved in 2016, as it supplemented the budget The government has exceeded (1) trillion and (400) billion Iraqi dinars, with an annual increase rate of (24.5%) over the previous year, which is the highest growth rate achieved in tax revenues over the length of the surveyed period. The importance of public revenues in the output for the period (2018-2020) rose to reach its highest value during this period in 2018, reaching (53%). It is clear from the above analysis that for every (100) dinars achieved by the Iraqi economy, the revenues of the general budget acquire (41) dinars, distributed between oil revenue (40) dinars and one dinar in tax revenue. The data also reflects the marginal role of the private sector in the formation of the GDP due to the dominance of the oil government sector over the output, which clearly reflects the weak indicators of economic diversification.

Third: the internal public debt

The ratio of public debt to GDP reflects one of the corners of the economy's ability to service debt, in other words, how heavy the public debt burden is on the economy, and it is the main and most common indicator for measuring the extent of the risk posed by public debt, according to International Monetary Fund estimates, the levels of public debt It remains within the safe limits if the public debt ratio (internal and external) does not exceed (60%), but if it exceeds this percentage significantly, this leads to creating economic problems that indicate early warning of crises

The potential and minimum limits are from 25% to 30% of GDP, and the public debt (internal and external) in Iraq did not exceed (9%) in 2016, meaning that it is far from the minimum limits and not only the safety limits, which does not raise any Fears of the government's inability to pay its internal and external obligations.

It can be noted that there is a discrepancy in the issue of the safety limit of the public debt in relation to the gross domestic product, as the focus is on the absolute value of the public debt, ignoring other economic indicators, which does not give a clear picture of the extent of the debt burden on the government, and to emphasize the discrepancy in the issue of the safety limit of public debt. For example, but not limited to, the size of the total public debt of a country such as Japan, which has a public debt ratio of (234.7%) of GDP for 2019, which is the highest ratio in the world, while the size of the debt of Greece is (181.6%) of GDP for the same year Despite this, we find that domestic and international concerns about the consequences of public debt on the Greek economy are much higher than their case for the Japanese economy; This is due to the great contrast between the two countries in the economic structures and the different financial and economic characteristics and their ability to repay debts (internally and externally). We see that the Japanese economy is one of the strongest economies in the world, as it occupies the third place in the world.

The ratio of the internal public debt to the gross domestic product is one of the most important indicators for measuring the degree of indebtedness, as the output is financed from self-resources for the sectors contributing to it and from external sources from other units. The economic sectors, including the public sector - the government - contribute to the output, in addition to the fact that the interests and burdens paid to repay debts are taken from the total output. Therefore, this ratio measures the level of debt to the economic activity of the government, as well as the extent of the government's ability to pay its debts. It is clear from Table (9) the percentage of the internal public debt

To the output did not exceed more than (11%) in 2004. This originally low ratio continued to decline to reach (1.5%) in 2013, recording the lowest ratio of the internal public debt over the GDP over the period investigated, and this reflects the government's ability to repay the debts owed by it as a result of the improvement in economic conditions and the rise in oil exports. Then this indicator rose again as of 2014, recording a percentage of (3.6%). The percentage achieved significant increases for the years 2017, 2016 and 2015 to reach (22.4%), (24.5%) and (25.5%), respectively, which reflects the decrease in the government's ability to pay off debts on the one hand, and the expansion of internal debt sections, as several paragraphs were added as of 2015 As a result of the aforementioned internal and external shocks. It is clear from Table (12) that the last year of the research, i.e. 2017, the ratio of the internal public debt to the gross domestic product approached the minimum permissible limits according to the estimates of the International Monetary Fund, and in 2020 it approached the maximum permissible limits, which gives a sign of the beginning of caution for the government from Continuing to rely on domestic borrowing despite the directives of the International Monetary Fund in its last review, urging the expansion of the domestic public debt to fill some paragraphs of the general budget.

Fourth: The net general budget

The relationship between the net budget - the deficit or the surplus - and the gross domestic product can be clarified through the ratio of the net public budget to the output. This percentage constitutes a determinant of the size of the impact of the net budget, whether a deficit or a surplus, on economic activity. The policy of reducing the fiscal deficit in the net budget by a certain percentage of the gross domestic product leads to the availability of a large amount of public and private savings in the borrowing market and these are reflected in domestic savings and put pressure on the real interest rate in a downward direction, which results in a decrease in the exchange rate of the currency and improves the ability of the government competition abroad, in addition to the fact that the decrease in the fiscal deficit of the net general budget works to activate local resources and stimulate investment, thus increasing the production capacity of the economy and its diversification.

Table (9) shows that the ratio of budget surplus to output amounted to (1.6%) in 2004, and this ratio fluctuated between rise once and decrease again, reaching (8.5%) for the year 2008, with an average budget surplus to output that amounted to (11.06%) for the period (2004- 2008). In the years 2009 and 2010, the ratio was negative, reflecting the budget deficit to the output, reaching (0.2%) and (0.02%), respectively. For the period (2011-2012), the ratio of the net budget to the output was positive, reflecting the occurrence of a surplus in it amounting to (8.7%) as an average for the mentioned period, and in 2013 and 2015 it achieved a negative ratio of (1.9%). Then the ratio of the net budget to the output increased, achieving a positive ratio that reflects a surplus in the budget for the years 2016-2018. The ratio was positive (12.7%), and in the last two years, the ratio of the net budget decreased, achieving a negative percentage that amounted to (3.1%) in the last year of the investigated period. When checking the ratio of the budget deficit to the output for the years 2014, In 2015, we find that it exceeded the permissible limits in accordance with the Maastricht Agreement between the countries of the European Union with regard to the budget deficit, which should not exceed (3%) of the gross domestic product, in the years 2015, 2016 and 2020, reaching (1.9%) and (4.0%)) and (3.1), respectively, which reflects a flaw in the fiscal policy in its spending and revenue aspects. The net budget deficit may positively affect the GDP in the case of idle production capacity, and in the Iraqi economy despite the presence of idle production capacities, but it suffers from an imbalance in the GDP structure resulting from the lack of economic diversification among the economic sectors that represent the most important sources of supply, which This was reflected in the imbalance in the productive capacities generated in the economy (14)

Fifth: Reforming the fiscal policy to achieve economic diversification in Iraq

The process of financial reform, which includes the transition from a restricted financial system to a financial system that enjoys a freer degree, requires controlling the public budget deficit and achieving stability and economic diversification, and that it depends on a number of other economic policies that work sequentially to make the financial reform process successful, such as (interest rates directed credit, restructuring of financial institutions, the flow of capital to and from abroad).

The financial reform measures require starting to control the public budget deficit, and this is done through reforming the public finances, which are included in public expenditures and public revenues. An essential determinant of economic diversification

The main aspects of reforming the budget deficit can be analyzed, including reforming the state's public revenues and expenditures.

(First) Reform of the public revenue structure.

In order for the state to carry out the process of public spending, the resources necessary for that expenditure must be available, which represent the income obtained by the state, which is called the public revenue that the state obtains from the national income, which is the purchasing power in the community, and the state uses these resources to finance its functions different. It also represents a manifestation of government intervention in economic activity, as the ratio of public revenues to gross domestic product. In order to increase public revenues and because they have an important role in economic activity, proposals have been taken in economic circles urging a review of the reality of the revenue structure, especially the reality of tax systems in many countries, including developing countries (15).

(Second) Tax reform.

Taxes constitute the basic core of any government policy, because of their importance as a tool for regulating the country's financial and economic path. When issuing tax legislation, the state seeks to achieve its goals of developing savings among individuals and reducing unproductive consumption. It also tries to achieve social justice in the distribution of wealth by transferring high incomes to those low, as well as reducing consumer spending to productive investment spending and thus reducing the volume of spending in the doors. current in the general budget.

And tax reform (a process that simplifies the tax system by reducing tax rates and making them realistic while excluding the poor and relieving them in a way that reduces tax evasion, activates tax work and makes work more consistent and consistent with internal performance). In developing countries, the importance of tax reforms has increased as a result of the economic situation, which is characterized by a severe shortage of financial resources as well as economic and social imbalances. In most of these countries, the focus must be on tax revenues. Progressive taxes can achieve multiple goals in economic reform, investment in human capital, and fortification of the source of revenue. From shocks such as fluctuations in oil prices. Therefore, tax reform is an important component of structural adjustment programmes. Whether those programs are supported by international institutions, the International Monetary Fund and the World Bank, or which are implemented depending on the state’s own capabilities. In many countries, complex laws, as well as inappropriate tax administration systems, have caused difficulties in creating sufficient revenues to finance the important services that the government must perform. Without causing a large deficit in the general budget, which would have implications on the macroeconomic level. These problems appear clearly in the countries of economic transition, where these countries have to make fundamental changes in the tax structure in order to achieve compatibility between the tax system and the requirements of the market economy. In general, developing countries suffer from structural problems in tax revenues, where the majority of these countries share problems, most notably .(16)

(1) An imbalance in the tax structure.

We note the high rate of taxes on production, consumption, foreign trade and spending in developing countries, in contrast to the developed countries, which depend mainly on income taxes from work or taxes on profit from property or interests on wealth and capital. Where studies have found that, 86% of developing countries, including Arab countries, have an income tax rate of 30%, while taxes on spending and consumption in developed countries reach 60%.

(2) Weakness of the administrative apparatus.

Most of the developing countries suffer from the weakness of the administrative apparatus, which causes a shortage of information and statistical data, and thus leads to the phenomenon of tax evasion.

(3) The Tax justice.

The phenomenon of inequality in the distribution of the tax burden is widespread in developing countries, where most of the tax levies are concentrated on people with limited incomes, where taxes on wage earners appear at high rates compared to taxes imposed on owners of capital and incomes of self-employed people. With regard to improving the work of the tax administration, this leads to an expansion of the tax base, due to the existence of a relationship between them through a complete reconsideration of the organization of the work of the tax administration, its method of work and the techniques used in it, in a manner that provides a policy to subjugate all segments of society covered by paying taxes without any political or ownership considerations or individual.

(Second) customs reform.

The country's obligations to international and regional organizations. The importance of customs tariffs in achieving revenues and regulating import and export of goods and services, as well as its importance and its economic and organizational significance with the countries of the world, in particular the members of the World Trade Organization, for which the customs tariff is one of its most important tools in accepting countries.

The customs tax reform programs aim to achieve a number of objectives that can be clarified as follows.

(A) Reducing the upper limit of customs tariffs.

(B) Reducing the scope of the production tax on national industries and applying it in a selective manner to limited goods in accordance with national interests.

(C) Removing distortions from customs taxes through the abolition of multiple taxes with multiple names on one tax base.

(D) Simplification of the tax structure by reducing the number of tranches of the customs tariff.

B. Reform of the structure of public expenditures.

The excess of aggregate demand that occurs as a result of the increase in aggregate spending (government, investment, consumer) can be considered the main cause of the deficit, whether it is at the internal level related to the public budget or at the external level related to the balance of payments, and then it is reflected in the form of inflationary pressures. In this case, spending must be reduced to a level that is commensurate with the size of the available resources. Also, all support provided by the government that is borne by the general budget and represented in the unprofitable production units in the public sector, that is, that is making a loss, must be abolished, and government support should be directed to the private sector to take its role in the economy the National . The importance of spending policy is represented in governmental trends and objectives towards change and influence for the purpose of increasing diversification in economic activity. The difference in spending policies in the state or in all economies appears from the different social, political and cultural conditions, as no society can achieve a rate of growth and stability. Without a government spending policy that played a major role in achieving it, expenditures represent the main source in creating economic diversification, and on the basis of which the achievement of sustainable economic growth depends. The process of reforming public expenditures should not be limited to reducing public spending only in order to achieve a balance in the budget and thus will result in negative economic and social effects on society. Rather, the efforts of the reform process should be concerned with the public spending structure in the first place, and then work direct it .Towards the areas through which economic diversification is achieved. Through this, we note that economic diversification on the side of fiscal policy focuses on reducing the fiscal deficit by restricting current expenditures, whether related to administrative expenses, employment or public projects, with an increase in investment expenditures directed to non-rentier economic sectors with the adoption of changes in the tax system and the pursuit of In order to increase the tax revenue. (17)

Conclusions

1- The dominance of current public expenditures at the expense of investment expenditures in the government's general budget during the research period, despite the importance of this type of public spending, which is a source of external savings that stimulates private investment, diversifies the economy and increases growth opportunities in the long run.

2- Weakness and decline of non-oil revenues in favor of the dominance of oil revenues over the total public revenues.

3- The value of the internal public debt has increased significantly during the period (2014-2020).

4- Budget indicators showed that it did not lead to achieving financial stability in the country and reducing the deficit in the net non-oil general budget, local revenues in dinars such as taxes, fees and state property revenues.

5- The failure of government reform programs in directing the economy towards the market mechanism, diversifying the economy and giving the private sector a greater role in economic activity

Recommendations

1- Work to provide the financial resources necessary for diversification and identify the first sectors in the economic diversification strategy. The Iraqi economy enjoyed large financial surpluses during the research period due to the rise in oil prices

2- Working to direct public expenditures towards areas through which economic diversification is achieved. With the increase in investment expenditures directed to the non-rentier economic sectors with the adoption of changes in the tax system and the striving to increase the tax proceeds

3- Controlling the public budget deficit, and this is done through reforming the fiscal policy, which includes public expenditures and public revenues, and this requires work to reform the tax reality and diversify other revenues.

4- The reform process here will focus on reconsidering the reality of public finance, because its general trends are considered a basic determinant of economic diversification.

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