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ASPECTS OF FISCAL STRUCTURE & POLICY IN IRAQ, 1953-1963 - WITH REFERENCE TO THEIR EFFECTS ON ECONOMIC DEVELOPMENT

By

B.M.A. FARIS

A Thesis Submitted For the Degree of Master of Arts in Economics, at the University of Durham.

August 1966.

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FOREWARD

This dissertation has been prepared under the supervision of Dr. K.U. Ahmad, to whom I owe very special gratitude for his invaluable comments and criticisms, which were vital to the presentation of argument and its interpretation. I am grateful to Mrs. J. Nolan for her kind assistance in typing the dissertation.

University of Durham,
August, 1966.

ABSTRACT

The present study is basically a study of the main aspects of fiscal structure and policy in Iraq during 1953-1963, and with reference to their effects on economic growth in Iraq. The study is divided into five chapters and three appendices.

Chapter one deals mainly with the exposition of the national accounts of the Iraqi economy, with some emphasis on the role of the government's sector. This chapter forms the factual background against which problems of fiscal structure and policy in Iraq are examined. Since the exposition in chapter one has been based mainly on one single source of statistical material on the national accounts of Iraq, other alternative estimates are shown in Appendix 1. Appendix 2 includes a brief survey of the major conceptual problems involved in the measurement of national income.

Chapter two includes a detailed analysis of the role of fiscal policy in accelerating the growth rate of an underdeveloped economy. While it has been

attempted to analyse a wide range of problems involved in fiscal policy the problem of the effect of fiscal policy on the rate of capital formation was stressed in particular, since the rate of capital formation is viewed as the primary parameter of growth. Hence, chapter two forms the analytical background against which problems of fiscal structure and policy in Iraq are examined.

Chapter three examines the revenue system and tax policy in Iraq. The first three sections examine the revenue system in general, while the fourth section includes a detailed analysis of tax policy in Iraq. This is done mainly against the factual and analytical backgrounds already developed in the previous two chapters.

Chapter four includes a detailed examination of the pattern of government expenditure in Iraq, mainly with reference to its possible effects on the rate of capital formation in the economy.

Chapter five includes the summary and conclusions of the study. Finally, all tables are included in the statistical appendix.

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Chapter I.

IRAQ - NATIONAL ACCOUNTS and ECONOMIC STRUCTURE.

The present study is basically a case study of public finance, and the problems attached to it in an underdeveloped setting - IRAQ. Thus the above title may seem at first to be irrelevant. Yet it seems necessary to present an account of the basic features of Iraq's economy, and the main structural changes that occurred in it during the last decade. Such an account may be of material importance in providing a useful factual background, against which problems of fiscal policy in Iraq can be viewed. The importance of the above becomes evident, especially when measures of fiscal policy relate to the economy as a whole, rather than to a specific problem.

Although it is intended to present a detailed exposition of Iraq's national accounts for the period 1953-1963, no attempt will be made to discuss the whole range of theoretical problems involved in the measurement of national income. For clearly such a discussion falls beyond the limits of the present study. Nevertheless a brief exposition of few relevant problems of measurement will follow,[1] including an attempt to give a simple definition of national income.

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(1) See Appendix 2. (Ch.I.).

I. National Income - Definition- Methods of Measurement.

National income can be defined[2] as the aggregate net value of all the final goods and services produced during a year (at factor cost), expressed in terms of money. Thus

National Income = (Aggregate of final goods and services x Market Prices) - Net Indirect Taxes.[3]

Now to arrive at the net value of final goods and services in any production unit of our economic system, it is vital to exclude intermediate products, thus insuring that no double counting has occurred in compiling our accounts. By subtracting the total value of imputs from the total value of production of any productive unit we arrive at the net[4] product of that particular unit. Thus national income may be viewed as the aggregate sum of the net products of all the productive units of the economy.

So far we have only considered the measurement of national income from the production side. An alternative method to measure and define national income is to view it as the aggregate net income accruing to all factors of

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(2) For further elaborations on the problem of definition see Kuznets,S."National Income: A Summary of Findings" (New York 1946)p.p.1-2, Stone,R and G "National Income and Expenditure" (Bowes and Bowes,London,1962)p.p.9-22, and Hicks, J.R."The Social Framework"(Oxford.1952)p.p.111-129.

(3)Net Indirect Taxes = Indirect Taxes - Subsidies.

(4) The term net is used above only to denote a quantity as being free of double counting of intermediate products. Further elaboration on the above concept with reference to the problem of depreciation, is continued in Appendix 2 (Ch.1:)

production in a country during one year. Such an approach may be termed as the income approach, and its success in measuring national income will be determined primarily by the availability of a relatively wide range of income statistics. Finally, national income can be considered from the expenditure side, as the aggregate of all final expenditures on consumption and net investment by all those who perform final purchases in the economy. Consequently, it can be seen that national income may be estimated by using any of the above outlined approaches. Theoretically, any method should yield exactly the same total, if our above concepts are defined clearly. Yet in practice we find that this may not be the case, mainly because of some conceptual difficulties,(5) and partly due to statistical difficulties.

The choice of method in estimating the national income for any country will depend on two significant factors. Firstly, it will depend on the purpose to which the estimates are prepared for. Secondly, it will depend on the nature and availability of the relevant statistical data. Thus if the main aim of estimating national income is to study capital formation, then the expenditure approach would appear to be the required one. If on the other hand national income estimates are mainly required to study the relative shares of factors in the national income, and the changes in such distribution over time, then the income approach would appear to be the

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(5) See Ibid.

most suitable. Finally, if the main purpose of estimating national income is to obtain a detailed account of the structure of the economy, add to study the changes in the relative values of various sectors over time, then the production approach would appear to be the most satisfactory. Thus the presentation of the national accounts of Iraq in the present chapter will mainly utilize the estimates of Dr.Haseeb,[6] since he used mainly the production approach in arriving at his estimates. Other estimates,[7] were previously made of the national income of Iraq, but the following account will be based mainly on Haseeb's estimates, since the main purpose of presenting Iraq's national accounts in the present study, is to view the structure of the Iraqi economy as a factual background against which problems of fiscal structure and policy can be critically examined.

Furthermore, statistical difficulties play a role in determining the choice of method to estimate national income. The availability of a relatively wide range of income, expenditure, and production data, enables most developed countries to estimate their national incomes, through any of

(6)Haseeb,K."The National Income of Iraq 1953-1961" (Oxford University Press 1964). Later the above author, in a lecture delivered to a seminar arranged by the Economic Research Institute (American University of Beirut),on the29th May 1964, released his estimated of the national income of Iraq for the two subsequent years 1962 and 1963 in"National Income of Iraq 1962 and 1963"(mimeo,1964). This contained in addition the revised estimates for the period 1953-1961.

(7)Fenelon,K.G."Iraq-National Income and Expenditure 1950-1956." (Al-Rabita press -Baghdad,1958), and Maniakin,V."Introduction to National Accounting in Iraq for 1956-1960(prepared at the official request of the Ministry of Planning-mimeo.1961).For a detailed account of the above two estimates see Appendix.1. Ch.1.

the above outlined approaches. In contrast most underdeveloped countries are handicapped by the lack, and relatively narrow coverage of statistical data. Thus if for instance we wanted to estimate Iraq's national income through the income approach, we would soon find such a task to be extremely difficult since we must rely mainly on information provided by Income Tax Returns. Where the minimum exemption level from income tax in Iraq at present is 450 (I.D.)[8] for the single person, it seems very improbable that the tax returns would reveal the incomes of the majority of the population, when one considers that the average per capita income in Iraq during 1953-1963 (at constant 1956 prices) was about 58 (I.D.).[9] The situation on expenditure statistics is hardly any better in Iraq, thus the production approach may seem to be the best.[10]

II. National Income[11] 1953-1963.

Here an estimate of the national income of Iraq, (at both current and 1956 constant prices) will be presented.

Table 1, shows clearly that national income has increased in absolute terms during the period 1953-1963. At current prices, national income has increased from 244 (I.D.m.) in 1953 to 515.4(I.D.m.) in 1963. At constant 1956 prices, it has increased from 262.8 (I.D.m.) in 1953 to 489.5 (I.D.m.) in 1963. Here it would seem more useful to measure rates of

(8)See, Republic of Iraq - Income Tax Law No.95(1959) as amended. Section 12.
(9) See Table.2.
(10)This is so from a purely statistical angle and not necessarily from a theoretical point of view.
(11) National income is net national product at factor cost by

growth rather than consider only absolute figures.

At current prices, the annual rates of growth have fluctuated between a minimum of 2.1% in 1963, and a maximum of 16.4% in 1954, giving an average annual rate of growth of 7.9% for the above period. At constant 1956 prices, the range of fluctuation in the annual rates of growth was relatively more severe, ranging from a minimum of -7.3% in 1955 to a maximum of 22.8% in 1954, giving an average annual rate of growth of 6.8% for the same period.

Although national income at constant 1956 prices has almost doubled[12] during the period 1953-1963, it may be interesting and useful to attempt an explanation of the differentials in the annual rates of growth.[13] The negative rate of growth of -7.3% for 1955 (at constant 1956 prices) may be explained mainly due to the fall in the net value added in the agricultural sector during that year. The net value added in the agricultural sector fell from 113.8(I.D.m.) in 1954 to 68.4 (I.D.m.) in 1955 (at constant 1956 prices).[14] With the agricultural sector accounting for approximately over 30% of national income in 1954 (at constant 1956 prices),[15] it is evident that such a major variation in the net value added in that sector, would clearly affect the magnitude of change in the national income considerably. The relatively

(12) See Table.1.
(13) A fuller discussion of the above point follows later in the chapter. Only a general explanation is offered above, since a more detailed one is not possible without reference to specific sectoral accounts.
(14) See Table 3.
(15) Ibid.

low rates of growth of 4.1% and 4.2% for the years 1957 and 1958, were mainly due to the Suez crisis and its affects on the flow of crude oil exports. The net value added of crude oil extraction[16] declined from 152(I.D.m.) to 98(I.D.m.) during 1955-1957.[17] Considering that the net value added of crude oil extraction ranks second in relative importance among the sectors of the Iraqi economy since it accounts for well over 20% of national income (at constant 1956 prices),[18] it is evident that the above major decline would reflect itself through changes in the national income. The extremely low rate of growth of 1.5% for 1959, was mainly due to the fall in the net value added of the agricultural sector, which fell from approximately 89(I.D.m.) in 1958, to 66(I.D.m.) in 1959.[19] The negative rate of 1963 was mainly due to the fall in the net value added of the agricultural sector, and due to the general slight decline in the net values added of most of the other sectors except crude oil extraction.

III. Per Capita National Income 1953-1963.

It is clear from the above exposition that Iraq's national income has increased in real terms (at constant 1956 prices). But it must be evident at once that the real improvement in the standard of living has not risen correspondingly, since a part the real increase in national income was absorbed by increases in population. Thus if we link the above national income series (at constant 1956 prices), with the corresponding

(16) This accounts for almost 100% of the total value added of the whole of the mining and quarrying sector in the Iraqi economy.
(17) Haseeb,K.op.cit. Table 46.p.82.
(18) See Table 4.
(19) See Table 3.

population series for the same period 1953-1963, we obtain a series showing per capita income in Iraq and its growth rate (at constant 1956 prices).[20] Table 2 shows the real growth of per capita income in Iraq for the period 1953-1963. The average annual rate of growth of per capita income in Iraq for the above period is approximately 4.7%, although the annual rates of growth fluctuated between a minimum of -9.2% in 1955, to a maximum of 20.4% in 1954.

IV. The Structure of the Economy.[21]

The structure of the Iraqi economy is best shown by presenting the detailed national accounts of Iraq. This will enable us to assess the relative importance and present contribution (absolute and relative) of each sector to the aggregate level of economic activity in Iraq. Furthermore, by comparing the relative sectoral figures over the whole period 1953-1963, we will be able to examine the various structural[22] changes that occurred in the Iraqi economy during the above period, and assess their significance. The sectoral classification in table 3 follows closely the

(20)The same could be done with the current price series, but since we are mainly interested in examining the real changes of per capita income, our calculations have been confined to constant 1956 prices series.

(21)Only constant 1956 prices data will be used in the above sectio since we are mainly interested in real changes of values added(absolute and relative) of the various sectors.

(22) The term"structural changes" may have various interpretations, each varying according to how one defines the term "structure". The above, is used to denote the relative changes in the values added of the various sectors of the Iraqi economy.

recommendations of the statistical office of the United Nations in its various publications.[23] The only variations are to be found in sectors 8,9 and 11. The eighth sector (Banking, Insurance and Real Estate) represents the net value added of banks, foreign exchange operaters, post office savings deposits department, insurance companies and agents, real estate companies, and house brokers.[24] The ninth sector (ownership of Dwellings), represents the value added of the net rental value of dwellings, whether rented or owner-occupied.[25] The eleventh sector (services) covers a relatively wide range of services such as cinemas, clubs, hairdressers etc.....[26]

Table 3 shows the net value added of each sector in Iraq for the period 1953-1963 (at constant 1956 prices). Now to assess the basic features and trends in the structure of Iraq's economy, it would be more useful to consider the data in table 3 in a relative form. Since we are basically interested in comparison over time, a comparison of the relative shares of the various sectors in 1953, with those for 1963, should give us a clear idea of the basic structural trends that occurred in the Iraqi economy during the above period.

Table 4 shows clearly that by far the largest sectors in the Iraqi economy are the agricultural and crude oil extraction[27] sectors. In 1953, the combined relative shares

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(23) See Haseeb,K. (mineo) op.cit.p.36.
(24) Haseeb,K.(mimeo) op.cit.p.36.
(25) Ibid.
(26) Ibid.p.38.
(27) Adjusted for "payments to abroad"

of the above two sectors accounted for 53.6% of Iraq's national income (at constant 1956 prices), while the corresponding figure for 1963 was 45.8%. Thus the above two sectors still account for about half of Iraq's national income (at constant 1956 prices). Although agriculture was the largest single sector in 1953, its relative share of Iraq's national income has declined during 1953-1956. For while its relative share accounted for 16.4% in 1963. Meanwhile the relative share of the oil sector (mining and quarrying) has increased from 21% in 1953, to 29.4% in 1963. Although the manufacturing sector's share accounted for only 11.3% of Iraq's national income in 1963, it is important to note that its relative share has exhibited a relatively fast rate of growth during the above period, for the average annual rate of growth of the manufacturing sector was about 13% during the above period (at constant 1956 prices).

Table 5 shows the relative growth in each sector (at constant 1956 prices). The highest compound rate of growth for any single sector was achieved by the Electricity and Water sector, 16.7%. The manufacturing sector exhibited the second highest rate 11.5%, while the public Administration and Defence sector's rate of growth was 10.5% for the above period. It is extremely interesting to note the negative compound rate of growth of -.6% achieved by the agricultural sector during the above period. This low rate of growth in the agricultural sector does not necessarily imply a lesser

degree of reliance or agriculture, rather it may indicate the failures of heavy agricultural investments in Iraq during the earlier part of the above period.(28)

Finally, let us attempt a broader regrouping of the various sectors into a threefold grouping, the agricultural (primary production) sector, the industrial (secondary production) sector, and the services (tertiary production) sector. The primary production sector in the above classification is defined to include the agricultural sector and crude oil extraction.(29) The secondary production sector includes, manufacturing, oil refining, construction, electricity and water, and the transport sector. The remainder of the sectors are included in the tertiary production sector. It can be seen from table 6, that the relative share of the primary sector has declined from 53.1% in 1953 to 45.8% in 1963. The shares of the secondary and tertiary production sectors have both increased, with the relative share of the tertiary production sector showing a faster rate of increase than that of the secondary production sector.

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(28)Haseeb,K.(mimeo) op.cit.p.p.4-5. The above point is discussed in more detail in Ch.4.

(29) Haseeb includes this under the broad sector of industrial (secondary)production. Such a classification is questionable in nature since the main aim of the above broad regrouping of sectors, is to obtain a general indicator of the degree of industrialisation in Iraq. Admittedly there may be other indicaters, but the main point here is that since the above regrouping is mainly done with reference to that specific context, it may seem more reasonable to include crude oil extraction in the primary production sector, since it is basically "extractive" rather than manufacturing in nature.

V. The Public Sector.

Since the present study is basically a study of fiscal structure and policy in Iraq, it seems very necessary to present an account of the public sector, showing its structure, and the changes it has undergone during the period of the present study. Only a concise and general exposition will be presented in this section, since the detailed discussion of the problems of tax policy and government expenditure, will form the bulk of the following parts of the present study.

Table 7, shows the respective contributions of the public and private sectors to national income[30] by sectors (at current prices) for the years 1953 and 1960.[31] Here we are mainly interested in examining the changes in the contributions of both public and private sectors, to the various forms of economic activity in the Iraqi economy. Thus it would be more useful if we examine the data in table 7 in its relative form. Table 8, shows the relative contributions of the public and private sectors to the various sectors of Iraq's economy.

It can be seen from table 8, that the relative share of the private sector still accounts for 100% of the agriculture, construction, and ownership of dwellings sectors. Furthermore the relative share of the private

(30) In terms of value added.

(31) The 1960 figures are the latest available figures.

sector still accounts for well over 98% of the oil and wholesale and retail trade sectors. On the other hand the relative share of the public sector accounted completely for the administration and defence sectors between 1953-1960. While the relative share of the public sector accounted for only 58% of the power (electricity and water) sector in 1953, it accounted for the whole of this sector in 1960. The relative share of the public sector increased from 30% (1953) to 41% (1960) of the transport sector, while the relative share of the public sector in the services sector increased from 42% in 1953 to 71% in 1960. The relative share of the public sector in the banking and insurance sector fell from 86% in 1953 to 76% in 1960,[32] while its relative share of the manufacturing sector showed an increase from 12% to 16% during the same above period.[33]

Consequently, it would be useful to examine the aggregate changes in the relative shares of both sectors (public andprivate) in the whole economy. It is clear from table 9 that the aggregate relative contribution of the public sector to the whole of economic activities in Iraq has increased from 14.7% in 1953 to 23.3% in 1960.

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(32)The 1965 figure would be expected to be 100% since the whole of the banking and insurance sector has been nationalized: See Republic of Iraq - Nationalisation Law No.99(1964) - Section I, and Banking Nationalisation Law No.100 (1964).

(33) Here again, the 1965 figure would undoubtedly be higher than that of 1960, since many industries have been nationalised recently and subject to total State Control; see Republic of Iraq - Law.No.98(1964). For a list of companies nationalised, see the attached schedule in Law(99)1964 op.cit.

Although the above figures could hardly provide a sufficient basis for generalisation, yet one can not fail to see the increasing relative importance of the public sector's role in the Iraqi economy.

So far we have only discussed the contribution of the public sector to economic activity in terms of values added. Here it is important to note that the government's influence on the total level of economic activity does not depend only on how far does the public sector contribute to the national product. For while this may still be of considerable importance, it is the size[34] of the government's sector defined by end-use of resources that is more important for fiscal policy. Thus it would be extremely useful to examine the size of the government's sector in Iraq (defined by end-use of resources).[35]

Table 10 shows government's total revenue and expenditure in absolute and relative (as a % of G.N.P.) terms in Iraq for the period 1953-1963. It can be seen from table 10 that the relative size of government revenue in Iraq has fluctuated between a minimum of 25% in 1957 to a maximum of 36% in 1955, giving an average of 32% for the whole above period. The relative size of

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(34) The composition of the government's sector may be of extreme importance for fiscal policy, see Ch.4.

(35) The above concept refers to the distinction between resources diverted to the use of the public sector to satisfy public wants and those diverted to the private sector to satisfy private wants, irrespective whether those resources were produced by the public or private sectors.

government expenditure fluctuated between a minimum of 23% in 1953 to a maximum of 37% in 1963 giving an average of 32% for the whole period.

VI. Distribution of National Income by Factor Income.

The above presentation of Iraq's national accounts has relied mostly on production accounts. Nevertheless it may be useful to examine the distribution of national income according to factor incomes, examining at the same time the changes in the relative shares of factors.

Table 11 shows the absolute and relative shares of factor incomes in the national income of Iraq (at current prices).[36] It is doubtful whether it can be concluded from table 11 that the relative share of wages and salaries is increasing and that the relative shares of profits is decreasing, since the data in table 11 is measured at current and not constant 1956 prices. Thus a part of the above relative change may be due to price changes, rather than real changes in the relative shares of factors. Yet it is expected that the relative share of wages and salaries would keep increasing mainly at the expense of the relative share of profits.[37]

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(36) The above data is not available at constant 1956 prices.

(37) Twenty-five per cent of profits of companies in the private sector are to be distributed to labour, see Republic of Iraq - Company Profits, Distribution Law NO.101 (1964).

Statistical Note.

Finally, it is important to say something on the statistical reliability and accuracy of the above presented accounts. National accounts are almost impossible to obtain free from error, however advanced the statistical techniques and sources we are using. But there is no doubt that the problem of measurement is further complicated in underdeveloped countries, by the total lack of some date. Since the above presented accounts of Iraq's national income were collected and estimated on the basis of a variety of statistical data and sources, it was felt[38] that it is quite difficult to estimate statistical margins of error, for the calculation of those involves the use of scientific sampling techniques. Instead some rough estimates of error were given.[39] The average error for the aggregate of Iraq's national income ranges between - 7% and 9%,[40] which is not a considerably large error. Although the calculation of error estimates on a non-mathmematical basis may be questionable in nature, yet it seems better to have some idea of the possible magnitudes of errors, rather than be faced with a set of figures as such. The possible errors in any set of national accounts figures, should not invalidate their use in general. Statistical

(38) Haseeb,K. op.cit.p.180.
(39) Ibid. Table 108, p.182.
(40) Ibid. p.181.

errors, and methods of estimating them, do not seem to be of primary importance here, since the main aim of presenting the national accounts of Iraq, was to examine the basic structure of the Iraqi economy, and the main significant changes it has undergone during the last decade.

Appendix I.

Our account of Iraq's national income was based mostly on one specific source of statistical data, that of Dr. Haseeb's estimates. The above choice may be justified for various reasons. First, Haseeb's estimates are by far the latest study on the above topic, thus it provides us with the lates national income figures for Iraq. Secondly, Haseeb's figures are more reliable statistically than those of previous estimates. This is so since there is a detailed discussion of the various steps taken to arrive at the various magnitudes. Such a detailed discussion makes it possible to evolve a reasonable idea on the magnitudes of errors involved. Finally, and most important of all the choice of Haseeb's work as the basic source of statistical material, is mainly determined by the nature of the method he used to arrive at his estimates (production Method). As the main aim of presenting Iraq's national accounts was to obtain a clear idea of the structure of Iraq's economy. Haseeb's estimates seemed the most suitable. However it may be useful and interesting to examine the other previous estimates of Iraq's national income and see how they compare with the above estimates.

Fenelon's Estimates.

In 1958, Dr.K.G.Fenelon published his estimates[1] of the national income of Iraq, using the expenditure approach. He chose the expenditure approach because

(1) Fenelon,K.G. op.cit.

"as one of the main objects of this study is to provide a series of figures which would cover the years 1950-1956, it seemed best to approach the problem from the side of national expenditure, starting with as detailed computations for the year 1956 as possible, because in that year more data were available than for previous years. The national expenditure approach has been selected because fewer estimates are needed for their earlier years than would be involved in direct income calculations"(2)

Table 12 shows Fenelon's estimates for the period 1950-1956 (at current prices). To arrive at his constant 1950 and 1956 figures, Fenelon used a composite price index number, which was a combination of the cost of living index number for unskilled labour, and a wholesale price index.(3) By adjusting his current price series to the above index he arrived at his 1950 and 1956 constant prices series which are shown in table 13.

Maniakin's Estimates.

In 1961, the Ministry of Planning in Iraq, published the estimates of Iraq's national income prepared by the soviet statistician V.Maniakin,(4) for the years 1956-1960.

Using the production approach, Maniakin seems to have been influenced by the Marxist concept of national income since he divided into two major spheres, the

(2) Ibid.p.13.
(3) Ibid.p.16.
(4) Maniakin,V.op.cit.

productive sphere and the non-productive sphere. In the productive sphere he included industry (excluding oil), oil industry, construction, agriculture and livestock, carriage of goods (load transport), trade and public food establishments, and other branches of the productive sphere.(5) In the non-productive sphere he included, services supplied by public authority and private persons, passenger traffic, administration and national defence, science, education, health and finance. But although the above distinction was pointed out by Maniakin, he nevertheless included both productive and non-productive outputs in his estimates.

Table 14, shows Maniakin's estimates of Iraq's national income for the period 1956-1960(at current prices). Table 15 shows his estimates at constant 1956 prices.

Here it is important to note the basic conceptual difficulties involved in Maniakin's estimates. Firstly, he defines national income as the aggregate value of net production which he defines as

Value of Gross Product - Value of Materials Expenditure (Inputs)(6)

Thus it appears that he did not exclude the value of non-material inputs (inputs of services) from his estimates.

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(5) Ibid.p.1. He furthermore defined each of the above sectors,see p.p.1-3.
(6) Ibid.p.1.

This is hardly in conformation to the standard practice of deducting the value of all inputs (goods and services) to arrive at the net value added. Secondly, Maniakin's estimates seem to ignore totally the ownership of dwellings sector. Thirdly, it is not all clear whether his estimates are at market prices or at factor cost, for he seems not to have subtracted indirect taxes for the net production figures of some sectors, i.e. (oil refining).(7) Finally, it is not very clear whether Maniakin's estimates represent N.N.P. or G.N.P., since it is extremely difficult to asses from his report, whether provisions for consumption of fixed capital were deducted from all the sectors or not. Furthermore his report contained very little discussion on the methods and statistical sources he used to arrive at his estimates.

Table 16 shows a comparison of the various estimates of Iraq's national income.

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(7) Ibid, table 26, -p.20.

Appendix 2. Some Conceptual Problems in the Measurement of N.Y.

The following discussion of some of the basic problems involved in the measurement of N.Y. is not meant to be an exhaustive one, but only a brief review of few selected concepts.

a. The Production Area.

In trying to aggregate the net total value of production in the economy, it is very important to decide on what to include or exclude from our concept of N.Y. This is an extremely important and basic question, since obviously we may get different magnitudes if we use alternate definitions. Since N.Y. is to denote the aggregate net value of production arising from economic activity, it seems logical to attempt a definition of economic activity and its boundaries. Many non-economic activies may render the consumer some quantity of satisfaction. It would seem desirable at first, that all such activities should be included in our concept of N.Y. But such a task may seem next to impossible, mainly due to the lack of statistical data on such activities. The distinction between economic and non-economic activities may be based on the closeness of such activities bear to the market.[1] Thus it would seem logical to include the aggregate net value of all production that enters the market. But to stop here would seriously undermine

(1) See Kuznets, S. op.cit. p.124.

the usefulness of national income estimates for most underdeveloped countries, since a relatively large part of their national product does not enter the market.(2) The above point may be clearly demonstrated if we examine the relative share of subsistence output in the national income of Iraq. The relative share of subsistence output in Iraq accounted on average for about 29.3% of the agricultural sector and 10.2% of N.Y. (at constant 1956 prices) for the period 1953-1956.(3) In spite of the enormous statistical difficulties involved in evaluating subsistence output, it is desirable and necessary to include its aggregate net value in our N.Y. estimates. Further, one may attempt to define the limits of economic activity with reference to the criterion of legality. But this may not be a sufficient concept by itself, since many illegal activities enter the market and thus form a part of economic activity.(4)

b. Gross and Net Concepts.

The differentiation between the above two concepts rests mainly on the treatment of allowances made to maintain and replace fixed capital. Such changes must be deducted from the gross value added in each sector,

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(2) Subsistence output,
(3) Haseeb, K.op.cit. Table 13, p.27.
(4) For a full discussion of the concept of "production area" and an attempt to have a standard definition see U.N. "A System of National Accounts and Supporting Tables" (New York, 1953). p.p. 4-5.

since they represent an element of current cost. Thus if we deduct depreciation from the gross value added in each sector, we arrive at the net value added in each sector. Gross Aggregate Value Added - Depreciation = Net Aggregate Value Added.

Although the N.N.P. is perhaps the most widely accepted measure of economic performance of an economy, it is still interesting and necessary sometimes to have an estimate of the G.N.P. The calculation of separate gross sectoral totals, may be useful in studying the relationship between the growth rate of any single sector and that of the whole economy.

c. National and Domestic Products.

So far, we have ignored foreign trade in our above discussion. The concept of N.Y. denotes the total value added of products, which are attributable to factors of production supplied by the normal residents of the country during one year, regardless of the place of production of the products. If we add the values added of all sectors we get the Domestic Product (gross or net). Part of the N.D.P. may accrue to non-residents who supplied factors of production. Similarly, parts of the products of other countries may accrue to residents of the home country. The outward flow is assigned a negative sign since it represents a deduction from the domestic product, while the inward flow is assigned a positive sign since it

represents an addition to the domestic product.[5] Thus if we adjust our domestic product to the net sum of the above flows, we obtain the National Product.

d. National Income at Factor Cost and Market Prices.

So far taxes have been ignored in the above discussion. If the N.P. was estimated at market prices (current or constant) then we obtain the N.Y. at market prices. If we exclude from the above net value of all indirect taxes,[6] we arrive at N.Y. at factor cost. N.Y. at market prices represents the aggregate amount paid by final purchasers for the whole of N.P. While N.Y. at factor cost denotes the net total of income accruing to all factors of production. Thus N.Y. at market prices will exceed N.Y. at factor cost by the net amount of indirect taxes.

Consequently, to sum pu the above discussion, let us define N.Y. by using the following simple identity,

N.Y. = Aggregate Value of all goods and services for final consumption.
+ Net aggregate value of Investment.
+ Net external flows (inward Flows - outward Flows)
- Net indirect taxes (indirect taxes - subsidies)

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(5) The above should not be confused with the distinction between exports and imports.

(6) Indirect taxes - subsidies.

Chapter 2.

THE ROLE OF FISCAL POLICY IN ECONOMIC DEVELOPMENT.

Fiscal policy is assuming today a much more important role than it did in the past, in underdeveloped countries. The rising importance of fiscal policy can generally be associated with the increasing role of government in the process of economic growth. Governments in underdeveloped countries today, are called upon to perform not only the traditional state's functions, but to participate directly and indirectly in accelerating the growth rate of the economy. Evidently, the importance of fiscal policy becomes clear here, especially where fiscal parameters are of direct relevance and applicability.

Meanwhile it is important to note that while any development policy may imply specific fiscal measures, the effectiveness of those fiscal measures may be limited considerably by the prevailing structural pattern of the economy.[1] While the role of fiscal policy is accelerating the growth rate of the economy in an underdeveloped country forms the bulk of the present chapter, the applicability of other non-fiscal techniques should not be ignored altogether. The role of monetary policy may be extremely important, especially where banking and monetary institutions are fairly well developed. In fact, the application of a combination of appropriate monetary and fiscal policies,

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(1) The above point is discussed in more detail in Chapter 3.

may be much more effective in accelerating the growth rate of an underdeveloped economy.

Direct total control of economic resources as a method of accelerating the rate of growth has been excluded from the discussion below, since the economies of most underdeveloped countries today, are basically mixed economies, where economic decisions are taken at both public and private sector levels. Hence, the main aim of the present chapter is to outline the general analytical background, against which the government's revenue and expenditure systems in Iraq, can be evaluated critically.

But before assessing the role of fiscal policy in underdeveloped economies, let us attempt to define the term "fiscal policy" in a simple and meaningful way. Fiscal policy may be defined as any decision involving the use of the revenue-expenditure process of government to achieve the optimum allocation of resources,(2) the desired income distribution, and the stability of the economy. It is important to note that in formulating the conditions for the most appropriate fiscal policy for underdeveloped countries, one has to note the various differences in the general economic conditions between developed and underdeveloped economies. This is an important question, since the applicability of any specific fiscal policy successfully to any country, will depend mainly on the general economic

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(2) For further elaboration on the above with respect to underdeveloped economies, see section I.

conditions prevailing in that country. Thus the usefulness of any specific model of fiscal policy to an underdeveloped economy, will depend mainly on the relevancy of its various parameters to the problems posed by economic growth.

It has often been advocated that since economic conditions are basically different in underdeveloped economies, one needs a special theory of fiscal policy for underdeveloped economies by which to evaluate their fiscal systems.(3) For it has been stressed that the theory of fiscal policy which is in common use in developed countries, is not suitable for underdeveloped countries, since its main assumptions are based on conditions relevant to developed economies.(4) Furthermore, although the basic aims of fiscal policy may appear at first to be similar in both developed and underdeveloped economies, varying economic conditions in both types of economies, may lead to a totally different arrangement of priorities in the functions of fiscal policy. Thus while the problem of short-term stability may present itself as probably the most urgent problem of fiscal policy in developed economies today, the problems of accelerating the rate of total capital formation may be stressed as the primary aim of fiscal policy in underdeveloped countries today.

(3) See Higgins, B. "Economic Development" (Constable, London, 1959) p.p. 474-479 and Chelliah, R.J. "Fiscal Policy in Underdeveloped Countries" (Allen and Unwin, 1960) p.p. 18-19.

(4) This is specifically true with reference to compensatory fiscal policy, see section III.

However, while recognising the above basic difference in emphasis, it would be more useful if we start our analysis by using a model of fiscal policy relevant mainly to developed economies, and adapt its various components to suit the requirements for growth in underdeveloped countries. Such an approach may be more useful than trying to evolve a separate set of conditions for fiscal policy in underdeveloped countries. The main advantage of the above approach is that while it enables us to develop our basic outline of fiscal policy according to the relevant economic conditions in underdeveloped countries, it does stress at the same time the basic aims of fiscal policy which may be equally applicable to both types of economies.(5)

1. Allocation of Resources.

Here the term "allocation" will be used first to discuss the problems of allocation of resources between the private and public sectors to provide for public wants. Later in the discussion, the above term will be adapted to include the problem of the allocation of resources

(5) The above point may be best illustrated with reference to some writings on the above subject, which seem to view the allocative role of fiscal policy - that of the allocation of total resources between consumption and investment - as almost the whole and only role of fiscal policy in an underdeveloped economy, see Nurkse,R."Problems of Capital Formation in Underdeveloped Countries" (Blackwell,Oxford,1953) p.147, and Chelliah,R.J.op.cit.p.44. While the above problem is extremely important in the context of growth, it by no means constitutes the whole role of fiscal policy in an underdeveloped economy.

between consumption and investment, which will be seen to be of relevance and importance to underdeveloped economies.

In the field of allocation we may find an array of situations, where fiscal measures are necessary to bring about in optimal allocation of resources. Under a set of assumed conditions, the forces of the market may produce the required optimal allocation of resources. Such is the case probably for a relatively wide area of economic activity. But when the market forces fail to bring about the required optimal allocation of resources, fiscal action becomes necessary. Here we are assuming that fiscal parameters are relevant and effective. The case of subsidies to industries operating under conditions of decreasing costs, i.e. agriculture, and in general to industries operating under conditions of monopoly, are examples of situations where fiscal policy may have a marginal role in achieving an optimum allocation, since the market's failure in arriving at that is only partial and not total.

In contrast, the case of public wants presents as with a situation where the market's failure in satisfying the above wants is total and not partial. Thus fiscal policy assumes a primary allocative role here, rather than a marginal one. Public wants may be defined in very general terms as those specific private wants which are not capable of being satisfied except through the medium of the public economy. Public wants are mainly of two types,

social wants and merit wants. Social wants are basically private wants, which can not be satisfied except through the public sector. This is so because they involve joint equal consumption by all individuals. Furthermore one can note here that the exclusion principle which may be viewed as a basic condition of exchange, can not be applied in the case of social wants, since individual preferences will not be revealed.(6) Clearly, indivisibility is a basic problem here since an equal amount has to be consumed by all, while the correct assessment of the individual consumers' demand for social wants is the other basic problem. The solution of the above problem is a necessary step to the allocation of the tax burden arising from the satisfaction of social wants through the public sector. The above difficulty is not all, since the possibility of obtaining various optimal solutions is present even if our above problem of preference revealing is solved.(7) Coming to merit wants, it may be observed that they are different from social wants in as far as they are subject to the exclusion principle, thus they may be satisfied through the market mechanism up to a certain level. Merit wants are considered public wants proper, only if their satisfaction is considered socially desirable, that they are provided for through the public sedtor at a level

(6) Musgrave,R.A."The Theory of Public Finance" (McGraw Hill, 1959) p.p. 9-10.
(7) Ibid. p.8.

exceeding that provided for through the private sector.(8) While the main problems involved in satisfying social wants through the public sector were those of indivisibility and unrevealed consumers' preference, the main problem involved in the satisfaction of merit wants by the public sector, is how to assess the level up to which they should be satisfied. While social wants may be considered as an extension of private wants, it is difficult to view merit wants as such, except if one admits the existence of a large element of social want in them.(9)

So far the term "allocation of resources" has been used only to denote the function of fiscal policy in allocating resources between the private and public sectors, to satisfy public wants through the revenue-expenditure process of government. But the above elaboration on the allocative rate of fiscal policy is too narrow to take account of one of the most important factors of growth, that of capital formation. Thus it would be more useful if the concept "allocation of resources" is used to convey a much wider field of allocation than that elaborated above. The term "allocation of resources" should be used in its fiscal and developmental context, to convey both, the allocation of resources between the private and public sectors,

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(8) Ibid. p.13. The case could be to the contrary where merit wants may be negative. Thus taxation may be used to minimise their consumption i.e. liquor. It is important to note that the purpose of taxation in the above context is not to raise revenue, but only to secure a specific pattern of resource allocation.
(9) Ibid.

and the total allocation of resources between immediate consumption and capital formation. Thus by stating that the role of fiscal policy in an underdeveloped country is to achieve an optimum allocation of resources, this should not be taken to denote the optimum allocation of resources between the public and private sectors to satisfy public wants through the public sector, and the optimum allocation of total economic resources between immediate consumption and capital formation. While the former still forms an internal part of the allocative role of fiscal policy in both developed and underdeveloped economies, the latter aspect has an extremely vital importance for underdeveloped countries. But before examining the possibility of influencing the allocation of resources between consumption and capital formation through the application of relevant fiscal parameters, let us consider briefly the significance of the rate of capital formation itself as a parameter of growth.

a. Capital Formation.

Capital formation may be defined as the partial commitment of economic resources to the making of intermediate goods and services, that will help in the future production of consumption goods. The question of the rate of capital

formation has often beenstressed as one of the key problems to growth.[10] Viewed in its historical context, it provides us with further evidence that the rate of capital formation was historically the key factor in the growth of what is today the advanced industrial economies of the western world.[11] It is important to note that the term "capital formation" is used in a relatively wider sense to include investment not only in fixed capital, but in social overhead capital as well. For it will be shown later in the study,[12] that both of the above types of capital formation are important to the growth of an underdeveloped economy.

However it must be emphasised that the rate of capital formation is not the only parameter affecting the growth of underdeveloped economies. Clearly a discussion of the various factors influencing the rate of economic growth, does not fall within the scope of the present study. Nevertheless it should be stressed here that the process of economic growth is an extremely complex process and is a function of many other factors i.e. availability of

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(10) Meir,G.M. and Baldwin,R.E."Economic Development" (Wiley & Son., New York, 1957) p.p.303-306 and 337-343; Lewis,W.A. "Theory of Economic Growth" (Unwin University Books,1955) p.p.201-212; and Bauer,P.T. and Yamey,B.S."The Economics of Under-developed Countries" (Nisbet and Cambridge,1957) p.p.127-137.

(11) See Rostow,W.W."The Stages of Economic Growth" (Cambridge University Press,1963) p.p.7-9 and 36-46.

(12) See chapter 4.

natural resources. Furthermore non-economic factors may be of vital importance here. Nevertheless, capital formation has been singled out here as the basic factor influencing economic growth, mainly because it is the key factor to the increase of total productive capacity in the short-run.

At best one can say that the rate of capital formation (its increase) is a necessary condition for growth, but not a sufficiant one by itself. However it is stressed above that it is only through an increase in the rate of net capital formation that the total productive capacity of an underdeveloped economy can be raised significantly. Furthermore, capital formation has been singled out above as a factor affecting growth, mainly because its rate can be influenced more easily than that of other factors, by the use of fiscal parameters. However one should not overlook the possibility of fiscal parameters influencing the supply of other factors of production.(13)

Clearly, the role of fiscal policy assumes a greater importance here, especially when one considers the comparatively low rates of capital formation in underdeveloped countries today. Fiscal policy may induce an optimum rate of capital formation, by its own direct control over the public sector, and by influencing decision making in the private sector.

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(13) See Chapter.3.

b. The Effects of Fiscal Policy on Private Savings.

Capital formation is not only a function of the inducement to invest, since its rate is limited to a large extent by the supply of savings at any one moment of time. The discussion below will examine the possibility of influencing decisions affecting savings in the private sector, through the relevant fiscal parameters. The supply of savings at any moment of time is determined primarily by the level of income. The ability to save in most underdeveloped countries is limited by the comparatively low standard of living, hence low per capita incomes. Here our main problem is to examine the possible existence of tax disincentives to personal savings. Since personal domestic savings are a part of the total savings in the economy, the removal of any existing tax disincentive to them, may contribute towards maximising the flow of savings in the economy. The taxation of current savings (which are included in current income) and the taxation of future income yields from current savings are perhaps a primary obstacle to the growth of private personal savings. Thus while current income (including current savings) is subject to personal income taxation, future yields from current savings are taxed as well when considered as income in a future period of time. The above problem of the tax treatment of savings is of vital importance and relevancy in framing the tax policy in any underdeveloped country,

mainly because of its influence on the total volume of savings in the economy, which in itself is the chief limiting factor on the rate of capital formation.

The above disincentive to private savings can be removed either by excluding savings from the income tax liability of an individual, or by the total exemption or preferential tax treatment of future income yields from current savings. The expenditure tax system suggested by Mr.Kaldor[14] is probably the most elaborate fiscal proposal of organising a tax system to exclude savings from income taxation. While such schemes may be theoretically sound, and indeed very useful, one can not fail to see the difficulties involved in their application on a practical level. The above point should particularly be stressed with reference to underdeveloped economies, since the level of fiscal administrative effeciency in most underdeveloped countries today is far from satisfactory. Thus it may be desirable to exclude specific categories of savings from the income tax liability of an individual. The decision on the inclusion or exclusion of any specific type of savings will be determined primarily according to the general investment policy in the development programme. By allowing the deduction of specific categories of savings

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(14) The implications of Kaldor's expenditure tax are discussed in more detail with reference to the problem of direct taxation in Iraq, see Chapter 3.

from income tax liability, it is hoped that such a fiscal incentive measure will induce a relatively larger volume of savings. Evidently, it is difficult to assess correctly the quantitative contribution of such preferential tax treatment (in terms of increased savings). For the empirical verification of the above may not be as easy as we imagine, since increases in personal savings may be due to changes in non-fiscal parameters (i.e. measures of monetary policy and general improvements in financial institutions).

However it can be seen clearly that the above fiscal parameter may influence the volume of personal savings considerably. The post-war experiance of West Germany demonstrated the validity of the above fiscal technique, since the volume of total personal savings increased sharply after the introduction of preferential tax treatment for savings in the structure of personal income taxation. Moreover the decline in total personal savings was observed immediately after the abolition of the above measures.(15)

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(15) Tsiang,S.C. "Tax Credit, and Trade Policies to Promote the Production and Export of Manufactures of Developing Countries" (Journal of Development Studies - Vol.1, No.2. 1965) p.183.

Finally, it must be emphasised that the introduction of preferential tax treatment for savings, may influence the pattern of existing savings rather than their volume. It is shown below that this by itself may be of considerable significance in underdeveloped economies. This is so because the primary aim of fiscal policy here is not to achieve the optimum allocation of resources between savings and consumption as such, but between savings which could be channelled for development uses and immediate consumption. Moreover, it is important to note here that the application of the above (or any other fiscal incentive measure) will not be successful, if it is not implemented by a relatively highly trained fiscal administration. The main point of any fiscal incentive measure is to secure a relatively more favourable pattern of decision making in the private sector. Thus if the above incentive measure is not applied with the utmost care to ensure its application to encourage savings, it may eventually turn into a tax loophole, hence failing to bring about any favourable effect on the rate of total savings.

c. The Effects of Fiscal Policy on Private Investment.

It has already been stressed above that the total rate of savings in the economy is the primary factor influencing the level of capital formation. However, it is important to consider the problem of capital formation from the demand side as well. Thus the inducement to

invest may be viewed as another important factor that may influence the rate of capital formation in the economy. It must be noted however that the inducement to invent is not determined totally by fiscal parameters. Non-fiscal factors may play an important role in determining the inducement to invest i.e. relative market sizes, conditions of communications, and the availability of specific labour skills.(16)

Here, it is by attempting to affect the level of prospective yield, that fiscal policy may influence the inducement to invest in the private sector, by varying the relevant tax rates (or subsidies). While recognising that non-fiscal factors may affect private investment to a certain extent, the level of perspective yield from any investment, is probably still the most important factor that affects the decision whether to undertake the investment or not.(17) Here one may use both direct and indirect taxation to incorporate an element of incentive taxation in the tax structure of an underdeveloped economy.

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(16) For a detailed account of the various non-fiscal considerations affecting investment in underdeveloped economies see Aubery,H.G."Investment Decisions in Underdeveloped Countries" (paper in "Capital Formation and Economic Growth" Princeton University Press 1957)p.p.413-435.

(17) This is even more pronounced in underdeveloped economies. A relatively large amount of investment in developed countries is carried through every year without regard to immediate yield, but mainly with regard to expansion and long-run profitability. In constrast immediate yields are more stressed in underdeveloped countries. This may explain partly the relatively strong preference for investment in commerce rather than industry in Middle Eastern countries, i.e. LEBANON.

The main aim of incentive taxation in the sphere of private investment, is to reduce the cost of investment and to make its prospective yield higher, thus encourage a relatively higher rate of capital formation. Accelerated depreciation rates may be a very effective fiscal parameter here, since they may shorten the risk period for invested capital. In fact high depreciation allowances have come to form an integral part of the present tax structure of some of the major underdeveloped countries i.e. India.[18] Furthermore, the main advantage of using relatively high depreciation allowances as compared with using lower rates of taxation or business income (as distinct from personal income), is that of establishing a strong link between the fiscal incentive measure and the act of investment itself. Moreover it should be stressed that the use of the above fiscal incentive measure may encourage specifically, production where capitalistic methods are the norm, rather than production that involves the use of relatively negligible quantities of capital.[19] Thus the use of high depreciation allowances may have an extremely favourable influence on the rate of capital formation in the economy.

(18) Krishnaswamy,K.S."The Evolution of Tax Structure in a Development Policy"(paper in "Government Finance and Economic Development" (eds) Peacock,A.T. and Hauser,G. - O.E.C.D. Paris,1965) p.83.

(19) See Prest,A.R. "Public Finance in Underdeveloped Countries" (Weidenfeld and Nicolson,1962).p.95.

Furthermore, the use of the above fiscal technique is extremely important, especially for industries operating under conditions of fast technological change. Here the importance of high depreciation allowances stems from the contention that they may encourage businessmen to scrap their machinery before the end of its full physical life. This in itself may encourage the translation of technical advances into industrial realities. The complete exemption of new firms for a limited period of time has often been recommended to underdeveloped countries as a measure to encourage a relatively higher rate of capital formation. Such a measure could be very useful under specific circumstances i.e. where investment is exceptionally risky. Preferential tax treatment for retained and reinvested profits may encourage firms to commit a relatively higher share of their gross profits to investment, rather than distribute it in the form of higher dividends. However it must be stressed here that the above measure may influence both the rate of savings in the economy, and the inducement to invest.

Here, it must be stressed that the application of the above incentive measures to the sphere of private investment should not be indiscriminate, but should apply in a way so as only to encourage investments which are basically favourable to growth. So far we have only examined the possibility of using direct taxes as incentive measures. This by no means should imply the limitation

of incentive taxation to the use of direct taxes only, for various indirect taxes may be used as well. The level of tarriffs on imported capital equipment may be manipulated accordingly, to encourage or discourage specific categories of investment. Subsidies from the public sector may be used to encourage the increase in the rate of capital formation in specific sectors which may have a strategic importance for growth. But the main difficulty in the use of subsidies as an incentive measure, is the relative difficulty of removing them at a later period.

Finally, it is important to note that the various forms of incentive taxation do not appear in the budget, only in the sense that they are not in the form of revenue yielding taxes. They may be described more correctly as negative taxes or as an invisible form of government expenditure. Thus it is evident that any fiscal incentive measure involves a certain sacrifice in revenue terms. Here the basic principle involved in deciding upon any specific fiscal incentive measure, is to weigh the possible loss of revenue it may involve, against the possible gains in terms of incentives, bearing in mind that the latter should always exceed the former if there is to be any justification for incentive taxation. While it is possible to estimate roughly the revenue cost of incentive taxation, it is not quite easy to assess the net gain in incentives

quantitatively. Thus while it is difficult to quantify the above criteria, it may still be useful in as far as it provides a rough guide. At best, one can formulate, that fiscal incentive measures should be linked as directly as possible with the act of productive investment.

So far the discussion on incentive taxation above, has been only in terms of its use to achieve the optimum rate of savings and productive investments in the private sectors. But it is evident that the regulation of the patterns of saving and investment of a given amount of resources, may still in itself induce a higher rate of productive capital formation. The term "productive" as defined here to denote investments that may contribute directly or indirectly to the enlargement of the total productive capacity of the economy. In contrast, unproductive investment such as speculative investments in land, real estate, and investments in currency, may be profitable from the individual's point of view, but one can hardly describe them as socially productive in a developmental context. The marked preference in most underdeveloped countries for the above type of investment stems from the fact that those investments usually possess a relatively higher prospective yield, and a relatively higher degree of security and liquidity.[20] In as far as the problem of liquidity is involved, it may be possible

(20) Aubery,H.G. op.cit. p.p. 403-415.

to exempt specific categories of equities from taxation altogether. However it is the general improvement in the structure of capital markets that is required here. Nevertheless the improvements in financial institutions do not necessarily exclude the applicability of fiscal parameters to achieve a required pattern of investment. Thus fiscal parameters may be manipulated here so as to increase the relative yield of assets representing desirable forms of investment, and decrease the relative yield of undesirable forms of investment. Hence property taxes may be desirable in underdeveloped economies, not because of the revenue they may yield, nor on equity grounds primarily, but because of their effect in making investment in real estate relatively less attractive. Here it must be stressed that the above measure may be more successful if backed by the supplementary non-fiscal measures i.e. licensing. Finally, it must be stressed that the above measures of incentive taxation may be more effective in regulating the pattern of a given amount of savings and investment, rather than their increase.[21]

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(21) U.N. "Methods of Financing Economic Development in Underdeveloped Countries" (Sales No.II.B.4. New York,1949) p.p.92-93; and Hansen,B. "Tax Policy and Mobilisation of Savings" (paper in "Government Finance and Economic Development") op.cit. p.p. 153-154.

d. The Effects of Fiscal Policy in the Flow of Foreign Investment.

Foreign investment is necessary in underdeveloped economies, in as far as the level of domestic capital formation is not sufficient to meet the relatively heavy capital requirements of most development programmes. The incentive measures discussed above are relevant to foreign investment, since this is affected like any other form of investment by the prospective level of yield. But here, it is important to point out some of the specific problems raised by foreign investment, and examine the possibility of dealing with them through the use of the relevant fiscal parameters.

Foreign investment may be divided into two main categories, public foreign investment, and private foreign investment. Our basic problem here is the possibility of influencing the rate of flow of foreign investment through fiscal measures, and the problem of making the best productive use of a given quantity of foreign investment.

The main characteristic of foreign private investment (as distinct from public foreign investment) is that is is mainly used in directly productive activities which contribute directly to the growth in gross national product. (2

(22) See Nurkse,R. op.cit.p.88; and Huehne,L. "The Role of Private, Public, and International Capital Exports to Underdeveloped Countries" (Public Finance, Vol.XVII.No.4. 1962) p.321.

The basic point here is that this specific form of foreign investment, contributes directly to the increase in the rate of capital formation. Thus the main problem here is to incorporate sufficient incentive measures in the tax structure to maximize the flow of private foreign investment. Here the problem of international double taxation is probably the most serious source of disincentive.[23] However it must be stressed here that fiscal incentives (or disincentives) are not the sole determinants of the flow of private foreign investment. Non-fiscal factors such as the size of total markets and the degree of political stability may be of vital importance here. Moreover, the contribution of private foreign investment should not be viewed only in terms of its incremental addition to the total rate of capital formation, but also in terms of its possible contribution to the growth of labour and managerial skills, which may themselves be vital to growth in its earliest stages.

Public capital imports do not present us with the same fiscal problems as private capital imports. The main problem here is to ensure their best use in productive economic activities. Public foreign capital may be more useful than private foreign capital under

(23) The above problem is of special importance and interest in the case of private foreign investment; although private foreign investment may be equally influenced by the same set of incentive measures that influence private domestic investment, see section c.

some circumstances, since it could be used to supplement the rate of capital formation in some specific economic sector, according to an overall economic plan. In contrast, private foreign capital tends to concentrate in specific sectors of the underdeveloped economies i.e. exports, this may hinder the process of economic diversification.(24)

It has already been stressed above, that fiscal incentive measures may apply equally to private foreign and private domestic investment. However the problem of international double taxation has been singled out as a special problem relating to private foreign investment. International double taxation is a situation where the same economic transaction, or flow of income, is subjected to the same tax i.e. company taxation, by more than one national tax authority. The total or partial elimination of this specific disincentive may be achieved by a variety of fiscal measures. Bilateral tax agreements may allocate various types of income and property to the tax authorities of both countries according to some specific criteria. Tax credit is another method by which one tax authority allows the deduction of taxes paid abroad by its nationals and corporations, from their taxable

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(24) See U.N. "Methods of Financing Economic Development in Underdeveloped Countries" op.cit. p.96; Nurkse,R. op.cit. p.p. 83-84; and Huehne,L.op.cit.p.320.

income at home. Complete tax exemption may be a useful instrument in abolishing international double taxation, but its use is rather limited, since it assumes that the exempt activity is operative in both countries. However the above reason is not the only one for its limited use, since the above measure may involve a considerable loss of revenue.(25)

e. The Public Sector.

So far we have examined the possibility of using various fiscal parameters to achieve a relatively more favourable allocation of resources.(26) The discussion above, has been limited to the possibility of using fiscal parameters to induce a relatively more favourable pattern of decision making in the private sector.

However, it may be doubtful whether the private sector can achieve by itself (supplemented by fiscal incentive measures) the rate of capital formation required by the extensive development programmes of most underdeveloped countries today. Here it is important

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(25) For a detailed discussion of the various measures to deal with the problem of international double taxation, see U.N. "The Effects of Taxation on Foreign Trade and Investment" (Sales No.1950.XVI. I - New York,1950) p.p.43-52. A list of the various international agreements reached on the problem of internatonal double taxation is shown in Ibid. Appendix.

(26) The term "allocation" is used in its wider sense as defined in section I.

to note that the possibility of achieving a relatively more favourable allocation of resources through the public sector, does not necessarily imply the direct participation of the public sector in capital formation. For it is possible that a government may use part of its resources to cover its current and social overhead expenditure, and make the remainder of its resources available to the private sector to invest.(27) Thus the main point here is not whether investment should be public or private,(28) rather it is the possibility of maximising the contribution of the public sector to capital formation by devoting an increasing share of government's resources to capital formation (as distinct from current expenditure).

It is well acknowledged that the present functions of the public sector in an underdeveloped economy, is to provide for the basic governmental functions i.e. law, defence, to provide for social overhead capital expenditure,

(27) The experience of Japan in its earlier stages of development is an extremely interesting example. For the government there, channelled a relatively large amount of resources through the tax system, making the largest part of it available to finance industrial projects in the private sector. See Johnston,B.F. "Agricultural Productivity and Economic Development in Japan" (J.P.E. Vol.LIX.1951) p.p.501-503.

(28) The above question may have considerable importance in the context of distribution policy. But the question of distribution may best be dealt with through the tax transfer mechanism, since if investment decisions are to be subjected to distributional consierations, the misallocation of resources may become unavoidable.

and to supplement the efforts of the private sector in raising the level of capital formation, by devoting a proportion of its total resources for that. Here if we define developmental expenditure to include both social overhead capital expenditure and expenditure of fixed capital formation, the public savings may be defined as the excess of government's total receipts over current non-developmental expenditure. Social overhead capital can only be provided for through the public sector due to its relatively huge costs, and due to the divergence between social and individual profit here.(29) While recognising that social overhead capital may not be directly productive, in the sense that it does not add directly to total productive capacity, its importance to economic growth stems mainly from its favourable effects on the economy in general, and in particular on increasing the productivity of the private sector. The existence of a relatively high standard of public services such as transport, communications and power, may raise the marginal productivity of investment in the private sector, this possibility induces a relatively higher level of capital formation in the private sector.(30) Furthermore, the favourable effects of

(29) See.Ch.4.

(30) See Hirschman,A.O."The Strategy of Economic Development" (Yale University press,1958) p.84; and Slesinger,R.E."Fiscal Considerations for Underdeveloped Countries" (Kyclos -Vol.XV.1962) p.p.625-626.

social overhead capital expenditure, on the quality and efficiency of other factors, i.e. labour, should not be ignored. Consequently, it is only through controlling the growth of current expenditure and devoting an increasingly larger share of government's resources to capital formation, that the public sector may contribute positively in increasing the total rate of capital formation in the economy.

II. Distribution of Incomes -

Although the allocative role of fiscal policy seems to assume primary importance in discussions relevant to underdeveloped economies, it is by no means the only aim of fiscal policy there. For clearly the problem of income and wealth distribution is of utmost importance in underdeveloped countries today. While an increase in per capital income is usually associated with the concept of development, it must be pointed out that such an increase does not necessarily imply an improvement in the standard of living of the bulk of people. This development (or per capita increase in income) must be linked closely with such an increase in the standard of living. Clearly, one cannot fail to see the importance of the distributional role of fiscal policy in the above context.

The central problem of any fiscal distributional policy, is to determine the required state of distribution, and to formulate the appropriate fiscal measures to achieve that required state. The existing distribution of income at any one moment of time is a function of the market earnings of factors, and the ownership of factors of production. Here it is important to note that the desire for a relatively more equitable distribution of income and wealth, is probably much stronger in underdeveloped economies than developed ones, bearing in mind that the income and wealth distribution in the former, may be relatively more skewed than in the latter.(31) While recognising the theoratical difficulty of determining the most appropriate state of distribution,(32) it is relatively easier to formulate fiscal measures which may reduce inequality, assuming that one accepts that a relatively lesser degree of inequality is desirable. It is interesting to note that the major redistributional adjustments in developed economies were achieved mostly by the use of a highly progressive system of income taxation, and a variety of wealth taxes. While the use of progressive direct taxation as a fiscal distributional instrument is well

(31) Meir,G.M. and Baldwin,R.E.op.cit.p.307; U.N. "Taxes and Fiscal Policy in Underdeveloped Countries" (Sales No.II. H.1. New York,1954) p.17; and Kusents,S. "Economic Growth and Income Inequality" (A.E.R. Vol.XLV. 1955) p.p.20-23.

(32) See Musgrave,R.A.op.cit.p.19; and Wiseman,J."The Public Economy" (Economica - New Series -Vol.XXVII,1960)p.262.

recognised today, one must note its limited applicability in most underdeveloped countries at present.(33) However this should not imply that the distributional role of fiscal policy in underdeveloped countries is neglible. The introduction of an element of progression in indirect taxation may serve as a partial substitute of highly progressive direct taxation. Furthermore, the change in the pattern of government expenditure, may have some significant distributional implications.(34)

Meanwhile while it may be assumed that a relatively lesser degree of inequality may by itself be a desirable objective, it is important to consider the possible effects of pursuing a more equitable distributional policy on the total volume of savings in the economy.

It has already been stressed that the major aim of allocative fiscal policy in underdeveloped economies, is to achieve an optimum allocation of resources which is favourable to development. The implications of the above in terms of maximising savings and investment rather than immediate consumption have already been dealt with. Here, if one accepts the hypothesis that total private savings are primarily a function of the degree of inequality of disposable income, and that the marginal propensity to save of higher income groups,

(33). The above point is discussed in more detail in chapter 3, mainly with reference to Iraq.

(34) See chapter 4.

is relatively higher than that of lower income groups; then it will be clear that fiscal redistribution policy aiming at a relatively more equal distribution, may effect the total volume of private savings adversly. Thus it becomes apparent that one might be faced with the possible conflict between the allocative and the distributional roles of fiscal policy. For while the allocative role of fiscal policy in underdeveloped countries, is primarily oriented towards maximising the volume of resources used for further development rather than current consumption, the distributional role of fiscal policy may inhibit the above considerably. Some empirical research(35) on the above hypothesis may have suggested that it contains a considerable element of truth in it. However it was stressed that conclusions drawn from the above type of findings must be used with the utmost care.(36.)

While a relatively large degree of income inequality may have served in the past in providing more savings for use in capital development, it is interesting to note that the major source of savings in the earlier stages of development of industrial economies, were profits. Thus it may have been that the rate of total private savings in the past, was determined not by the degree of

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(35) Kuznets,S."Economic Growth and Income Inequality" op.cit. p.7.Kuznets shows that in some of the advanced economies, private savings are mostly performed by the highest income groups. In the U.S.A. almost all private savings are performed by the highest decile of income earners,Ibid.

(36) Ibid,p.p.25-26.

inequality as such, but by a special type of inequality. Arthur Lewis, advances the proposition that the total volume of private savings in the economy, is not determined by the degree of inequality as such, but by a particular type of income inequality in which the rate of profits to national income is relatively high.[37] The implications of the above hypothesis are extremely relevant to underdeveloped countries, since the type of income inequality one gets there, can hardly be assumed to induce a relatively higher rate of private savings. Excessive consumption of luxuries by higher income groups is a common phenomenon in most underdeveloped countries today. Higher income groups deriving their incomes mostly from agricultural rent, use most of it for consumption. This is hardly surprising since rent income earners (as distinct from profit income earners) simply do not possess the business mentality that the latter do, thus their interest in business expansion is extremely limited.[38] In contrast, low income earners in underdeveloped countries tend to have a relatively high marginal propensity to consume, mainly because they tend to be near the subsistence level. In developed economies

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(37) Lewis.W.A. op.cit. p.p. 226-227.

(38) Ibid,p.p. 231-232.

today, one may expect to find a relatively larger differential between the marginal propensities to consume of higher and lower income groups, than in underdeveloped economies.(39)

Thus while it may be correct to assume that the marginal propensity to save of the relatively higher income groups, is higher than that of lower income groups in developed economies, it is doubtful whether the above hypothesis possesses the same degree of validity in underdeveloped countries. Hence it may be noted that the unfavourable effects of fiscal redistributive measures on the volume of private savings, may be relatively milder in an underdeveloped economy. Furthermore it is probable that such measures may increase the total rate of savings in the economy, since public savings may substitute mainly private consumption rather than private savings. However this will depend mainly whether the bulk of tax revenue is derived from indirect taxation. For if the bulk of tax revenue is derived from direct taxation the above inference may not necessarily hold true. The unfavourable effects of fiscal redistributive measures on the rate of savings, may assume a relatively greater importance at the later stages of development.

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(39) Kuznets, S. "Economic Growth and Income Inequality" op.cit. p.7.

Finally, it is interesting to note that the original hypothesis - that total private savings are a function of the degree of inequality of disposable income - can hardly be substantiated with reference to underdeveloped economies, when one looks at the relatively low savings ratio there, bearing in mind that income distribution is generally more skewed in underdeveloped countries, than in developed ones.

III. The Role of Fiscal Rdicy in Promoting Economic Stability.

Here the basic aim of fiscal policy can be stated as that of the maintenance of an optimum level of resource utilization and price stability. The importance of fiscal policy in this context stems mainly from the recognition, that the modern capitalistic economy is not always self adjusting towards full employment, as has always been assumed by classical economists. Keynes stressed that the above is only a special case, and not the general case as held before.(40)

Under the classical system, one can only think in terms of a minimum budget, thus the main role of fiscal theory and policy was confined to the determination of the best allocation of a given tax burden among various taxpayers. But once the assumption of automatic self adjustment towards full employment is dropped, the role

(40) Keynes,J.M. "The General Theory of Employment, Interest, and Money" (Macmillan,London,1961) p.3.

of fiscal policy as a stabiliser becomes more clear. The quantitative assessment of the role of fiscal policy here, depends mainly on the correct statistical estimation of the level of aggregate demand required to produce the full employment value of gross national product. By deducting the existing level of demand from the above, one can arrive at a quantitative assessment of the role of fiscal policy in economic stabilization.

Here a government may use various fiscal parameters to achieve its objectives. Tax rates (direct and indirect) may be altered to influence the aggregate level of demand in the economy. Moreover, a government may affect the level of aggregate demand by altering the volume of its expenditure, or a combination of both above measures may be used. Here, it must be noted that influencing the level of aggregate demand through changing the various tax ratios is a more efficient method of stabilization, since the sudden changes of government expenditure may involve the misallocation of resources.[41] The above point is of particular relevance to underdeveloped countries, since the subjection of government expenditure (especially developmental expenditure) to sudden changes may have

(41) The above point is stressed with reference to the necessity of distinguishing clearly between the allocative and stabilizing functions of fiscal policy. see Musgrave, R.A. op.cit. p.p. 5-6 and 37-39.

extremely adverse effects on the course of economic growth. Furthermore, it is important to stress that the stabilizing role of fiscal policy does not necessarily imply a stationary level of incomes and prices, rather it implies mainly the regulation of income growth in proportion with the growth of productivity in the economy.

Almost all economic models are built on assumptions which may be relevant to specific economic conditions. The above brief elaboration on the stabilizing role of fiscal policy is no exception. It is interesting to note that the major theoretical developments in the field of compensatory fiscal policy, evolved mainly with reference to the general stagnation conditions prevailing in the inter-wars period in highly developed economies. Thus it would be useful to examine the applicability of the basic elements of such models to underdeveloped economies.

Compensatory fiscal policy in developed economies assumes a relatively elastic supply function for the economy as a whole (at least up to full employment level). Such an assumption may be correct here, since excess productive capacity may exist in most sectors below the level of full employment. In contrast such an assumption may not be a correct one in an underdeveloped economy, since the elasticity of supply for most sectors is relatively very low. For here, while recognising that

there may be unemployed labour, productive capacity cannot increase except with an increase in the amounts of other factors of production, namely fixed capital. Thus it can be seen that the problem of unemployed resources in underdeveloped countries, is basically different from its counterpart in developed economies. Hence, an increase of the level of aggregate demand in an underdeveloped economy, may only produce an increase in the money value of gross national products (price increases only), and not an increase in its real value.

We have stressed above that the results of applying traditional tools of compensatory fiscal policy, may be quite inflationary in nature, in underdeveloped economies. While it is possible to view the problem of instability as mainly a short-run problem in a developed economy, it would be more useful to view the above problem as a long-run one in underdeveloped economies. For while the unemployment of idle resources may stem from the lack of adequate monetary demand in a developed economy, the solution of the problem in an underdeveloped economy, should mainly stress the enlargement of total productive capacity as a means of absorbing unemployed labour. Thus the problem of stability in an underdeveloped economy may be viewed as that of providing the complimentary factors of production to labour, namely fixed capital.

However, it must be stressed that the problem of short-run stability (with special reference to the problem of inflation) still exists in an underdeveloped economy, as distinct from the problem of long-run growth of production capacity. This should be born in mind when framing the fiscal policy of an underdeveloped economy, where two different sets of fiscal measures may be incorporated in the budgets to deal with the above problems.

Finally, it is important to examine the feasibility of financing development expenditure through controlled inflation. Here the basic theme is that inflation, through price increases, may induce a relatively higher volume of investment. While this may be true to some extent - especially in developed economies - it is important to point out that it is by no means the only single implication of inflation. For inflation may induce an adverse structure of investment from a developmental view. It has already been stressed earlier, that it is only investment in directly productive activities that affects the growth rate of the economy. Unproductive types of investment may be stimulated considerably under inflationary conditions. Furthermore severe inflation may have extremely adverse effects on the level of personal savings, since the existence of a relatively stable level of prices may be considered as

an important and basic condition to the growth of personal savings.(42)

Consequently, it is only through fiscal non-inflationary policy that underdeveloped countries can hope to achieve development with stability. At best, a tolerable rate of inflation may serve as an instrument of development, only where expenditure incurred is directed primarily towards self-liquidating projects, which may add to total production without any considerable time lag.

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(42) See Pesmazoglu, J. "The Relation Between Monetary and Fiscal Policy" (paper in "Government Finance and Economic Development") op.cit. p.97.

Chapter 3

REVENUE STRUCTURE AND TAX POLICY

The basic aim of the present chapter, is the critical evaluation of the present revenue structure and tax policy in Iraq. This will be done mainly against the factual and analytical background already developed in the previous chapters. Thus, in the following analysis, our main concern is the assessment of the relative success of Iraq's present revenue system and tax policy in:-

(a) Achieving an optimum allocation[1] of resources which is favourable to economic growth.

(b) Reducing the degree of inequality in the distribution of incomes and wealth.

and (c) Providing the necessary fiscal tools for the achievement of short-term stability in the economy.

While the above outlined objectives are all important in the fiscal policy of underdevelopment, it has been stressed earlier that the allocation of resources should be emphasised in particular with respect to underdeveloped

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(1) The term "allocation of resources" is defined in its widest sense to include the problem of allocating total economic resources between investment and immediate consumption. See Ch. 2, sec. I.

countries, mainly because of its profound influence on the total rate of capital formation in the economy. However, the other two objectives of distribution and short-term stability will not be ignored totally, since they do form an integrate part of fiscal policy in Iraq, as in any other country at present.

The importance of the revenue structure in an underdeveloped country like Iraq, and its ability to mobilize a relatively larger amount of resources for development, stems from the fact that the bulk of the function of economic development in underdeveloped countries, rests mainly on their government sectors in the initial stages of development. Bearing in mind that a central government has to finance its ordinary current expenditure, one can not fail to see the necessity of having a relatively efficient revenue system, that can mobilize a sizeable proportion of total economic resources, not only to cover ordinary current government expenditure, but to participate directly in the process of capital formation.

Here it is important to emphasize that the success of fiscal policy in accelerating the growth rate of the economy does not depend entirely on the relative size of the government sector, since various structural features of the tax system may have a profound effect on the pattern of total resources allocation in the economy. However,

it must be stressed here, that if the relative size of the government is negligible, then no considerable amount of resource allocation, income distribution, or economic stabilization can be achieved.[2]

1. Size and Structure of Government Revenue

Our first step here is to examine the size and structure of total government revenue in Iraq for the period 1953-1963.

It can be seen clearly from table 17 that the relative size of government revenue (as a % of G.N.P.) varied from a maximum of 36% in 1955, to a minimum of 25% in 1957, giving an average of 32% for the whole period. Here it may appear at first, that Iraq's revenue structure is quite developed, in terms of its capability of mobilizing resources to the government sector, since the above average rate of 32% is almost as high as that of the U.K., 37%.[3] Yet if we examine the structure of government revenue in Iraq in more detail, we find that it is not as developed as it appears to be at first.

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(2) In fact a percentage of 20% has been suggested as the minimum relative size of the government sector, which may be necessary for the management of a fairly effective fiscal policy, see Hicks, U.K. "Development Finance" (Oxford University Press, 1965) p.69.

(3) The above rate has been calculated on the basis of the 1963 data from U.N. "Statistical Yearbook, 1963" (New york, 1964), Table 183, p.640, and Table 170, p.528.

For the bulk of total government revenue in Iraq is mainly derived from oil royalties.[4] Thus if revenue from oil is excluded we get a totally different picture.

Table 18 shows the relative importance of major categories of revenue in terms of their ability to mobilize resources to the government's sector in Iraq. Excluding oil revenue, it can be seen clearly from table 18 that ordinary taxes (direct and indirect) could only mobilize on average about 12% of total economic resources for the government sector in Iraq. Furthermore, looking at tables 18 and 19, it becomes evident that oil revenue still dominates the whole revenue structure in Iraq. For oil revenue accounts on average for about 62% of total government revenue, while ordinary tax revenues accounted on average for about 28% of of total government revenue, the remaining 10% being accounted for by other non-tax revenues, i.e. registration fees.

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(4) See table 19. While oil royalties may in the last analysis be considered as a tax on company profits, we have found it useful to distinguish between oil revenue (royalties) and ordinary company taxation in Iraq, for two main reasons. First, oil royalties cannot be considered exactly as an ordinary tax on company profits, since their rates are not only subject to the jurisdiction of the national tax authority, but are fixed by bilateral agreements between Iraq and the foreign oil companies. Such agreements usually extend over a relatively long period of time, thus it is inconceivable that the tax rate (royalty) can be changed as other tax rates. Secondly, the above distinction will enable us to assess the characteristics of the basic tax structure and policy in Iraq.

The predominance of oil revenues in the Iraqi revenue structure reflects partly the relative importance of the oil sector in the Iraqi economy, for the relative contribution of the oil sector to total economic activity (N.Y.) in Iraq, was about 23%[5] on average for the period 1953-1963. However the above can only partially explain the predominance of oil revenue, since this is due as well to the inadequacy of tax policy in Iraq. Thus the raising of tax yields in Iraq (as a % of total government revenue and N.Y.) remains the central problem of tax policy in Iraq at present. For it is extremely difficult to see how fiscal policy can play an important role in achieving its objectives of allocation, distribution and stability, while tax revenue in Iraq remains at its present low relative and absolute level.[6] Furthermore, the present predominance of oil revenue is bound to subject government revenues and expenditures to variations which are partially beyond its own fiscal control. This is necessarily so since the government receives a fixed rate of the profits of oil companies, but cannot control the general price and production movements of oil. Thus any severe price and production

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(5) Haseeb, K. (mimco) op.cit., Table 7, p.19.

(6) While the above problem is of extreme importance in the context of tax policy and reform in Iraq, it should be stressed that the achievement of the above fiscal objectives is not totally dependent on tax policy, but on expenditure policy as well. See chapter 4.

movements here will reflect themselves strongly in the movements of N.Y. and total government revenue.[7] Given the relatively important role of the government's sector in the economic development of Iraq,[8] one can clearly see the disadvantages involved in subjecting government expenditure (especially development expenditure) to such severe and sudden changes.

Furthermore, the increase in the relative contribution of the various taxes tottotal government revenue, may be important from a distributional point of view. While recognising the potentialities of the use of government expenditure policy in achieving a relatively more equitable distribution of incomes in Iraq, taxation remains a better and more effective fiscal tool in this specific context.[9] Thus, it is unlikely to achieve a relatively wide degree of income and wealth redistribution, while the relative contribution of taxation to total government revenue,

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(7) The decline in oil production during the Suez crisis was the basic reason for the fall in the N.Y. of Iraq during that year, see table 1. Such a decline was reflected strongly by the decline of the absolute and relative contribution of oil revenue to total government revenue, see tables 17 and 18.

(8) See chapter 4.

(9) Hicks, U.K. "Development Finance" op.cit., p.61.

remains at its present low level in Iraq. Moreover the relative increase in the yield of taxation may be of further importance if the problem of short-term stability is considered. While oil royalties still dominate the revenue structure in Iraq, it becomes evident that the variation of the level of government expenditure is probably the only effective fiscal measure, that can be used to achieve short-term stability in the economy. But in recognising the possible effectiveness of the above measure one cannot fail to see that a combined tax and expenditure measure may be far more effective than expenditure measures only in achieving short-term stability. Moreover, it is quite important not to overlook the unfavourable effects of varying government expenditure on development programmes.(10)

The increase in the relative contribution of tax revenue to total government revenue and N.Y. remains one of the urgent problems of fiscal policy in Iraq today, if one

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(10) The above point may have extremely important implications for Iraq, since the bulk of developmental expenditure may be spread over a period of time according to a given development programme. The subjection of such developmental expenditure to sudden changes, which may be conceived as short-term stability measures, may have extremely harmful effects. An increase in the level of taxation may be more preferable here, since the problem of short-term stability can be dealt with, without necessarily changing the already determined pattern of resource allocation, see Musgrave, R.A. op.cit. pp. 38-39.

considers the revenue structure in general. While the existence of a relatively large yield from oil royalties, has contributed to the enlargement of the government sector in Iraq, it has contributed at the same time to the almost complete neglect of other forms of taxation. However, the above may have been partly due to the lack of the proper understanding of the role of fiscal policy in general (and tax policy in particular) in accelerating economic growth.(11) For it was not until recently that the role of taxation in the allocation of resources, distribution of incomes and wealth, and short-term stability, has been recognised properly in Iraq's fiscal policy.

Consequently, in the long-run the increase in the relative contribution of tax revenue (other than oil royalties) will depend primarily on the deliberate governmental policy of encouraging the growth of non-oil sectors in the economy.(12)

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(11) In fact the term "fiscal policy" was not used in any official fiscal documents until very recently, see Ernest, J., "Fiscal Policy in Iraq", (Al Gummhuriah Press - Baghdad 1962) (In Arabic) pp. 6-7. Furthermore it is surprising to see no mention at all of the aims and objectives of fiscal policy, in official fiscal documents before 1959, see Govt/Rep. of Iraq - Ministry of Finance Directorate General of Budget - "Explanatory Note Regarding the Annual Budget", years 1951-1958; and Central Bank of Iraq "Annual Report", 1953, pp. 37-38, and 1954, p.62.

(12) See chapter 4.

In the short-run however, the increase in the relative contribution of other tax yields in Iraq may be achieved by improving the flexibility of the present tax structure. It is to this aspect we turn our attention now.

II. Flexibility of The Tax Structure in Iraq

Here, the basic problem is to increase the degree of flexibility of Iraq's tax structure, so as to make it absorb the bulk of incremental income in the various sectors of the economy.

The question of the flexibility of the tax structure, is of extreme importance and relevance in underdeveloped economies today. For without a relatively flexible tax structure no underdeveloped country can hope to achieve an optimum allocation of resources. While the question of tax structure flexibility is discussed mainly in terms of compensatory fiscal policy in developed economies, its relevance to an underdeveloped country like Iraq, stems mainly from its effects on diverting the bulk of incremental income into productive investment.

It is evident then that the increase in tax revenue as a proportion of total government revenue and N.Y. in Iraq, will depend largely on the degree of flexibility of Iraq's tax structure. Here it may be useful to attempt a

statistical measurement of the above. But before doing so it is important to clarify the meaning of the concept "flexibility" in its fiscal context. The flexibility of a tax structure may simply refer to the effects of tax rates as such. Thus, if the tax rates are arranged in a specific way, i.e. progressive rates on income, then a given income increase will be matched by a relatively more proportional increase in the tax yields. The above may be denoted as the "built-in flexibility" which is directly related to the tax rates. In contrast, an increase in the tax yields is possible without necessarily increasing tax rates, but simply by widening the present tax basis, imposing new taxes, or improving the administration of present taxes. This may be denoted as "administrative flexibility" and should be distinguished from the above concept of "built-in flexibility".

Table 20 represents an attempt to measure to the flexibility of the tax structure in Iraq, for the period 1953-1963. Here it is important to note that table 20 measures the overall (both built-in and administrative) flexibility of the tax structure in Iraq, since it is reasonable to assume that the tax structure

was subject to change during the above period.[13] At any rate it will be shown later in the analysis that it is the "overall flexibility" that is more important to fiscal policy in Iraq.

It can be seen from table 20, that the average index of overall flexibility of the tax structure in Iraq was about .8 for the period 1953-1963. However the single rates varied widely between a maximum of 3.66 in 1955, to a minimum of -1 in 1959. While it may be difficult to specify a numerical value required for the index of flexibility in Iraq, it is evident that the relative contribution of tax revenue (as a % of N.Y.) will not rise significantly, unless the overall index of flexibility can be maintained at a relatively high level, i.e. (.6-.8) so as to absorb the bulk of incremental income in taxation. While the average index for Iraq was relatively high, it is interesting to note the relatively wide variability in the single figures.

Here the maintenance of a relatively high degree of flexibility in the Iraqi tax structure may be accomplished either by arranging the rates of the various existing taxes

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(13) For a review of the major tax changes during the above period see, Central Bank of Iraq 'Annual Reports", 1953, pp. 37-38; 1954, p.62; 1955, pp. 37-38; 1956, p.30, and Ministry of Finance - Directorate General of Budget - "Explanatory Note Regarding the Annual Budget", years 1958-1963.

so as to incorporate a relatively high degree of built-in flexibility, or to stress the highly income elastic taxes as the major feature of the tax structure.[14] Moreover, the improvements in the quality of fiscal administration may contribute to the raising of the degree of overall flexibility of Iraq's tax structure.

While recognising that the present structure of tax rates in Iraq may account partially for the relatively low level of tax yields, the administrative ability and willingness of the government to impose and levy new taxes remain today the basic factor limiting the increase in the relative share of taxation[15] of government revenue. Moreover, it is important to stress that if the administrative ability of the government is limited, then

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(14) The above has been stressed in particular with reference to tax reform in Iraq, see Balogh, T. "Economic Development Policy in Iraq" (Introduced to Arabic by Hassan, S.M. - Al-Aani Press - Baghdad 1958) pp. 147-148. Although the above may increase the relative tax yields, its possible unfavourable effects on the supply of work effort should not be overlooked. For a theoretical analysis of the effects of progressive income taxation on the supply of work effort see Musgrave, R.A. op.cit., pp. 232-246.

(15) Excluding oil royalties.

an increase in the progressiveness of present tax rates (or simply an increase in the general rates) can hardly be expected to increase tax yields,[16] for it is only under a relatively efficient fiscal administration that the above may lead to increased tax yields.

So far it has been shown above that the attainment of a relatively high degree of overall flexibility, is of extreme importance to present fiscal policy in Iraq. Given the potential uncertainty in the flow of oil revenues[17] the necessity for the increased dependence on a sound fiscal system, which relies mainly on tax revenue (other than oil royalties) becomes clearer. Furthermore, the above becomes more evident if one contrasts the basic features of the fiscal system of developed and underdeveloped economies. Given a relatively high degree of flexibility in the tax structures of most developed countries,[18] it can be seen clearly that an increase in government's expenditure, can be met immediately by increases in taxation, thus it may be asserted that it is the level of government expenditure

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(16) Instead, total tax revenue may decrease even in absolute terms, if tax rates are increased where fiscal administration is relatively inefficient, see Rahman, A.A. "The Revenue Structure of the E.F.A. Countries" (I.M.F. Staff Papers - Vol. XII, No.1, 1965) p.115.

(17) See Balogh, T., op.cit., pp. 29-31.

(18) Kaldor, N. "Indian Tax Reform" (Government of India - Ministry of Finance, New Delhi, 1956) p.1.

that primarily determines the level of taxation in developed economies. In contrast, we may get exactly the opposite sequence in an underdeveloped country where the level of government expenditure is limited, not only by the level of the total resources in the economy, but by the failure of the tax structure and policy, to mobilize the needed resources for the use of the government's sector.

III. Taxable Capacity in Iraq

So far we have stressed the need for a relatively large degree of flexibility in Iraq's tax structure. Yet it may be asserted that taxable capacity in Iraq is quite limited, since per capita income is relatively low. While recognising that the level of income and wealth is the basic factor influencing the taxable capacity of any country,[19] the present low level of tax yields[20] in Iraq cannot be explained wholly by the relatively low per capita income level.

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(19) See Tress, R.C. "Trends in Public Finance" (Lloyds Bank Review - New Series - No. 29, 1953) p.34.

(20) Excluding oil royalties.

It is important to note that the concept of "taxable capacity" in the industrially advanced economies, is mainly analysed with reference to its possible effects on vital quantities, i.e. production, savings. Thus, a given total tax ratio may be considered within the taxable capacity of a country, if it has no detrimental effects on the total level of production. However, it must be stressed that the above type of analysis does not necessarily take into account the effects of government's expenditure as well. While some attempts have been made to specify numerically the critical level of taxation,[21] the problem remains basically difficult to determine in strictly quantitative terms.

However, it is important to point out the possible effects of other relevant factors on the level of taxable capacity in an underdeveloped country like Iraq. The degree of political acceptance has often been stressed as an important factor influencing the level of taxable capacity in underdeveloped economies.[22] Here, the political acceptance of a relatively wide taxation programme will depend not only on the general level of taxation, but on the structure of taxation as well. Thus a relatively more

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(21) See Clark, C. "Public Finance and Changes in the Value of Money" (E.J. Vol. LV, 1945) pp. 376-380.

(22) Fujita, S. "Political Ceiling on Income Taxation" (Public Finance - Vol. XVI, No. 1, 1961) p.183.

equitable structure of taxation may induce the acceptance of a relatively higher burden of taxation. Simillarly, the above may depend largely on the pattern of government expenditure. Thus the existence of a significant element of equitability in Iraq's tax structure should not be viewed only with respect to its distributional effects but with reference to its favourable effect in inducing the acceptance of a relatively heavy taxation programme at the initial stages of growth.

Moreover, the present level of fiscal administrative efficiency in Iraq[23] is probably the most serious obstacle to the achievement of a relatively higher level of tax yields. While recognising that administrative difficulties are existent in all fiscal administrations, they generally present a more serious problem in under-developed countries. Thus an increase in the standards of tax assessment and collection may increase the present tax yields in Iraq, without necessarily raising the present tax rates, or introducing additional taxes.[24]

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(23) This is discussed in detail in the next section.

(24) For a thorough discussion on the problems,of fiscal administration in underdeveloped economies see Jrimo, A.B. "Administrative and Political Problems in Raising Tax Yields" (paper in "Government Finance and Economic Development") op.cit.p.p. 213-230

Consequently, it would be more useful to view the problems of taxable capacity in Iraq today, as that of trying to raise the level of the present realised taxable capacity, to a potentially higher possible level. While it may be difficult to determine theoretically the above, it may be stressed that Iraq's present realised taxable capacity may be far below its potential taxable capacity. Finally, it may be emphasized that the stressing of the element of equity in Iraq's present tax structure, if paralleled by improvements in tax assessment and collection, may contribute considerably towards bridging the present gap between realised and potential taxable capacity in Iraq.

IV. Analysis of Iraq's Tax Structure Policy.[25]

So far we have examined the revenue structure of Iraq in general. Here a detailed critical analysis of tax structure and policy in Iraq is presented. It is this specific aspect of revenue structure and policy that is potentially of great significance to economic development in Iraq. The term "potential" should be stressed here since we are not only concerned with the analysis of the present tax structure as such, but mainly with the possibility of increasing the role of taxation in Iraq's fiscal policy. Thus the following

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(25) The above is presented mainly in terms of present tax structure in Iraq. References to the historical development of specific aspects of the present tax structure will be indicated wherever possible.

analysis will not be confined to the assessment of the quantitative role of individual taxes only but with their respective potentialities in achieving the already outlined aims of fiscal policy.(26)

Thus, each tax will be analysed in terms of its economic effects, equitability, and administrative feasibility. The economic effects of a tax are taken to include its real incidence,(27) hence its possible effects on variable quantities which may influence the rate of capital formation, i.e. total supply of savings. Furthermore, the ability of the tax to act as an instrument of short-term stability is taken to be included in its economic effects. However, while examining the Iraqi tax structure and policy in detail, more stress would be laid

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(26) See chapter 2.

(27) It is extremely important to distinguish between the formal and real incidence of taxation. While formal incidence can be estimated statistically by comparing the relative nominal burden on different income groups, real incidence cannot be estimated as such, and can only be discussed in analytic terms. For a theoretical review of the problem of real tax incidence see Hicks, U.K. "The Terminology of Tax Analysis" (In American Economic Association "Readings in the Economics of Taxation" - Allen & Unwin, 1959) p.p. 221-225; Seligman, E.R.A. "Introduction to the Shifting & Incidence of Taxation" (Ibid) pp.202-213; and Dosser, D. "Tax Incidence & Growth" (E.J. Vol. LXXI, 1961) pp.572-591.

on the role of taxation in the allocation of total economic resources between investment and immediate consumption, since as it has already been stressed, the above constitutes the central point in the fiscal policy of any underdeveloped country. Nevertheless, the role of individual taxes in reducing economic inequalities and maintaining short-term stability will not be ignored altogether, since the above two objectives do constitute an integral part of fiscal policy in Iraq.

(A) Direct Taxation.[28]

(1) Personal Income Taxation.[29] The importance of income taxation in Iraq at present does not stem from its present fiscal significance, but mainly from its potential value as an instrument of equity. The above becomes clearer, if we consider the possible increases in the degrees of inequality of income and wealth, that may

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(28) We have followed the twofold traditional classification of taxes into direct and indirect taxes. Direct taxes in Iraq are taken as income (personal and company) tax, property taxes, death duties, and the agricultural land taxes. While indirect taxation in Iraq includes import duties, excise taxes, and the abolished agricultural consumption (Istiblak) taxes. For further discussion on the problem of tax classification see Hicks, U.K. "The Terminology of Tax Analysis" op.cit., pp. 214-221, and Dosser, D. "Indirect Taxation & Economic Development" (In "Government Finance and Economic Development") op.cit., pp. 127-128.

(29) The above analysis is confined to the present income tax structure in Iraq. For a review of the historical development of income taxation in Iraq see Al-Saiidi, K. "The Development of the Income Tax in Iraq" (Al-Iktisadi - No.4. Year 5 - 1964 - Al-Maarif Press, Baghdad) - In Arabic - pp. 44-54.

accompany the process of economic growth.[30]

Table 21 shows the relative contributions of major taxes to total tax revenue in Iraq for 1953-1963. While the average contribution of income taxation to total tax revenue was about 10% for the above period, it should not be overlooked that the above increased from 8% in 1953 to 15% in 1963. Given that the relative contribution of tax revenue to total government revenue was about 28%[31] for the above period, it becomes evident that income taxation in Iraq has not yet assumed a quantitatively important role in Iraq's tax policy. Here a comparison of the rate of income taxpayers to total population in Iraq, with the corresponding rate for a developed country may be extremely useful.[32] While the percentage of income taxpayers to total population hardly exceeded .01%[33] in Iraq, the corresponding percentage for the U.K. during the post-war period was about 40%.[34]

The relatively low yield of income taxation in Iraq, can be explained partly in terms of a relatively low taxable capacity, since per capita income is relatively low in Iraq.

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(30) See Kaldor, N. op cit. p.7.

(31) See Table 19.

(32) Or alternatively to "total working population" if statistics were available.

(33) Calculated from, Haseeb, K.(mimco) op.cit. Table 2, p.14; and from table 22, statistical appendix.

(34) Hicks, U.K. "Direct Taxation & Economic Growth", op.cit. p.304.

However, it has already been stressed that the above does not provide a total explanation for the relatively low yield of tax revenue in Iraq. Here the effects of other relevant factors may be taken into consideration. Such factors may be distinguished as:-

(a) Allowances and exemptions -

(b) Tax Rates (their progressivity or proportionality -

(c) Administrative efficiency -

Let us examine the above factors with respect to present income tax structure and policy in Iraq.

(A) The incorporation of a system of personal exemptions and allowances is probably a common feature of most income tax structures in the world today. For while the degree of progression desired remains an unsettled question it is almost universally agreed that a minimum degree of progression (the total exemption of a minimum level of income corresponding to a socially defined minimum standard of living) should be maintained. Thus a basic personal allowance in an income tax structure, insures that income taxation does not affect the living standard of people living at a socially defined subsistence level.(35)

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(35) This may be considered as a necessary but not a sufficient condition to the above, since indirect taxation may affect the living standards of the above category of people, through inducing price changes (see section IV (B) present chapter.)

At present, the basic individual allowance is 450 (I.D.) for the single man, 150 (I.D.) for a wife and a further 50 (I.D.) for each child under 18.[36] Furthermore, there is an extra 100 (I.D.) allowance for people over the age of 63. The basic question here is not whether the above allowances should exist at all or not, for it is evident that they can be justified in terms of ensuring a minimal degree of vertical equity between taxpayers. Our main problem here is to determine the most suitable quantitative level of such allowances, bearing in mind the general economic conditions in Iraq. Thus if we express the present basic individual allowance as a multiple of per capita income in Iraq, we find that the resultant rate is equal to 8.[37] While it is difficult to define the minimum socially accepted standard of living, it must be stressed that the above must be defined primarily in the context of present

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(36) Republic of Iraq - Income Tax Law, No. 95 (1959) (as amended) Sec. 12.

(37) Calculated by expressing 450 (I.D.) (basic individual allowance) as a multiple of the average per capita income of Iraq for 1953-1963, (calculated from Haseeb, K. (mimco) op.cit., table 2, p. 14.).

living conditions in Iraq. Thus a reduction in the basic individual allowance does not seem undesirable here, if one considers present living conditions in Iraq. Furthermore, such a reduction must be viewed primarily in terms of its potentially tremendous effect in widening the present income tax base in Iraq, by including more taxpayers. While such a step may be opposed on political grounds, it is extremely difficult to visualize income taxation playing a relatively more important role in Iraq's tax policy, if the basic individual allowances are maintained at their present highly unrealistic level.

However, the unfavourable distributional effects implied in the above step, may be compensated for by the further development of other equitable elements in Iraq's tax structure as will be shown later in the analysis. The justification for children's allowances may be stated in terms of equity, for it is evident that any two individual taxpayers with a different number of children each, cannot be considered to be in the same income position. Here the main relevant consideration for an underdeveloped country, is the possible effects of children's allowances on the birth rate. While the birth rate in an underdeveloped country is primarily determined by non-fiscal factors, the manipulation or limitation of children's allowances may

influence the birth rate partly. However, the above consideration is neither important nor relevant to Iraq at present, since Iraq is basically an underpopulated country considering its present and potential economic resources.(38) Finally, the partial exemption of life insurance payments up to the value of 150 (I.D.) per year(39) is a measure which is mainly conceived in terms of its effects on long-term savings. The above incentive measure is extremely important if one considers its favourable allocative effects. Furthermore, it is easier to justify such a measure than the maintenance of high individual allowances, although both types of measures involve a sacrifice in terms of revenue.

(B) Table 23 shows the present personal income tax rates in Iraq at present. While the principle of progression may be derived from a purely theoretical

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(38) See J.B.R.D. "The Economic Development of Iraq" (Johns Hopkins Press, 1952) p.1.

(39) See Republic of Iraq - Income Tax Law (as amended) op.cit., Sec. 8.

analysis,[40] the justification for progression in the present income tax structure in Iraq, may best be stated in terms of the desire to reduce the present degree of economic inequality.[41]

But here it must be stressed that the equitability of Iraq's present tax structure should not be judged solely by the relatively high marginal rates of the present income tax. For it has already been shown that income tax yields in Iraq, still form a relatively negligible part of government revenue. Thus while the apparent degree of progression in Iraq's income tax

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(40) Most economists who support the principle of progression have often attempted to justify it on purely economic grounds. Thus the principle of progression has often been derived from various sacrifice theories by utilising a certain common group of assumptions, i.e. a given functional relationship between income and utility (declining marginal utility of income), and a uniform and identical utility schedual for all individuals. While such attempts may be extremely useful from an analytical point of view, their respective validities will depend in the last resort on the validity of the assumptions they utilise. For a thorough and critical review of the above type of theories see, Fagan, E.D. - "Recent and Contemporary Theories of Progressive Taxation" (In "Readings in the Economics of Taxation") op.cit., pp. 19-35; Chapman, S.J. "The Utility of Income & Progressive Taxation" (Ibid), pp. 3-12; and Blum, W.J. & Kalven, H. "The Uneasy Case for Progressive Taxation" (University of Chicago Press, 1953) pp. 39-63.

(41) See Republic of Iraq - Income Tax Law (as amended) op.cit., (Introduction).

structure is nearly as high as that of developed economies,[42] it does not necessarily imply a simillarity in their respective fiscal roles. Moreover, it is important to stress that relatively high marginal rates, may induce a relatively higher degree of tax avoidance since the monetary reward (in terms of undeclared income) are fairly high here. Nevertheless, the problem of tax avoidance is by no means peculiar to underdeveloped countries. But given the present limited administrative ability of fiscal administration in Iraq it does not seem reasonable to assume that the present income tax rates in Iraq are probably far beyond the administrative ability of the fiscal administration to impose effectively.

Thus the lowering of the present high marginal rates in Iraq may not impair the distributional function of personal income taxation to any considerable degree. Rather it may strengthen it further if the generally lowered various rates are applied more effectively.[43]

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(42) The highest marginal rate in Iraq is 90%. (see table 22) while the highest marginal rate in the U.K. reaches 92.5%, see Prest, A.R. - "Public Finance" (Weidenfeld & Nicolson - London, 1960) p.262.

(43) The above may be accomplished mainly by reducing the highest marginal rates. This above point has been stressed in particular by Kaldor with reference to tax reform in India. Mr. Kaldor's suggestions mainly emphasized the strengthening of tax collection and administration and the lowering of the maximum marginal rates in India from a maximum of 92% to a maximum of 45%, see Kaldor, N. op.cit., pp. 2-14.

Consequently, the reduction of the present basic individual allowance to a relatively more realistic level, coupled with a simpler and milder structure of personal income tax rates, may improve income tax yields considerably. For high marginal rates on income may be expected to produce high tax yields only under conditions of maximum administration efficiency. Thus an increase in the income tax rates of a developed country may be reasonably assumed to produce the required incremental yield while a similar increase in the tax rates in a country like Iraq can hardly be expected to raise yields automatically, given the relatively limited administrative capabilities of Iraq's present fiscal administration.

(C) However, it is in the field of fiscal administrative efficiency that most can be done to improve income tax yields in Iraq. The above should not be judged only in terms of distribution, but also in terms of increasing the role of income taxation to deal with the problem of short-term stability in the Iraqi economy.

Various methods regarding the improvement of fiscal administration of income taxation in underdeveloped countries have been suggested. The introduction and extension of a P.A.Y.E. system of income tax collection may contribute considerably towards increasing income tax yields in Iraq.

In fact, wherever the extension of the above system were applied, spectacular increases in tax yields and number of income taxpayers were achieved.(44) While the present income tax law in Iraq, provides for the deduction of income tax at its source,(45) it must be noted that this may apply to government and public bodies officials more effectively than to employees of private firms. Here, such a differential in the degree of effectiveness of tax collection may itself violate the requirement of horizontal equity. Furthermore, the simplicity in the basic features of tax structure and legislation should be stressed here(46) given the relatively low standards of accountancy and book-keeping in Iraq at present. The possibility of using

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(44) See Hicks, U.K. "Development Finance" op.cit., p.91; Prest, A.R. " Public Finance in Underdeveloped Countries' op.cit., p.35 and "Public Finance" op.cit., p.142.

(45) See Income Tax Law (as amended) op.cit., Secs. 17-18.

(46) While it is conceivable that the tax rates could be changed, the actual legislative text of the tax should not be changed so often, since this may complicate tax administration, and consequently assessment and collection. The present income tax law in Iraq was amended six times in five years only, with those amendments contributing each time to changes in the marginal text, see Income Tax Law, (as amended) op.cit.

standard accounting methods in the private sector, may induce a relatively higher degree of fiscal efficiency, especially with regard to tax collection from the self-employed, who form the bulk of individual taxpayers in Iraq today.(47)

(2) Company Taxation. So far we have only dealt with personal income taxation. Here the basic relevant consideration involved in company taxation is its probable effects on the level of investment in the private sector of the Iraqi economy. It has already been stressed that the allocative role of fiscal policy in an underdeveloped country is basically a dual one. Thus the allocative role of fiscal policy in Iraq should not be viewed simply as that of mobilising resources for public investment. Rather the encouragement of private investment through fiscal incentive measures should still be considered as an important component of fiscal policy in Iraq, since capital formation still depends on the efforts of both the public and private sectors.

Table 24 shows the present company tax rates in Iraq. While income tax yields from company taxation formed on

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(47) See Govt./Rep. of Iraq - Annual Abstract of Statistics, 1953-1963. (Income Tax Sections).

average about 48%[48] of the total income tax yields in Iraq, its fiscal significance in terms of its relative contributions to total tax and government revenues is still relatively negligible. This can be partially explained by the relatively small size of the manufacturing sector in the Iraqi economy. The manufacturing sector contributed on average for about 10%[49] of N.Y. (at current Prices) in Iraq during 1953-1963. Furthermore, considering the relatively large proportion of unincorporated business in the other sectors it is not surprising to find company tax yields at their presently low level.

In terms of administrative efficiency, company taxation is far easier to collect than personal income taxation. This is mainly due to the relatively smaller number of tax-paying units, and due to the relatively higher standards of accountancy prevailing in incorporated business (as distinct from self-employed businesses). Moreover, it has often been advocated that company taxation should be separated completely from personal income taxation legislation, since it is subject to an altogether different set of policy considerations.[50] Such a step may be further advocated in terms

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(48) See table 22.

(49) Haseeb, K. (mimco) op.cit., Table 7, p.19.

(50) Kaldor, N. op.cit., pp. 95-96.

of its possible favourable effects in simplifying the present tax structure in Iraq. However, company taxation still forms a part (in legislative terms) of the general income tax structure in Iraq.(51)

It is clear from table 24 that company tax rates are generally much lower than personal income tax rates in Iraq. The maintenance of a relatively wide differential between the levels of company and personal income taxation, is conceived primarily in terms of its possible effects on the level of private investment. Furthermore the maintenance of the above differential may encourage the incorporation of private business.(52) Moreover, the slightly lower marginal rates on joint stock companies are conceived as a fiscal incentive to the growth of a particular type of business organisation, namely joint stock companies.(53) Such fiscal incentive is extremely important in allocative terms, sinee it may encourage the growth of the most desirable type of business organisation

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(51) See Income Tax Law (as amended) op.cit., Secs. 1 & 13.

(52) See Amendment to Income Tax Law, No. 29 (1964) (In - Al - Waggaieh - Al Irakiah - Government Official Gazzette - No. 996, Year 7 - 1964) p.4.

(53) Ibid.

from a developmental point of view.[54] The importance of the above fiscal incentive may become clearer if one considers the limited effectiveness of capital markets in Iraq today.

However, the most interesting feature of company taxation in Iraq today, is the relatively marked difference in the tax treatment of industrial as distinct from non-industrial companies.[55] Industrial companies are taxed at relatively lower rates than non-industrial companies. While this incentive measure may involve a considerable sacrifice in terms of revenue to the government, its allocative importance should not be underestimated. For it is specifically this type of fiscal incentive that may encourage the flow of private capital to long-term industrial projects, rather than to purely non-industrial short-term investment. Moreover, tax holidays are granted to new firms (up to a period of five years, with a provision for a further three years) as long as profits do not exceed 10% of paid up capital. Furthermore, undistributed profits are exempt

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(54) The above may be considered against the background of the present vital role of joint stock companies in the total capital formation of industrially advanced economies, i.e. U.K.

(55) For a definition of the above see Republic of Iraq - Industrial Development Law - No. 31(1961).

from company income tax up to a maximum level of 25% of annual profits.(56) The relatively favourable tax treatment of retained company profits in Iraq may possibly be the most important and effective fiscal incentive for the encouragement of the rate of capital formation.(57) This is necessarily so since it is evident that the taxation of all company profits (retained and distributed) at the same rate, may favour companies that distribute the relatively larger share of their profits.

While tax-free holidays for new firms may have been conceived as a general incentive measure to encourage industrial growth in Iraq, it is important here to point out an additional fiscal incentive that may be more preferable in this context. Here, in comparing tax-free holidays with other fiscal incentive measures (namely the use of accelerated depreciation allowances) we are assuming that both types of incentive involve an equal amount of revenue sacrificed. The main advantage of using accelerated depreciation allowances is that they specifically encourage the use of long-term capital equipment hence the growth of more capital intensive methods of

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(56) Ibid.

(57) The above has been stressed as the most effective fiscal incentive measure with reference to company taxation, see Kaldor, N. op.cit., pp. 86-87; and U.N. "Taxes & Fiscal Policy in Underdeveloped Countries" op.cit., pp. 34-35.

production. In contrast, the use of tax-free holidays does not necessarily produce the same above result. Furthermore, the necessity for increasing the use of accelerated depreciation allowances in Iraq, becomes more evident if one views the relatively low levels of depreciation allowances at present.(58)

While it is extremely difficult to calculate the cost of fiscal incentives, an attempt to do so was made in Iraq with reference to the cost of fiscal incentive measures to business, which were incorporated in the 1961 Industrial Development Law. It has been estimated that the cost of the fiscal incentive measures incorporated in the above was equal to 2.6 (I.D.).(59) Such an amount was equal to about 35% and 8% of total direct and total tax revenues respectively in that year. Since the achievement of an optimum allocatinn of resources is the basic justification for the various fiscal incentive measures in Iraq at present, it becomes important to ensure a fairly strong link between the granting of any specific fiscal incentive measure

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(58) For a detailed review of the present depreciation allowances see "Income Tax Laws, Orders & Explanatory Notes Issued Accordingly" (compiled by Sammurai, K. Al-Maarif Press, Baghdad, 1965) pp. 77-88. Furthermore, an immediate 100% allowance on capital expenditure has been suggested as an effective fiscal incentive to business, see Kaldor, N. op.cit., p.75.

(59) See "Explanatory Note Regarding the Annual Budget" op.cit., 1962 p.5.

and its possible contribution to the above objective. Thus while it may be conceded that by large the present volume of fiscal incentives incorporated in Iraq's income tax structure are justified on allocative grounds, it is important to review the present structure of business incentives, stressing selective accelerated depreciation allowances, as the primary business fiscal incentive.

(3) Agricultural Taxation. It is in this specific aspect of tax structure and policy that the relative inefficiency and limitations of tax policy in Iraq become more evident. While the agricultural sector accounted on average for about quarter of Iraq's N.Y. (at current prices) during 1953-1963,(60) the total yield from agricultural taxation did not account for more than 7% of total tax revenue.(61) Given the relatively small size of tax revenue as a percentage of total government revenue, it can be seen clearly that the quantitative

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(60) Haseeb, K. (mimeo) op.cit., Table 7, p.19 Calculated accordingly).

(61) Table 21.

importance of agricultural taxation[62] in Iraq is still relatively negligible in terms of yields.

The relatively low yield of agricultural taxation in Iraq is partly due to the exemption of agricultural income from the income tax base, [63] and partly due to the relatively harder problems of assessment and collection involved in agricultural taxation. However, the necessity for increasing the absolute and relative contribution of agricultural taxation in Iraq, can be stated in terms of the desirability for further dependence on tax (as distinct from oil royalties) revenues. Furthermore, the agricultural sector in Iraq remains probably as the most potential source of untapped taxable capacity.[64] Moreover, if the

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(62) Agriculture in Iraq was previously subject to two different taxes, a direct tax on agricultural land, with its rates varying between 2-15% according to the method of irrigation, and an indirect tax levied on the flat rate of 10% of the value of most cash crops, which was imposed on the consumption of agricultural products. See Government of Iraq - Agricultural Land Tax Law, No. 73(1936) (as amended); and Agricultural Consumption Tax Law No. 59 (1933) (as amended).

(63) See Income Tax Law, op.cit., Sec. 7.

(64) The mobilisation of untapped taxable capacity of the agricultural sector can be of extreme importance for underdeveloped countries today. Japan's earlier growth was based mostly on the mobilisation of the agricultural sector's savings through taxation, see Johnston, B.F. op.cit., pp. 501-505.

necessity of having a more balanced contribution of tax revenue from the various sectors is recognised [65] it becomes necessary and desirable to increase the relative contribution of agricultural taxation. However, it is quite important to stress the need for a set of fiscal incentive measures here, mainly due to the relative importance of increasing agricultural production at the initial stages of growth.

The basic feature of agricultural taxation in Iraq today is the existence of a single direct tax on the net value of the land's product.[66] Agricultural land is defined in terms of its suitability for cultivation, thus the land may be taxed on the potential value of its product (whether it is cultivated or not).[67] The taxation of the potential value of the agricultural land's product (as distinct from the value of its realised product) has often been stressed as an important fiscal incentive measure

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(65) See "Explanatory Note Regarding the Annual Budget" op.cit., 1959 - Sec. D.

(66) Republic of Iraq - Agricultural Land Tax Law, No. 60 (1961) - Agricultural Consumption taxes were abolished completely after the introduction of the above tax.

(67) Ibid - Sec. 1.

which may encourage the increase in agricultural production.[68] Thus the main advantage of the above fiscal incentive measure, is that it establishes a relatively strong link between the productivity of the land and tax liability. Hence, it is conceived that the present agricultural land tax may discourage the unproductive use of agricultural land.[69]

At present, the agricultural land tax incorporates a number of exemptions and allowances. We have already stressed above the need to increase the absolute and relative yields of agricultural taxation in Iraq. Thus in examining the following exemptions and allowances granted under this tax it is important to assess critically whether they are justified on allocative or distributional grounds.

The bulk of the small farmers are exempt from the agricultural land tax in Iraq today.[70] While such an

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(68) See U.N. "Taxes and Fiscal Policy in Underdeveloped Countries, op.cit., p.37; Yasa, M. "Taxation of Agricultural Land & Income" (In "Agricultural Aspects of Economic Development" - The Economic & Social Studies Conference Board - Third Conference, Istanbul, 1965) p.203 Furthermore the above has been stressed with particular reference to agricultural production in Iraq, see Balogh, T. op.cit., pp. 67-68 and I.B.R.D. op.cit., p.96.

(69) The importance of the above becomes clearer, if one considers that land is often held in agricultural communities simply for social prestige reasons rather than for productive use.

(70) All farmers receiving land under the post-revolution agrarian reform are exempt from the above tax, see Agricultural Land Tax Law, op.cit., Sec.3.

exemption may reduce the potentiality of increasing agricultural tax yields it may be justified on distributional grounds. This becomes evident if one considers that the per capital income of small farmers in Iraq, is probably just on the margin of subsistence. Furthermore, the above exemption has been conceived partly as a discouragement to mass rural emigration to urban areas, i.e. Baghdad.(71)

In providing for the possible exemptions of lands producing certain selected products,(72) it is hoped that a change in the pattern of agricultural production may be achieved. However this is basically a matter of agricultural rather than fiscal policy. Furthermore, the provision for the temporary exemption of farmers who's lands are not cultivated fully due to natural causes, i.e. soil erosion,(73) is quite justified, for here one has to take into account the particular nature of agricultural production which is basically influenced by natural factors. Moreover, the present tax provides for the total exemption of newly reclaimed lands up to a maximum period of five years.(74)

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(71) This may in itself be quite important due to the acute problem of rural emigration in Iraq at present, see "Explanatory Note Regarding the Annual Budget" op.cit., 1961 - Sec. B.

(72) See Agricultural Land Tax Law, op.cit., Sec.4. For a lis of the present exemptions under the above section see Al - Muttair, Ali, "Lectures on the Agricultural Land Ta Law,(mimco), in Ar. Baghdad, 1964, p.7.

(73) See Agricultural Land Tax Law, op.cit., Secs. 6-7.

(74) This is provided that expenditure on land reclamation is carried at the minimum rate of 2 (I.D.) per 2500 square meters, Ibid. Sec.5.

The above is probably the most important fiscal incentive measure in the present structure of agricultural taxation in Iraq. The exclusion of newly reclaimed lands is extremely important in allocative terms, since it may encourage land reclamation, thus induce possibly a net increase in the total area of cultivatible land. Furthermore, its possible effects on inducing an increased use of fixed capital in the agricultural sector should not be overlooked.

The need for the relative increase in the yield of agricultural taxation has already been stressed. Thus while the above incentive measures are mainly conceived in allocative terms, it is important to note their effects on present agricultural tax yields. The present agricultural land tax hardly contributes over 2% of total tax revenue in Iraq today.(75) Given that tax revenue does not constitute on average more than 28% of total government revenue(76) it becomes evident that the present quantitative importance of agricultural taxation in Iraq is relatively negligible.

Here, it is important to note, that the above is not totally due to the present exemptions and allowances, but due to the exceptionally low rates of the tax itself. At present the average flat rate paid is about 2.3% of the

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(75) Table 21.

(76) Table 19.

value of the land's product.[77] While the above exemptions and allowances may be justified on allocative or distributional grounds, it is extremely difficult to justify the present exceptionally low tax rates on the above grounds. The necessity of increasing the present agricultural land tax rates becomes evident, if one stresses the need to increase agricultural land tax yields. Furthermore, at a relatively higher level of agricultural tax rates, the relative economic advantages of the present incentive measures may become more marked, thus probably more effective. It is inconceiveable that agricultural tax yields in Iraq will increase significantly in the near future, while the present level of agricultural tax rates is maintained.

(4) Death Duties. Quantitatively, death duties are still negligible in relative terms, for they only account for about 2% of total tax revenue in Iraq.[78] However, their potential importance in Iraq's tax policy may be of some

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(77) The above rate is calculated as an arithmetic average of the slightly different rates imposed on various types of lands according to their irrigation system, and according to their legal holding system. See Agricultural Land Tax Law, op.cit., Sec.2.

(78) Table 21.

significance. Given an improvement in tax administration in Iraq, they may well become an important fiscal tool for the redistribution of wealth.

The basic justification of death duties may best be stated in terms of their effects on the levelling of social and economic opportunities of individuals.(79) While stressing the potentially important distributional role of death duties, the possibility of developing them as instruments for increasing government revenue in Iraq, should not be overlooked. The above may become more evident if one considers that the earliest use of death duties was not conceived in distributional terms, but mainly as a source of further revenue to the government.(80)

However, the importance of death duties as an element of equity in the present tax structure of Iraq, stems mainly from the present limitations of income taxation as an instrument of redistribution. Thus if income as defined in

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(79) See Musgrave, R.A. op.cit., p.176, and Rep. of Iraq - Legacy and Inheritance Tax Law No. 157 (1959)(Preamble).

(80) The earliest use of death duties in the U.K. was mainly conceived in terms of their effects on raising government revenue, see Tait, A.A. "Death Duties in Britain" (Public Finance - vol. XV, 1960) pp. 348-349, and Fijalkowski-Bready, G.Z. "The Equalising Effects of Death Duties" (Oxford Economic Papers - New Series, vol. 11, 1960,) p.177.

the present income tax law,[81] is not considered to be a satisfactory index of equity,[82] then clearly the application of progressive taxation to other indexes, i.e. wealth, may contribute considerably towards achieving a relatively greater degree of equity in the tax structure as a whole.

Originally, death duties in Iraq were introduced as two separate taxes, one on the total legacy, and the other on the separate inheritance shares.[83] Later the inheritance tax was abolished,[84] thus at present death duties in Iraq represent a single tax levied on the total legacy. Table 25 shows the present rates of death duties in Iraq. It can be seen clearly from the above that the present death duty rates are fairly high in Iraq, for the maximum marginal rate of 60% is fairly comparable to the maximum marginal rate of 80% which prevails under the

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(81) The present income tax law in Iraq does not attempt a comprehensive and theoretical definition of income for the purpose of taxation. Rather it lists classes of income that come under the income tax law, see Income Tax Law (as amended) op.cit., Sec.2.

(82) No definite conclusion can be arrived on the equitability of any tax or tax structure, if one does not define an index of equality. The acceptance of income as the basic index does not necessarily imply its superiority over other indexes. For a discussion on the relative merits of the various indexes, see Musgrave, R.A. op.cit pp. 161-164.

(83) Legacy & Inheritance Tax Law, op.cit., Secs. 3-4.

(84) "Explanatory Note Regarding the Annual Budget", op.cit., 1961 - Sec.G.

British tax system,[85] bearing in mind that death duties in Britain are perhaps the most severe in the world (in terms of their degree of progression).[86]

Here the most interesting problem is perhaps the definition of the tax-paying unit. It is important to distinguish betweenn the effects of a single death duty levied on the total legacy (as in Iraq today), and a tax on the individual shares of inheritance. Assuming that the tax rate is progressive, it can be shown that the former will yield a relatively larger amount of revenue. Thus the abolition of the inheritance tax in Iraq, and the present maintenance of a single progressive tax on total legacy, is mainly justified in terms of stressing the revenue-yielding aspect of death duties.[87] Moreover, it must be remembered that a single tax on the total legacy is far easier to administer and assess than a tax on inherited shares. Such a consideration may not be of major importance in a developed country, but it may be of relatively more importance in a country like Iraq, which has not attained yet a relatively high standard of fiscal administration.

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(85) Tait, A.A., op.cit., p.346.

(86) Ibid.

(87) See Rep. of Iraq - Law Amending Legacy & Inheritance Tax Law, No. 30 (1964)(Preamble).

However, the determination of the tax-paying unit with respect to the above tax in Iraq, may be closely related to the basic objective of the tax itself. Thus, if death duties are mainly conceived as an instrument for the further diffusion of wealth, rather than the liquidation of big fortunes, then a separate tax on inheritance shares may be far superior to the present single tax on total legacy.(88) Furthermore, it may be assumed that a tax on the above lines (as distinct from that prevailing at present in Iraq) may have a less disincentive effect on private savings.(89)

The present legacy tax provides for a number of basic allowances, i.e. furniture, owner-occupied houses, etc.... However, the most interesting exemptions here are the provisions for the exemption up to 30% of the value of industrial shares and property from the tax base.

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(88) See Robbins, L. "Notes on Public Finance" (Lloyds Bank Review - No. 38 - 1955), p.p. 14-15.

(89) While a tax on the separate shares of legatees (assuming the same progressive rates) may yield less revenue than a single tax on total legacy, the former may have a relatively lesser degree of disincentive to savings, for it may be held that the relatively high marginal rates of a single legacy tax may encourage the spending of wealth prior to death.

Furthermore, interest on government bonds and loans up to the value of 1000 (I.D.) are exempted.[90] While the basic aim of the above tax is distributional the incorporation of the above incentive measures, is extremely important in allocative terms since they may encourage the holding of savings in the form of industrial assets and government bonds.

(5) Property Taxation.[91] The fiscal significance of property taxation in Iraq is relatively negligible in revenue terms, for it accounts on average for only about 4% of total tax revenue.[92]

It has already been stressed that income as defined in the present income tax law in Iraq may not be the most satisfactory index of individual taxable capacity. Thus the potential importance of property taxation in Iraq, is, in its addition of a further element of equity to the present tax structure, mainly through the recognition that

(90) Law Amending Legacy and Inheritance Tax Law, op.cit., Sec.3.
(91) While death duties may be regarded as property taxation, the above is distinguished as mainly a tax on real estate property, which is annual and not imposed once only as death duties.
(92) Table 21.

the ownership of property (real estate), contributes to the differentials in individual taxable capacities. Thus the basic justification for property taxation in Iraq may be stated in distributional terms.(93)

At present, the tax on real estate is assessed on the basis of annual rental income (as distinct from the capital value of the property). The assessment of the above tax on the basis of the capital value of real estate may provide a relatively better index of the ability to pay. However, it must be stressed that the administration of such a tax may be considerably more difficult than that of the present one in Iraq, for the assessment of annual rental income itself, involves numerous problems.(94)

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(93) See Hansen, B. "Aspects of Property Taxation: A General Report" (Public Finance, vol. XV. 1960) p.201, and "Explanatory Note Regarding the Annual Budget", op.cit., 1959 - Sec.D.

(94) At present, annual rental income from real estate is assessed mainly on imputed rental values, primarily to avoid tax evasion by declaring low nominal rental values. Such a procedure in itself involves various difficulties, i.e. pricing of rents. The main point here is that, while the assessment of rental values remains in itself a difficult problem, it is difficult to imagine that the assessment of capital values is going to be relatively easier.

At present, all rental income from real estate property is subject to a flat tax rate of 10% up to 1000 (I.D.) per year, while all property yielding an income above that is subject to additional progressive rates, which are shown in table 26. It can be seen from the above table that rental income from real estate is subject to a relatively much milder degree of progression than that under the income tax.

Owner-occupied houses are exempt from the tax if their imputed rental value does not exceed 220(I.D.) per year, but if it does exceed the above limit, then they will be subject to the basic flat rate only.[95] While the above exemption may be justified partially in terms of equity, the exemption of newly built real estate property (up to three years from the date of completion)[96] can hardly be justified on allocative or distributional grounds. On allocative grounds the above exemption is mainly conceived as an encouragement to the building of new dwellings. It has already been stressed earlier in the study that investment in real estate may compete with other forms of productive investments for the use of scarce capital resources.

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(95) Rep. of Iraq - Real Estate Tax Law, No. 162 (1959) (as amended) sec.4.

(96) Ibid.

Thus the case for the abolition of the above exemption becomes evident, if one stresses the scarcity of capital for investment in productive activity.(97) This may be further strengthened if one considers that the above exemption can hardly be justified on equity grounds.

(B) Indirect Taxation (98)

Indirect taxation still remains the main source of tax revenue in Iraq. For although the relative contribution of indirect taxation to total tax revenue has declined during the last few years, it still accounts on average for about 85% of total tax revenue in Iraq.(99) Moreover, its relative contribution to total government revenue is quite significant for it accounts on avarage for about

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(97) Investment may be taken in the above context to include fixed capital formation in industry and agriculture, and social and economic overhead capital. However, it must be noted that improved housing to a certain extent, may fall in the latter category of investment.

(98) Indirect taxation in Iraq is composed of import duties (which include transit duties) and excise taxes which are mainly excise taxes on fuel, licquer, and tobacco.

(99) See table 27.

quarter of total government revenue in Iraq.(100)

The use of indirect taxation in underdeveloped countries, has often been stressed as the major element of tax policy, mainly due to the present limitations on the use of direct taxation to increase tax yields. We have already stressed earlier, that the relative increase of tax revenue (to total government revenue) is a pre-condition to the ability of fiscal policy in Iraq, to deal effectively with the problems of allocation and short-term stability. Thus it is mainly against the fullfilment of the above objectives, that we should critically examine the present role of indirect taxation in Iraq.(101)

In examining the present allocative role of indirect taxation in Iraq, it must be stressed that the primary problem here is the assessment of the net contribution of indirect taxation to the total allocation of resources

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(100) The above figure has been calculated on the basis of data from tables 19 and 27.

(101) While the discussion above is mainly limited to the role of indirect taxation in fullfiling the above fiscal objectives, the problem of "excess burden" arising from indirect taxation may still be of theoretical importance in discussions of welfare. It has often been alleged that indirect taxes are inferior to direct ones, since they impose an excess burden on the consumer, by inducing him to shift to a pattern of expenditure which may yield him a reduced amount of welfare. However, it can be demonstrated that price distorting effects are by no means peculiar to indirect taxes, but may apply equally to direct taxes as well. For a thorough and critical discussion of the above problem see Henderson, A. "The Case for Indirect Taxation" (E.J. vol. LVIII, 1948) pp.538-553; Little, I.M.D. "Direct Versus Indirect Taxes" (E.J. vol.LXI 1951) pp. 577-584; and Haskell, W. "The Classical Indictment of Indirect Taxation" (Q.J.E. Vol.LIX, 1944-45) pp.577-596.

between consumption and investment. Ideally, the dependence on indirect taxation in Iraq, may be justified on allocative grounds, in as far as it can be assumed that it substitutes private consumption by public savings (assuming that indirect tax yields are used mainly for public investment). However, it may not be correct to assume that indirect taxes have no effect at all on the level of private savings. For indirect taxation may affect the level of private savings, though its effects on the level of incomes, since any indirect tax represents a net reduction in private income (assuming that it is shifted partially to the consumer). Here it may be asserted with a fair degree of certainty, that while a direct progressive income tax may affect savings considerably(102) an indirect tax (assuming equal yield) may fall mostly on individual consumption rather than savings. But here it must be stressed, that the allocative role of indirect taxation in Iraq is not limited only to the partial substitution of private consumption by public savings, but also to the encouragement of replacing private consumption by private savings. At present, a relatively wide range of capital goods are exempted completely, or taxed at a relatively lower rate in Iraq.(103) This may be justified on allocative

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(102) For a theoretical analysis of the above see, Musgrave, R.A. op.cit., pp. 259-272.

(103) See Central Bank of Iraq - Annual Report - 1955, p.37, and "Explanatory Note Regarding the Annual Budget", op.cit., 1961 - sec.G.

grounds, since it may induce a relatively higher rate of net capital formation, mainly through cheapening the cost of investment in fixed capital assets.

From a purely distributional angle, it has always been assumed that indirect taxes are basically regressive in nature, thus it has often been stressed that Iraq's present tax structure is regressive, since it relies mainly on indirect taxation as a source of revenue.(104) While the above may be true to a large extent, it must be stressed here, that the simple assertion of the regressivity of indirect taxation as such stems from a basically incomplete concept of tax incidence. The analysis of a given indirect tax incidence, may be presented in partial equilibrium terms (mainly in terms of the effects of the tax on the price and supply of the taxed commodity). But it must be noted that the total economic effects of the tax here, may be far beyond the above. An indirect tax may affect not only the price of the commodity in question, but the prices of other related commodities (substitutes and complementary goods). Furthermore, one must consider the effects of an indirect tax on the earnings of factors employed in the production of the taxed commodity. Thus

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(104) See Ernest, J. op.cit., p.16.

the real economic effects of an indirect tax may include a set of various (commodity and factor), price and supply changes. Similarly, it can be seen that the total effects of a progressive income tax are not limited to the relative changes in incomes positions, but may involve factor price changes, which may themselves induce further product's price changes.

However, the application of progressive rates in indirect taxation in Iraq may introduce an element of vertical equity in the indirect tax structure. This may be made possible by imposing relatively higher rates on commodities which are consumed mainly by the relatively higher income groups. But whether this may induce a relative change in income distribution will depend mainly on the price elasticity of demand for the taxed commodities. However, the present excise taxes in Iraq may be considered as basically regressive in nature, since they fall mainly on commodities of mass consumption, i.e. tobacco, and fuel. At any rate such excise taxes may be advocated on allocative grounds, since they basically fall on consumption.

Finally, in assessing the merits of indirect taxation as a tool of short-term stability in Iraq, it must be noted that ideally, direct progressive taxation may be preferable

to indirect taxation in this respect, since it may possess a relatively larger degree of built-in flexibility. However, we have shown above that the flexibility of indirect taxation may be improved by imposing relatively higher rates on goods with relatively high income elasticity of demand. However, indirect taxation remains preferable to direct taxation, if one considers the fact that indirect tax rates can be changed much more quickly and easily than direct tax rates.(105) Consequently, although direct taxation may on the whole be preferable to indirect taxation as a measure of short-term stability, indirect taxation still forms the bulk of tax revenue in Iraq, hence it is still the main tax measure, by which the government can deal with the problem of short-term stability in the economy. However, the above problem, is not dependent only on tax policy, but on government expenditure policy as well. It is to the examination of the latter we turn to in the following chapter.

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(105) Indirect tax rates can be changed in a very short period of time and without resort to lengthy legislative procedures, while changes in the income tax rates for example, may require new legislation, and can be changed usually once a year only, (with the introduction of the annual budget).

CHAPTER 4.

GOVERNMENT EXPENDITURE.

So far we have only analysed the present and potential contribution of the revenue and tax structures in Iraq, to the accelaration of the growth rate of the economy. But the success of fiscal policy in promoting a relatively higher rate of growth, does not depend entirely on tax policy. Clearly, the regulation of the pattern of government expenditur may be another important factor in inducing a relatively higher rate of growth in the economy.

It has already been stressed earlier, that the basic and most important aim of fiscal policy in underdeveloped countries, is the achievement of relatively higher rate of capital formation in the economy.(1) Thus, while the problems of income distribution and short-term stability will not be ignored totally in the following analysis of government expenditure in Iraq, our main objective will be the critical evaluation of the pattern of government's expenditure in Iraq, in terms of its contribution to the total allocation of resources between investment and current public consumption.

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(1) See chapter 2.

1. Size of Government Expenditure.

It can be seen clearly from table 28, that the size of government expenditure (relative to G.N.P.) has increased from 23% in 1953, to 37% in 1963, giving an average relative size of 32% for the whole period. Table 29 shows the absolute and relative growths of total and per capita government expenditure in Iraq, for the same period.

The growth of the relative size of the government's sector in Iraq, may be regarded as creating favourable condition to economic growth, since this may allow the government to participate more directly in the process of economic growth, mainly by devoting a relatively larger share of its expenditure to capital formation as against current public consumption.(2) But here, the question of the pattern of government expenditure assumes a primary importance, since the mobilization of a relatively larger amount of resources into the government's sector, may not necessarily lead to a relatively higher rate of capital formation. For this is exactly what may happen if the further mobilization of resources into the government's sector, results only the substitution of public for private consumption.

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(2) If the emphasis is on creating favourable conditions for growth, then the main point to be made here, is that government expenditure should mainly go to create infra-structure facilities, which would not be created by the private sector, see section IV.b. However, the above should not be taken to exclude the possibility of the government's sector participating in directly productive activities, see section IV.a.

However, while it may be possible to assert that there is a positive coerelation between the size of government's sector (relative to G.N.P.) and the rate of economic growth,(3) it remains to be seen which factor influences the other.(4) Thus while a relatively larger size of government sector (as a % of G.N.P.) may contribute considerably towards accelerating the growth rate of an underdeveloped economy, a similarly large sized government's sector of a highly developed economy may be viewed as the result rather than cause of a relatively high degree of economic development. However, considering the relationship between the relative size of the government's sector and the rate of economic growth in underdeveloped economies, one may view the existence of a relatively large government sector only as a necessary and not sufficient condition for accelerated economic growth. For one has to view the pattern of government expenditure and not only its relative size to G.N.P. to evaluate its contribution to economic growth.

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(3) For recent empirical evidence on the above see Horowitz,D. "Government Expenditure in Countries of Accelarated Growth" (paper in "Government Finance and Economic Development") op.cit.p.59.

(4) It is important to stress that a positive and significant correlation coefficient does not necessarily in itself indicate whether one variable determines the other or vica versa, but simply indicates the association between the variables concearned The determination of the nature of the variables (i.e. independent or dependent) must be achieved by supplementing our statistical analysis, by qualitative economic analysis.

While it is difficult to determine theoretically the most appropriate relative size of the government's sector which may be favourable to conditions of accelorated economic growth,[5] it can be seen clearly that the relative size of the government's sector in Iraq does not constitute an obstacle to economic growth. For this has been steadily increasing (in both absolute and relative terms) during the period 1953-1963, giving an average of 32% of G.N.P. for the whole period.[6] Such a rate may compare very closely with those of the most developed economies today. Hence, it is the question of the pattern of government expenditure in Iraq, that assumes the primary importance on the expenditure side of fiscal policy.

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(5) It must be stressed that the above can only be determined with reference to economic conditions in specific countries.

A rate of 19-22% of G.N.P. has been suggested as the most appropriate size for an underdeveloped country's sector, see Martin,A. and Lewis,W.A. "Patterns of Public Revenue and Expenditure" (The Manchester School of Economic and Social Studies - Vol.XXIV,1956) p.p.218-221. However, it is stressed that the above rate should not be viewed simply as a valid judgement as such, but as an average based on empirical findings and past experience. Ibid.

(6) See table. 28.

11. The Pattern of Government Expenditure - General -

It has already been stressed earlier, that the most important allocation choice involved in the fiscal policy of an underdeveloped economy, is that of the allocation of total resources between investment and current consumption.(7) From a purely allocative angle, it has been emphasized that increasing the relative share of investment out of total resources in the economy, could be equally achieved through the government or private sectors, for the choice between the above remains irrelevant here.(8) While the inducement of a relatively higher rate of capital formation in the private sector operates mainly through the tax side of fiscal policy in Iraq,(9) the participation of the government sector in raising the level of capital formation will depend mainly on the pattern of government expenditure.

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(7) See Chapter 2.

(8) The above discussion may be a relevant one only in as far as infra-structure investment has to be undertaken by the government sector, since the private sector may not necessarily invest in the above, see section IV.b. Excluding investment in infra-structure facilities, it remains irrelevant whether increased investment should be private or public, since this may not affect the total rate of growth of the economy. However, the preference for increasing the total rate of capital formation in the economy, mainly through the government's sector directly, rather than encouraging private investment, is often mitigated by purely distributional considerations, since public investment may not produce the unfavourable distributional effects, which private investment does.

(9) Admittedly expenditure or economic overhead capital may have the same effects, see section IV.b.

Table 30 shows the relative distribution of total government expenditure in Iraq, between ordinary and development budget expenditures[10] for the period 1953-1963. It can be seen clearly from the above table that the relative share of development expenditure was increasing rapidly till 1957 where it reached a level of 44% of total government expenditure, after which it declined steadily to reach a level of 27% of total government expenditure in 1963. Here it is important to examine the pattern of the allocation of oil revenue among the above two budgets, since it is this factor that determines primarily the above general pattern of distribution of government expenditure.

With the establishment of the Development Board in 1951,[11] it was decided to allocate 70% of oil revenues to development expenditure.[12] The principle of allocating oil revenues for purely developmental expenditures, while financing ordinary government expenditure (ordinary budget) by ordinary revenues, was upheld long before 1951.[13] Nevertheless oil revenues did not constitute an important part of government's revenue before 1951. However, with the rapid increase in oil royalties

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(10) Development expenditure was incorporated within the government's ordinary budget in Iraq till the establishment of the Development Board in 1959.

(11) Abolished in 1959.

(12) Central Bank of Iraq - Annual Report - 1951, p.42.

(13) Originally, it was decided to allocate the whole of oil royalties to development expenditure, but it was finally decided in 1951 to allocate 30% of it to cover increasing government ordinary budget expenditure. However the above principle was reaffirmed again in 1961, see Rep. of Iraq - Ministry of Guidance - "The Five Years Detailed Economic Plan 1961-1965" (Law No. 70,1961) p.60.

from 1951 to 1959, the relative share of development expenditure increased rapidly during the same period, since it absorbed 70% of the rapidly increasing oil revenues. In 1959, it was decided to reduce the relative share of the development budget of oil revenues, from 70% to 50%.(14) The above decision was made mainly in view of the rapidly increasing government (ordinary budget) expenditure.(15) Since such rapid increases could not be met in the short-run by increases in tax yields, it was felt that the above reallocation of oil revenues is necessary. However, it was stressed that such a step was only a temporary one, and it was hoped to restore the pre 1959 pattern of allocation, in the future.(16) Moreover, since oil revenues were not growing as fast as before 1959, it becomes evident why the relative share of development expenditure has declined after 1959. In addition to the above decline, it is important to note that funds allocated initially to the development budget, were often transferred to the ordinary budget account, to cover the deficit in government current (ordinary budget) expenditure.(17)

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(14) See Rep. of Iraq - Ministry of Finance - "Explanatory Note regarding the Annual Budget" 1959 - Sec.D.

(15) The 1959 ordinary budget expenditure figure was 29% higher than that of the preceding year.

(16) Rep. of Iraq. Ministry of Finance "Explanatory Note Regarding the Annual Budget" 1962 - p.8. In 1962, the relative share of the development budget of oil revenues was raised to 51%. It was hoped that this may reach the level of 60% by 1965, Ibid.

(17) See, Central Bank of Iraq - Annual Reports, 1951,p.48, and 1952, p.39.

So far we have only described the basic pattern of government expenditure, that is its distribution between current (ordinary budget) expenditure, and capital (development budget) expenditure.[18] Here, it should become evident that the problem of accelarating the rate of growth (though increasing the rate of total capital formation) clearly implies the allocation of a relatively larger share of total government expenditure to the development budget (as against the ordinary budget). While the determination of the ideal

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A detailed description of Iraq's present budgetary system is not included in the present study. However, it is important to note that Iraq's present system is a multi-budgetary one incorporating four different types of budgets, the ordinary, development, independent and attached budgets. The ordinary budget covers mainly the whole of government's non-productive activity, that is mainly public consumption, while the development budget covers mainly capital expenditure (in directly productive, and social and economic overhead capital). Independent and attached budgets deal mainly with government's trading activities, which are excluded from the consolidated government accounts as presented in the study. For a detailed description of the present budgeting structure in Iraq, see Central Bank of Iraq - Annual Reports, 1961 p.p. 133-134, 1962, table 40, p.143; and Al-Saaegh,H.R. "A Survey of Governmental Accounting Methods" (Al-Iktisadi-No.3, Year 5 - 1964) in Arabic - p.p.51-93.

distribution of total government expenditure between the above two budgets may be difficult in theory,[19] its implications become clear. It is evident that the decline in the relative share of development expenditure would affect the total rate of capital formation in the economy, especially when one considers the fact that public investment in Iraq accounted for an increasingly larger relative share of total investment since 1951.[20]

The above decision (that of the allocation of total government resources between the ordinary and development budgets) is not the only decision involved concerning the pattern of government expenditure in Iraq. For clearly it is important to evaluate the pattern of government expenditure within the above budgets themselves. However, the above

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(19) See Pantaleoni,M. "Contrśbution to the Theory of Distribution of Public Expenditure" (In "Classics in the Theory of Public Finance" eds.Musgrave.R.A. and Peacock,A.T. - Macmillan,1962). p.p.16-27. Pantaleoni considers the equalizing of the marginal utilities of public expenditures as the basic criterion for the determination of the basic pattern of government expenditure. However the arrival at the optimum solution to the above is viewed as the result of a series of marginal adjustments which are made with reference to experience. Ibid.p.24 and p.27. While it is difficult to quantify the total utilities of both budgets in Iraq, the relevance of Pantaleoni's criterion to fiscal policy in Iraq today, is of extreme importance, since this necessarily implies the careful comparison of the relative utilities and disutilitie involved in changing the relative shares of both budgets. The decision to increase the relative share of the ordinary budget in Iraq was done mainly with reference to the need of covering increasing government's current expenditure and apparently without the careful examination of the unfavourable effects involved in reducing development expenditure, see.Rep. of Iraq - "Explanatory Note Regarding the Annual Budget" 1959-Sections, D and G.

(20) See Central Bank of Iraq - Annual Report - 1960,p.116.

decision can be viewed as probably the most important and basic allocative decision on the expenditure side of fiscal policy in Iraq. This is necessarily so since it is the above basic decision that primarily determines the degree of the government's sector direct participation in capital formation in Iraq. While recognising the need to finance increasing government (ordinary budget) expenditures, it must be stressed here that the increasing substitution of the above for development expenditure, can be detrimental to economic growth in Iraq in its present early stage of development. Instead the increasing pressure of government's current expenditure should ideally serve as an incentive to increase government's revenue through wide tax reforms.(21)

So far, we have only considered the basic pattern of government expenditure in Iraq. While recognizing that the above is probably the most important problem of expenditure policy, it by no means forms the whole of it. For expenditure policy involves a series of choices(22) which may have an equally important impact on the rate of economic growth. It is to those we turn to in the following two sections.

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(21) See chapter 3.

(22) The choice of the distribution of government expenditure within each of the budgets, on the various major catagories of expenditure, may be quite important from a developmental point of view.

III. Government (Ordinary Budget) Expenditure.

Here it will be attempted to assess the contribution of the above to economic growth in Iraq. This may be done by examining the functional pattern of distribution of the ordinary budget expenditure in Iraq.

To assess the growth contribution of the ordinary budget expenditure in Iraq, it is necessary to utilize a totally different classification[23] of government accounts, than that presently used in Iraq.[24] To facilitate the analysis, government (ordinary budget) expenditure in Iraq has been divided into three broad functional[25] categories, administrative, social, and economic expenditures.[26]

(23) For a thorough and detailed discussion of the conceptual problems involved in the classification of government accounts see U.N. "Budgetary Structure and Classification of Government Accounts" (New York,1951) p.p.3-29 and U.N. "A Manual for Economic and Functional Classification of government Transactions (New York, 1958) Part.1.

(24) At present ordinary government expenditure in Iraq is classified on an administrative basis. Such a method of classification may be useful from a purely administrative control point of view, but its use for economic analysis is extremely limited.

(25) Government expenditure may be classified according to major economic categories. Such a classification may be extremely useful in assessing the influence of government's expenditure on prices, incomes, and unemployment. However a functional classification is more useful in the above context since we are basically concerned with the assessment of the growth content of the ordinary budget expenditure. For an economic classification of the above, see table 32.

(26) A more detailed functional classification may be possible and interesting. However, the above broader classification is much more useful for our analysis. For a more detailed functional classification of government accounts, see Central Bank of Iraq - Annual Report 1963.Table 39.p200 and Peacock, A.T. and Wiseman.J. "The Growth of Public Expenditure in the United Kingdom"(Oxford University Press,1961) p.p.182-184 and table A.15, p.p.187-188.

Administrative expenditure may be defined as expenditure on goods and services which are indivisible in nature, and which can only be consumed collectively i.e. defence. Social expenditure is defined to include all catagories of expenditure where the individual consumer benefits more directly in his capacity as an individual consumer, and where the indivisibility of consumption may no longer be regarded as a necessary condition. Finally economic expenditure may be defined as that expenditure that benefits individuals directly or indirectly in their capacities as producers, and where some external economies are involved.(27) Clearly the above definitions involve some measure of arbitrarness, nevertheless it must be stressed here that it is the analytic usefulness of the above classification that is of importance in the present context.

Table 31 shows the relative functional distribution of government's (ordinary budget) expenditure in Iraq for the period 1953-1963. It can be seen clearly from the above table that the category of administrative expenditure constitutes the bulk of ordinary budget expenditure in Iraq, for it accounted on average for about 70% of ordinary government expenditure during that period. While social expenditure accounted on average for 18% of government's ordinary budget expenditure,

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(27) Ahmed,K. "Expenditure Classification and Investment Planning, with Special Reference to Pakistan" (Unpublished Ph.D. Thesis - London Univ. 1966) p.p. 108-113. (By permission of the author).

economic expenditure accounted for 12% for the same period. However, it is important to note that while the relative share of social expenditure was increasing, the relative share of economic expenditure was declining at the same time.

Clearly, the relative dominance of administrative expenditure can hardly be considered as favourable to growth, since purely administrative expenditure contributes very little to economic development. It was not till recently that the need to minimize the relative share of the above category has been duly recognized.(28) Moreover the need for the reduction of the relative share of administrative expenditure becomes clear, if we consider the fact that the ordinary budget in Iraq absorbs well over two thirds of total government resources.(29)

Considering social expenditure, it can be seen clearly from table 31, that its relative share has increased from about 11% in 1953 to 27% in 1963, giving an average of 18% for the whole period. It must be stressed here that the total distributional effects of fiscal policy, do not depend entirely on tax policy, since a certain degree of redistribution may be achieved through the variation in the pattern of government expenditure. While the assessment of the exact distributional

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(28) See Rep. of Iraq - "Explanatory Note Regarding the Annual Budget" 1962, p.p.12-14, 1963,p.3, and 1965, p.11.

(29) See table 30.

incidence of government expenditure remains a difficult problem, it may be asserted that increased government expenditure in Iraq is not likely to have any favourable distributional effects, unless it is accompanied by a rise in the relative share of social expenditure.(30) Thus while the increase in the relative share of social expenditure in Iraq may be justified in distributional terms, it must be stressed that the contribution of the above expenditure catagory to growth, is of a limited and indirect nature.

Finally, considering the catagory of economic expenditure, it can be seen clearly from table 31 that its relative share has declined from 19% in 1953 to 7% in 1963. In assessing the growth content of Iraq's ordinary budget expenditure, it is precisely this specific catagory that contributes mostly to growth. Thus ideally, it would have been preferable if the relative increase in social expenditure had taken place mainly at the expense of the relative share of administrative expenditure, rather than to replace economic expenditure. The necessity of increasing the relative share of economic expenditure becomes evident, if one stresses the developmental role of government expenditure in Iraq. Moreover, it would be extremely desirable to increase the developmental content of government's ordinary expenditure in Iraq, since this

(30) We are assuming here that the bulk of the above expenditure catagory is mainly directed towards providing for the basic needs of the lower income groups. Admittedly, the distributional aspect of the ordinary budget can be evaluated with reference to the economic classification of the above budget, see table 32. Here by examining the relative size of the category of "transfer payments" and its composition, one may be able to assess the distributional role of the above budget.

absorbs the largest proportion of public resources at present. Thus the increase in the relative share of economic expenditure, may partially offset the unfavourable effect of the relative decrease of development expenditure in Iraq. Consequently, it is to be stressed here, that the inter-functional choice within the ordinary budget itself, remains an important decision of government expenditure policy.

IV. Development Expenditure.

We have already stressed earlier, that the problem of maximizing the growth rate of the economy does not depend entirely on the rate of capital formation as such, but on its pattern as well.(31) Clearly then, the contribution of government's expenditure to economic growth in Iraq, does not depend entirely on how far does the government devote of its total expenditure to development, but on the pattern of such developmental expenditure as well.

The importance of the above problem (that of achieving the best allocation of investment resources in the government's sector). stems mainly from the relative scarcity of economic resources needed for development. However, it is interesting to note that it was not the scarcity of resources that was the limiting factor in Iraq during the earlier years of the period under study. It has often been stressed that while the rate of savings is the basic limiting factor to increasing the level of capital formation in underdeveloped countries, it by

(31) See chapter 2.

no means constitutes the only limiting factor. Thus it may be possible at one stage that a country's savings ability exceeds its ability to invest all its savings efficiently.(32) Table 33 shows the actual revenue and expenditure of Iraq's Development Board from 1951 to 1958.(33) It can be seen clearly from the above, that the Board's revenues exceeded its realized expenditures for the whole period with the exception of 1957. Such a wide gap between actual revenues and expenditures of the Development Board, was not only due to the rapid increases in oil revenues, but also due to the failure of the Development Board in Iraq to utilize its total investible resources according to a comprehensive plan.(34) Hence it was the limited ability to invest rather than the scarcity of capital that was the limiting factor to development in Iraq during 1951-58.

Let us turn now to examine the pattern of public investment in Iraq. The basic problem here can be stated as

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(32) See Hirschman,A.O. "The Strategy of Economic Development" (Yale University Press,1958) p.p.37-40; and Dosser,D. "General Investment Criteria for Less Developed Countries: A Post-Mortem" (Scottish Journal of Political Economy - Vol.9. 1962) p.87.

(33) Development expenditure was synonymous with the Board's budget will its abolishment in 1959.

(34) While the above gap between actual revenue and expenditure in the development budget ceased to exist after 1959, it is interesting to note that the pattern of development expenditure in Iraq is still primarily determined independently of any comprehensive economic plan. The present so called detailed five-year plan is in fact nothing but an ex-ante estimate of development expenditure of the government's sector in Iraq.

that of selecting the most suitable pattern of investment in the development budgets in Iraq, that will have the maximum contribution to economic growth. Admittedly the determination of a detailed pattern within each major category of investment in the development budget may require a system of individual project evaluation,(35) which hardly exists in Iraq today. However, the following analysis is limited to the problem of allocating public investment among the major catagories of investment i.e. agriculture, industry and investment in infrastructure facilities.

a. Investment in Directly Productive Activities.

1. Agriculture.

Table 34 shows realized development expenditure in Iraq by major catagories of investment (in absolute and relative terms) for the period 1953 to 1963. It can be seen clearly from the above table that investment in agriculture formed the highest proportion of development expenditure during the earlier years of the period under study, although its relative share fell considerably by 1963. The importance of investment in agriculture need not be stressed in detail here, for it is evident that the growth of agricultural production in the earlier stages of development, is an integral and

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(35) For a detailed analysis of a system of individual investment project evaluation see Prest.A.R. and Turvey,R. "Cost-Benefit Analysis: A Survey" (E.J.Vol.LXXV.No.300.1965) p.p.683-705, and Hines,L.G. "The Hazards of Benefit-Cost Analysis as a Guide to Public Investment Policy" (Public Finance - Vol.XVII.1962) p.p.101-117.

necessary part of the growth process itself. Moreover, the importance of agricultural investment in Iraq today, should be viewed with reference to the fact that at present, the majority of the working population depend on agriculture.(36)

The preference for primarily agricultural investment in the development programme of an underdeveloped country, may be justified with reference to the "capital intensity" criterion for allocating investment. Here a given quantity of capital would be allocated in a way so as to maximize current output. The concentration on agricultural investment instead of other alternative forms of investment may contribute to the maximization of current output, since here we may be utilizing a relatively lower quantity of capital per unit of extra output. Thus since investment in agriculture may involve the use of relatively less capital per extra unit of output, it would be more desirable to concentrate mainly on agricultural investment to maximize current output. Admittedly, the above criterion may be an extremely valuable guide to public investment policy where capital as a factor is extremely scarce relative to labour. In other words, where the social opportunity cost of labour is equal to zero, the above criterion for investment allocation may assume a relatively important role.

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(36) See "Detailed Five-Years Economic Plan 1961-62 - 1965-66" op.cit.p.79.

However, it must be stressed here that the above criterion can not by itself, constitute an adequate guide to public investment policy. For it is important to note that the concept of economic growth in Iraq (as elsewhere), although can be stated in terms of achieving a sustained increase in per capita income, must necessarily involve a relatively wide measure of structural changes in the economy. For it has already been stressed earlier,(37) that the growth process in Iraq must increasingly be based on the further diversification of economic activity, mainly to release Iraq's economy from the present relative dominance of the primary production activities (agriculture and oil extraction). The necessity of the above may become clearer, if growth in Iraq is to be viewed as a self-sustaining process.

2. Industry.

It can be seen clearly from table 34, that public investment in industry accounted on average for only 12% of total public investment in Iraq during 1953-1963. Although the rates for the years 1957 and 1958 are higher than the above average, the rates for the remaining years were equal or lower to the above average.

The relative neglect of industrial investment in the earlier programmes of development in Iraq, was not due to the relative scarcity of capital, but mainly due to the scarcity of skilled labour and managerial skills. Here it is important

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(37) See chapter 3.

to view the necessity for increasing the relative share of industrial investment in Iraq not only in terms of its contribution to the increase in per capita income, but also in terms of its prospective contribution to the accelaration of the growth rate of the economy.

To clarify the above point, it is important to consider what is meant by the term "economic development" as an objective. For if this is simply meant to convey an increase in current output in the short-run, then the growth rate of the economy may not necessarily be sustained in future periods. To achieve a sustained and increasing growth rate of output per head, it is necessary to ensure an increasing rate of total capital formation at the earlier stages of development. Clearly, the concept of economic development in Iraq (as in other underdeveloped economies) should stress not the maximization of current output in the short-run only, but primarily the maximization of the rate of capital formation to ensure a sustained increase in output per head in the long-run. Here it must be stressed that the concept of growth as elaborated above, may involve a time preference between imediate maximum welfare, and future higher levels of welfare.(38)

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(38) Sen,A.K. "Some Notes on the Choice of Capital-Intensity in Development Planning" (Q.J.E. Vol.LXXI,1957) p.567.

Clearly, the above conception of growth, may necessarily imply an investment programme that may stress more those categories of investment that may contribute more to further growth, by diverting a relatively higher proportion of their ~~managerial~~ marginal products towards further capital formation.(39) Here it must be noted that such a pattern of investment may not coincide with that implied by the most economic use of a given quantity of capital, as prescribed by the previous criterion. This may be so since industrial investment may entail a larger use of capital per unit of extra output, than agricultural investment does. However, in terms of developing the investment capacity of Iraq's economy, industrial investment may be much more favourable than other forms of investment i.e. agriculture. This may be so since agricultural investment may increase agricultural output, where it may be extremely difficult to mobilize a part of that increase

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(39) For a detailed exposition of the "marginal per capita reinvestment quotient" criterion, see Galenson,W. and Leibenstein,H. "Investment Criteria, Productivity, and Economic Development" (Q.J.E. Vol.LXIX,1955) p.p.343-370. Ideally, under the above criterion, the optimum distribution of public investment would be achieved only when the "marginal per capita reinvestment quotient" is equal for all major categories of investment. While the measurement of this may be difficult in practice, the above criterion is of special importance to Iraq. For at present, public investment in Iraq depends mainly on oil revenues, thus if growth in Iraq is to become self sustained, more stress should be laid on those catagories of investment that will primarily contribute further to increasing the total rate of capital formation i.e. industry.

towards further capital formation, mainly because of the extreme difficulties involved in agricultural taxation in Iraq at present.(40) In contrast, an investment programme emphasizing primarily industrial investment, may increase the rate of capital formation further, since the majority of the newly developed industries are owned by the public sector, thus it would be relatively easier to divert a part of incremental output to further investment directly, and without resourt to taxation.(41)

However, it must be stressed that the adoption of the above criterion, should not necessarily exclude the maximization of consumption per head (which may be considered as the final objective of economic growth), but merely delays it to a future period.(42) Furthermore, the desirability

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(40) See chapter 3.

(41) In fact the above point has been stressed as the most vital advantage involved in the use of the "marginal per capita reinvestment quotient", see Villard,H.H."Investment Criteria, Productivity, and Economic Development: Comment" (Q.J.E.Vol.LXXI, 1957) p.p.473-474. The same basic logic would apply if public investment resources are used to lend to the private sector, since it may be assumed that industrialists would reinvest a relatively higher proportion of their incremental output, than farmers for example.

(42) See Dobb,M. "Some Problems in the Theory of Growth and Planning Policy" (Kyklos - Vol.XIV.1961) p.138.

of increasing the relative share of industrial investment does not only stem from its favourable effects on increasing the rate of capital formation. For industrial investment is often associated with the introduction of new products and technologies. This in itself may have an extremely favourable effect in as far as it encourages the increase in the supplies of skilled labour and managerial skills.

Here it remains to be seen whether the above approach to public investment in Iraq, has any favourable effects on employment. Clearly, given an amount of capital, the use of labour-intensive investment may maximize the current labour/capital ratio in the economy, without necessarily increasing the amount of capital used. But the above may not coincide with the acceptance of the dynamic implications of growth. Clearly, the acceptance of self-sustained economic growth as an objective, may imply the acceptance of a possibly far reaching structural changes in the economy. Hence the adoption of an investment programme stressing mainly industrial (capital-intensive) investment may in the long-run increase and widen the total employment opportunities in the economy. For one of the basic aims of growth is to increase real productivity per head. It becomes evident then, that the attempt to maximize the labour/capital ratio in the in economy by using an investment programme which is basically labour-intensive, may not increase, or even possibly decrease productivity per head. Finally, it is interesting to note

that most development programmes in Iraq have failed to realize the alloted relative figure to industrial investment.(43)

b. Investment in Social and Economic Overhead Capital.

It can be seen clearly from table 34, that public investment in the above category has accounted for an increasingly larger relative share of public investment during 1953-1963. While the relative share of investment in transport and communications increased from 15.6% in 1953 to 33.7% in 1963 averaging abour 22%, investment in the housing and buildings category,(44) relative share has increased from 22.5% in 1953 to 45.2% in 1963, giving an average of 39% for the whole period. Thus the total relative share of the above category of investment amounted on average for 69% of total public investment.(45)

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(43) Industrial investment has been alloted 30% of total public investment in the Detailed Five Years Plan, see tables 35 and 36. But the actual relative figures achieved for the first three years were 10.6%, 9.9%, and 12.8% respectively, see table 34. The investment programme recommended by the I.B.R.D. mission, alloted industry 22% of total public investment during 1952-53 - 1956-57), see table 37, but the actual average annual rate achieved for that period was only about 8% of total public investment, see table 34.

(44) Includes some expanditure on social and community facilities i.e. public health.

(45) It is interesting to note that the figures for the last three years of the above period, were significantly higher than the above average, see table 34.

Here it would be useful to define what is meant by social and economic overhead capital. Expenditure or social and economic overhead capital can be defined as the investment expenditure that does not contribute directly by itself to the increase in the supply of goods in the economy, but it is expenditure on services without which directly productive activities in the economy can not function efficiently.[46] Hence the main contribution of the above catagory of investment to growth, can be viewed in terms of the possible external economies[47] it generates. Such external economies may not be accounted for in calculating the private marginal productivity of capital. Thus if the allocation of investment resources is left entirely to market forces, we are unlikely to achieve an optimum allocation from the social point of view. The divergency between the social and private marginal productivities of investment, makes it necessary for the state to undertake such activities in underdeveloped countries.[48] This investment

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(46) For further elaboration on the above see Hirschman,A.O. "The Strategy of Economic Development" op.cit.p.83.

(47) External economies may be defined as "those economies invoked when the profits of one producer are dependent on the decisions of other producers" see Scitovsky,T. "Two Concepts of External Economies" (J.P.E.Vol.LXII.1954) p.146.

(48) The case is the same for developed economies, but such a divergency may be relatively larger in underdeveloped economies.

in social and economic overhead capital must be stressed as an integral part of development expenditure in Iraq, since it plays an important role in developing the basic services without which expansion in directly productive activities may not be possible.

However, the central problem here is not whether to invest or not in the above category. For clearly a minimum level of public investment in the above catagory remains a necessity for the efficient functioning of the economy as a whole.(49) The problem may be posed here as that, whether public investment policy in Iraq should initially stress investment in the above catagory, or alternatively stress mainly investment in directly productive activities. Clearly, the above problem is of extreme importance in the case of Iraq, since investment in infrastructure activities absorbs today well over two thirds of total public investment in Iraq.(50)

Here it must be stressed that the rate of economic growth will depend mainly on the rate of capital formation, but may be influenced considerably by the pattern of investment. Since public investment plays an important role

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(49) See Hirschman,A.O. "The Strategy of Economic Development" op.cit.p.86 & p.94.

(50) See table 34.

in Iraq's economy today, it becomes evident that the rate of economic growth may depend to a considerable extent on the basic decision involving the pattern of public investment expenditure (directly productive activities vs. infrastructure investment). However, the rapidity of economic growth will depend primarily on investment in directly productive activities (agriculture and industry), since here the productive capacity of the economy is increased directly in the short-run. In contrast, public investment in infrastructure activities will increase the productive capacity of the economy only in an indirect way, and will usually require relatively longer periods of time to assert its effects. While the basic aim of investment in social and economic overheads is to induce a further expansion in directly productive activities, it may be stressed here that the concentration on the above catagory of investment, in the initial stages of growth, will by no means always produce the required expansion in directly productive activities.(51)

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(51) Hirschman stresses that the above problem is basically a problem of choosing the most favourable sequence of investment (D.P.A. SOC or SOC D.P.A.), and not only a problem of choosing between alternative catagories of investment at one point of time, see Hirschman, A.O. "The Strategy of Economic Development" op.cit. p.93.

Finally, it is interesting to note that while the Detailed Five-Years Plan[52] in Iraq, stressed investment in directly productive activities and aimed a limiting infra-structure investment only to vital projects,[53] the realized figures for the first three years of the above programme were hardly in harmony with the planned figures.

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(52) While the above is denoted by the term "plan" in official government documents, we have already stressed earlier that it is simply an ex-ante programme of public development expenditure only, and not a comprehensive economic plan as such.

(53) See "Detailed Five-Years Plan 1961-62 - 1965-66) op.cit. p.67.

CHAPTER 5.

SUMMARY AND CONCLUSIONS.

While the process of economic growth depends on a multitude of variables, the rate of total capital formation can be viewed as the main parameter influencing the growth rate of the economy. It beomes evident that fiscal policy in an underdeveloped economy, should be primarily oriented towards increasing the rate of total capital formation. Thus the allocation of total economic resources between investment and immediate consumption, has been alloted a relatively higher weight than the other remaining objectives of fiscal policy in Iraq i.e. income redistribution and short-term stability.

Considering the revenue aspect of fiscal policy in Iraq, it has been found that the size of government revenue (as a % of G.N.P.) may be considered as quite adequate, since this compares favourably with those of most developed economies today. However, we have found that it is the structure of government revenue in Iraq, that poses the main problem on the revenue side of fiscal policy. The relative dominance of oil royalties (as distinct from ordinary tax receipts) was found to be the major feature of Iraq's revenue system. It has been found that such an excessive dependence on oil royalties has subjected the whole of the government's revenue and expenditure to fluctuations beyond its total control,

since oil production and price movements are not subject to government control. Thus the increase in the relative share of ordinary tax receipts out of total government revenue, can be viewed as the most urgent problem to be solved, when considering the revenue structure of Iraq in general. Moreover, the further substitution of ordinary tax receipts for oil royalties, will enable the government in Iraq to deal more effectively with the problem of income redistribution. Income redistribution can be dealt partially with, by adjusting the pattern of government expenditure in Iraq. But it becomes evident that taxation can still be viewed as a relatively better fiscal tool for redistribution policy, since it can affect the pattern of income distribution not only by how the government spends the tax yields, but mainly by how it raises a given amount of tax revenue.

Considering income taxation, it seems unlikely that any significant increases in income tax yields may be achieved in the near future, unless the present highly unrealistic level of personal allowances is lowered to a relatively more realistic level (i.e. mainly by considering the per capita income level in Iraq). Furthermore, the maintenance of the present high level of marginal rates, may not contribute as it would be expected to the increase in income tax yields, for it would be more practical and useful if the present relatively high marginal rates are lowered to a level which can be at least enforced effectively by the fiscal authorities.

The necessity for the increase in income tax yields in Iraq (relative to total government revenue) should be viewed mainly in terms of its potential value as probably the most effective fiscal instrument for the redistribution of income. The importance of the above becomes clearer if we consider that the present tax structure in Iraq is basically regressive in nature. This is so since it has been found that the bulk of tax revenue in Iraq is still derived from indirect taxes. Those are levied mainly on commodities of mass consumption i.e. tobacco, fuel, which one may assume their incidence to be fairly regressive. However, the further development of death duties and real estate taxation may contribute in adding an element of equity to the presently unequitable tax structure of Iraq. Finally, while the present incentive measures incorporated in the present tax structure of Iraq may be viewed as adequate and justifiable on allocative grounds, their administration should be subjected to the rigorous and detailed scrutiny of the fiscal authorities. For if the strong link between the act of investment and the fiscal incentive measure is lost, the latter may only represent a net loss of revenue to the government.

Considering government's expenditure policy, it has been found that the pressure for increased public consumption has dominated government expenditure policy in Iraq, especially after 1958. Government ordinary budget (current) expenditure, was increasingly replacing development

expenditure in Iraq during the period under study. Such a trend if allowed to continue, may have the most serious and detrimental effects on the course of economic growth in Iraq. The government faces a clear choice here, that of allocating the bulk of its resources to satisfy current public consumption, or alternatively to allocate the bulk of its resources for further capital formation. It is basically the above choice that primarily determines the government sector's contribution to the accelaration of the growth rate of the Iraqi economy.

Taking ordinary budget expenditure first, it has been found that the above consists mainly of purely administrative expenditure, which can hardly be described as encouraging to growth. Furthermore, it has been found that the relative share of the catagory "economic expenditure" has declined considerably during the period under study. The necessity for increasing the growth content of the ordinary budget in Iraq (mainly by reducing "administrative expenditure" and increasing "economic expenditure") must be viewed mainly against the fact that ordinary budget expenditure absorbs a relatively high proportion of total government resources in Iraq. However, the basic solution here must be the increase of the relative share of development expenditure in Iraq, which could be achieved only through the decrease in the relative share of current government expenditure.

Considering development expenditure, one can not fail to see the increasing dominance of the catagory of "infrastructure" investment over the catagories of public investment i.e. industry and agriculture. While a certain minimum level of the above is necessary for the efficient functioning of the economy, it is extremely doubtful whether the primary stress on the above catagory of public investment, is the best way to accelarate the growth rate of the economy. For it is investment in directly productive activity i.e. industry, that will contribute mainly to increasing the productive capacity of the economy in the short-run. However, it appears that the relatively strong bias towards infrastructure investment in the development budgets of Iraq, has been mainly due to the increasing pressure on the government to provide for more basic services i.e. education and health.

At any rate, the pattern of public investment allocation should ideally be determined in accordance with a comprehensive economic plan for the whole economy. The contribution of fiscal policy to the accelaration of the rate of economic growth, would be further strengthened if fiscal policy and the economic plan were completely integrated. By complete integration we mean the making of the government budgets (especially the development budget) as a part of the economic plan. However, it is regrettable to see that no comprehensive economic plan exists for Iraq, since all the

previous plans (including the present five year detailed plan) are in reality nothing but an ex-ante statement of the development expenditures of the government sector in Iraq.

STATISTICAL APPENDIX

Table.[1]

The National Income of Iraq 1953-1963,
(At Current and 1956 Constant Prices).

	At Current Prices.		At Constant 1956 Prices.	
Year	I.D.m.	% increase over preceding year.	I.D.m.	% increase over preceding year.
1953	244.0	-	262.8	-
1954	284.0	16.4	322.6	22.8
1955	289.3	1.9	299.0	-7.3
1956	334.8	15.7	334.8	12.0
1957	352.7	5.4	348.4	4.1
1958	374.0	6.0	363.2	4.2
1959	391.6	4.7	368.6	1.5
1960	437.1	11.6	412.7	12.0
1961	484.2	10.8	468.6	13.6
1962	526.5	8.7	503.1	7.4
1963	515.4	-2.1	489.5	-2.7

Source : Haseeb,K. "The National Income of Iraq 1962 and 1963" (mimeo.1964). Table 1, p.13.

Table. 2

Per Capita National Income of Iraq
(at 1956 constant prices), 1953-1963.

Year	N.Y. at constant 1956 prices (I.D.m.)	Population (000's)	Per-Capita Income (I.D.)	% increase over preceding year.
1953	262.8	5832	45.1	-
1954	322.6	5945	54.3	20.4
1955	299.0	6061	49.3	-9.2
1956	334.8	6180	54.2	9.9
1957	348.4	6301	55.3	2.0
1958	363.2	6423	56.5	2.2
1959	368.6	6548	56.3	-0.4
1960	412.7	6675	61.8	9.8
1961	468.6	6804	68.9	11.5
1962	503.1	6936	72.5	5.2
1963	489.5	7071	69.2	-4.6

Source : Haseeb, K. (mimeo) op.cit. Table 2, p.14.

Table 3

National Income of Iraq 1953-1963 by Sectors (at constant 1956 prices)

(I.D.m.)

SECTOR	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
1. Agriculture, forestry and fishing.	85.70	113.82	68.40	88.07	116.51	69.16	66.48	76.25	96.90	113.35	80.41
2. Mining and quarrying *	55.26	70.37	79.83	79.21	54.91	39.33	103.53	118.50	123.34	124.38	143.32
3. Manufacturing.	18.73	21. 37	24.59	28.93	29.84	31.70	38.41	47.52	51.29	57.08	55.38
4. Construction.	11.79	16.13	19.70	21.41	23.74	23.43	21.24	16.91	17.77	14.73	14.39
5. Electricity and Water.	1.06	1.10	1.73	2.07	2.50	2.67	2.01	3.46	3.91	4.85	4.95
6. Transport, communications and storage.	18.67	19.14	20.68	22.92	23.52	23.33	24.43	29.67	33.82	35.16	33.46
7. Wholesale and retail trade.	18.61	23.04	21.94	26.11	28.17	25.91	23.87	29.20	34.95	37.04	32.45
8. Banking, insurance and real estate.	3.26	5.11	5.41	6.19	7.0	8.51	8.74	8.42	9.11	9.63	9.53
9. Ownership of dwellings.	7.25	7.40	7.58	7.78	7.93	8.12	8.37	8.58	8.84	9.06.	9.31
10. Public administration and defence.	22.68	23.93	27.68	28.12	29.70	34.48	40.69	40.03	47.75	55.45	61.60
11. Services.	19.81	21.32	22.48	23.95	24.68	26.53	29.93	36.05	40.96	42.50	44.06
N.N.P. at factor cost.	262.82	332.63	298.97	334.76	348.40	363.17	368.60	412.68	468.63	503.13	489.46

* Adjusted for shares of foreign oil companies in crude oil extraction.

Source : Haseeb, K. (mimeo) op.cit. Table 4, p.16.

Table [4]

The Relative Shares of Sectors in Iraq's N.Y. (at constant 1956 prices)

SECTOR	1953	1963
1. Agriculture, forestry, and fishing.	32.6	16.4
2. Mining and Quarrying.	21.0	29.4
3. Manufacturing.	7.2	11.3
4. Construction.	4.5	3.1
5. Electricty and water	0.4	1.0
6. Transport, communications and storage.	7.1	6.8
7. Wholesale and retail trade.	7.1	6.6
8. Banking, insurance and real estate.	1.2	1.9
9. Ownership of dwellings	2.8	1.9
10. Public administration and defence.	8.6	12.6
11. Services	7.5	9.0
	100.%	100%

Source : Haseeb, K. (mimeo). op.cit. Table 8, p.20.

Table 5

Index of Growth of Iraq's N.N.P. by Sectors (at constant 1956 prices)

(1953 = 100)

SECTOR	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	Compound rate of growth.
1. Agriculture, forestry, and fishing.	100	133	30	103	136	104	70	89	112	132	94	- .6
2. Mining and quarrying.	100	117	126	119	81	133	161	187	193	194	223	8.4
3. Manufacturing.	100	114	131	154	159	169	205	254	274	305	296	11.5
4. Construction.	100	137	167	182	201	199	180	143	151	125	127	2.4
5. Electricity and water.	100	104	163	195	236	252	275	326	369	458	467	16.7
6. Transport, communications, and storage	100	103	110	123	126	125	131	159	181	188	179	6.0
7. Wholesale and retail trade	100	124	118	140	151	139	128	157	188	199	174	5.7
8. Banking, insurance and real estate.	100	157	166	190	215	261	268	258	279	295	292	11.3
9. Ownership of dwellings	100	102	105	107	109	112	115	118	122	125	128	2.5
10. Public administration and defence.	100	106	122	124	131	152	179	176	211	244	272	10.5
11. Services	100	108	113	121	125	134	151	172	207	215	222	8.3

Source : Haseeb, K. (mimeo). op.cit. Table 9, p.21.

Table 6

The Relative Shares of Major Sectors in Iraq's N.Y. for 1953 and 1963 (at Constant 1956 Prices)

Major Sector	1953	1963
Primary Production.	53.1	45.8
SecondaryProduction.	19.7	22.2
Tertiary Production.	22.2	32.0
Totals.	100	100

Source : Calculated on the basis of data from Haseeb,K. "The National Income of Iraq 1953-1961" op.cit. Table 5, p.20, and Ibid. (mimeo).op.cit. Table 8, p.20.

Table 7

The Contributions of the Public and Private Sectors to N.Y. in Iraq, 1953 and 1960.

(I.D.m.)

SECTOR.	1953			1960		
	Public Sector	Private Sector.	Total.	Public Sector.	Private Sector.	Total.
1. Agriculture, forestry and fishing.	0	70.61	70.61	0	96.52	96.52
2. Mining and quarrying.	.05	64.38	64.43	.04	105.59	105.63
3. Manufacturing.	2.16	16.32	18.48	7.76	41.02	48.78
4. Construction.	0	9.76	9.76	0	19.87	19.87
5. Electricity and water.	.70	.50	1.20	2.66	0	2.66
6. Transport, communications and storage.	4.72	12.56	17.28	13.55	19.78	33.33
7. Whilesale and retail trade	.19	17.14	17.33	.82	30.78	31.60
8. Banking, insurance and real estate.	2.73	0.44	3.17	6.61	1.97	8.58
9. Ownership of dwellings	0	7.28	7.28	0	7.39	7.39
10. Public administration and defence.	18.29	0	18.29	45.71	0	45.71
11. Services.	6.84	9.28	16.12	22.57	14.49	37.06
N.N.P. at factor cost.	35.68	208.27	243.95	99.72	337.41	437.13

* In terms of values added.

Source : Haseeb, K (mimeo) op.cit. Table 15, p.25.

Table 8

The Relative Shares of the Public and Private Sectors in Iraq's NY. 1953 and 1960.

(At constant 1956 Prices.)

SECTOR.	1953			1960		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total.
1. Agriculture, forestry and fishing.	0	100	100	0	100	100
2. Mining and quarrying.	0	100	100	0	100	100
3. Manufacturing	12	88	100	16	84	100
4. Construction.	0	100	100	0	100	100
5. Electricity and water	58	42	100	100	0	100
6. Transport, communications, and storage.	30	70	100	41	59	100
7. Wholesale and retail trade	1	99	100	3	97	100
8. Banking, insurance and real estate.	86	14	100	76	24	100
9. Ownership of dwellings	0	100	100	0	100	100
10. Public administration and defence.	100	0	100	100	0	100
11. Services	42	58	100	71	29	100

Source : Calculated on the basis of data from Naseeb, K. op.cit. Table 12, p.26.

Table 9

The Aggregate Relative Shares of the Public and Private Sectors of Iraq's N.Y. 1953 and 1960.

SECTOR	1953	1960
Public	14.7	22.3
Private	85.3	77.7
Total.	100%	100%

Source : Calculated from table 7 .

Table 10

The Absolute and Relative Size of the Government Sector in Iraq 1953-1963

(I.D.m.)

(1)	(2)	(3)	(4)	(5)	(6)
Year	G.N.Y. at current prices	Total Government Revenue	Col.(3) as a % of Col.(2)	Total Government Expenditure	Col.(5) as a % of Col.(2)
1953	265	84	32%	62	23%
1954	307	103	34%	75	24%
1955	316	114	36%	89	28%
1956	363	111	31%	113	31%
1957	384	96	25%	131	34%
1958	406	129	32%	131	32%
1959	424	133	31%	151	36%
1960	470	151	32%	162	34%
1961	521	179	34%	186	36%
1962	565	165	29%	188	33%
1963	553	184	33%	203	37%

Source : Calculated on the basis of data from:

a) Haseeb. K. (mimeo) op.cit.

b) Central Bank of Iraq - Annual Reports 1953-1963.

c) Government/Republic of Iraq - Ministry of Finance - Directorate General of Public Accounts - Annual Reports 1953-1962.

Table 11

The Absolute and Relative Shares of Factor Incomes* in Iraq's N.Y. 1953 and 1960 (at current prices)

FACTOR	1953 (I.D.m.)	1953 %	1960 I.D.m.)	1960 %
Wages and Salaries	54.2	31.3	137.2	40.4
Rent	12.7	7.3	17.0	5
Interest	2.8	1.6	3.5	1
Profits	103.6	59.8	182.8	53.6
Total	173.3	100	340.6	100

* Excluding agricultural income.

Source : Haseeb, K. (mimeo) op.cit. Table 12, p.23.

Table 12

Fenelon's Estimates of the National Income and Expenditure of Iraq 1950-1956 (at current prices)

(I.D.m.)

	1950	1951	1952	1953	1954	1955	1956
1. Private Consumption Expenditure	137	157	162	167	178	189	199
2. Government Consumption Expenditure	28	30	38	51	57	62	68
3. Gross Domestic Fixed Capital Formation.	17	21	34	46	43	67	89
4. Increase in Stocks.	1	1	1	2	-1	4	5
5. Net Exports of Goods and Services.	14	12	54	79	96	80	46
6. ..... Expenditure on G.D.P.	197	221	289	345	373	402	407
7. Net Factor Income From Abroad.	-15	-11	-42	-53	-67	-71	-58
8..... Expenditure on G.N.P.	182	210	247	292	306	331	349
9. Provision for Consumption of fixed Capital.	-9	-10	-13	-15	-16	-17	-18
10. Indirect Taxes less Subsidies	-15	-16	-17	-18	-22	-25	-28
NATIONAL INCOME	158	184	217	259	268	289	303

Source : Fenelon, K.G. "IRAQ, National Income and Expenditure 1950-1956" (Al-Rabita Press - Baghdad, 1958). Table 3, p.14.

Table 13

Fenelon's Estimates of Iraq's N.Y. 1950-1956

(at constant 1950 and 1956 prices)

(I.D.m.)

	1950	1951	1952	1953	1954	1955	1956
N.Y. at 1956 constant prices	165	179	199	276	291	307	303
N.Y. at 1950 constant prices.	158	172	190	267	282	298	291

Source : Fenelon, K.G. op.cit. Table 4, p.17.

Table 14

Maniakin's Estimates of IRAQ's N.Y. 1956-1960 (at current prices)

(I.D.m.)

SECTOR	1956	1957	1958	1959	1960
1. Industry (excluding oil)	21.3	24.5	22.1	27.4	34.0
2. Oil Industry (production and refining)	151.7	110.9	176.2	190.5	203.2
3. Construction.	14.4	13.1	12.7	17.0	20.5
4. Agriculture and Livestock.	75.9	94.9	82.5	96.1	107.3
5. Load Transport.	11.0	12.5	11.3	14.9	17.6
6. Trade and Public Food Establishments	18.8	21.9	19.3	22.2	26.5
7. Other Branches of Material Production Sphere.	2.9	2.8	3.2	3.7	4.1
G.N.Y produced by material production sectors.	296	280.6	327.3	371.8	413.2
N.Y. of Iraq, acquired by foreign oil companies	28.9	48.9	79.9	86.6	92.0
N.N.Y. of Iraq.	227.1	231.7	247.4	285.2	321.3
Services	64.6	66.3	71.2	94.6	109.7
N.N.Y. (including services)	291.7	298.0	318.6	379.8	431.0

Source : Maniakin, V. "Introduction to National Accounting in Iraq for 1956-1960" (mimeo - Baghdad, 1964.). Table 1, p.11.

Table 15

Maniakin's Estimates of Iraq's N.Y. 1956-1960
(at constant 1956 prices)

(I.D.m.)

YEAR	1956	1957	1958	1959	1960
N.Y. at 1956 constant prices	291.7	290.1	317.8	373.3	422.1

Source : Maniakin, V. op.cit. Table 2, p.12.

Table 16

Comparison of the Various Estimates of Iraq's N.Y., 1950-1963

(I.D.m.)

Year	Fenelon's Estimates		Maniakin's Estimates		Haseeb's Estimates	
	Current Prices	Constant 1956 prices.	Current Prices	Constant 1956 prices	Current Prices	Constant 1956 prices.
1950	158	165	-	-	-	-
1951	184	179	-	-	-	-
1952	217	199	-	-	-	-
1953	259	276	-	-	243.9	262.8
1954	268	291	-	-	284.0	322.6
1955	289	307	-	-	289.3	299.0
1956	303	303	291.7	291.7	334.8	334.8
1957	-	-	298.0	290.1	352.7	348.4
1958	-	-	318.6	317.8	374.0	363.2
1959	-	-	379.8	373.3	391.6	368.6
1960	-	-	431.0	422.1	437.1	412.7
1961	-	-	-	-	484.2	468.6
1962	-	-	-	-	526.5	503.1
1963	-	-	-	-	515.4	489.5

Source : Tables 1, 12,13,14 and 15.

The Size and Structure of Government Revenue in Iraq 1953-1963

(ooo's I.D.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year	G.N.Y. (current prices)	Total Tax Revenue	Non-Tax Revenue	Oil Revenue	Total Government Revenue	Col.(6) as a % of Col. (2)
1953	265320	24941	7736	51337	84014	32
1954	306710	27824	7195	68371	203390	34
1955	315520	30614	9351	73743	113708	36
1956	363410	31231	10830	68859	110920	31
1957	383660	35605	11491	48920	96016	25
1958	406250	34737	14768	79876	129381	32
1959	423890	34181	12244	86650	133075	31
1960	470030	41286	14781	95092	151159	32
1961	520860	44718	17831	116200	178749	34
1962	564550	46010	20207	98900	165117	29
1963	552590	47100	22473	114500	184073	33
						$\bar{x}$ = 32

Source : Calculated on the basis of data from:

(a) Haseeb,K. (mimeo) op.cit.

(b) Central Bank of Iraq - Annual Reports - 1953-1963.

(c) Government/Republic of IRAQ - Ministry of Finance - Directorate General of Public Accounts - Annual Reports 1953-1962.

(d) Government/Republic of Iraq - Annual Statistical Abstracts 1953-1963

Table 18

The Relative Contributions of Major Revenue Items in Mobilizing Resources for the use of the Government Sector in Iraq 1953-1963.

(1) Year	(2) G.N.Y. (current prices) (ooo's I.D.)	(3) Total Government Revenue (ooo's I.D.)	(4) Col.(3) as a % of Col.(2)	(5) Total oil Revenue (ooo's I.D.)	(6) Col.(5) as a % of Col.(2)	(7) Total Tax and other Revenue (ooo's I.D.)	(8) Col.(7) as a % of Col.(2)
1953	265320	84014	32	51337	19	32677	13
1954	306710	103390	34	68371	22	35019	12
1955	315520	113708	36	73743	23	39965	13
1956	363410	110920	31	68859	16	42061	15
1957	383660	96016	25	48920	13	48096	12
1958	406250	129381	32	79876	20	49505	12
1959	423890	133075	31	86650	21	46425	10
1960	470030	151159	32	95092	20	56067	12
1961	520860	170749	34	116200	22	62549	12
1962	564550	165117	29	98900	18	66217	11
1963	552590	184073	33	114500	21	69573	12
			$\bar{X}$= 32		$\bar{X}$= 20		$\bar{X}$ = 12

Source : Calculated on the basis of data from:

a) Government/Republic of Iraq - Ministry of Finance - Directorate General of Public Accounts - Annual Reports 1953-1962

b) Government/Republic of Iraq - Annual Statistical Abstracts 1953-1963

c) Haseeb, K. (mimeo) op.cit.

Table 19

The Relative Importance of the Major Categories of Government Revenue in Iraq 1953-1963

(1)	(2)	(3)	(4)	(5)	(6)
Year	Total Government Revenue (ooo's I.D.)	Tax Revenue as a % of Col.(2)	Non-Tax Revenue as a % of Col.(2)	Oil Revenue as a % of Col(2)	Cols.(4) and (5) as a % of Col (2)
1953	84014	30	9	61	70
1954	103390	27	7	66	73
1955	113708	27	8	65	73
1956	110920	28	10	62	72
1957	96016	38	11	51	62
1958	129381	27	12	61	73
1959	133075	26	9	65	74
1960	115159	27	10	63	73
1961	178749	25	10	65	75
1962	165117	28	12	60	72
1963	184073	26	12	62	74
		$\bar{x}$ = 28	$\bar{x}$ = 10	$\bar{x}$ = 62	$\bar{x}$ = 72

Source : Calculated on the basis of data from:

a) Government/Republic of Iraq - Ministry of Finance - Directorate General of Public Accounts - Annual Reports 1953-1962.

b) Central Bank of Iraq - Annual Reports - 1953-1963-

c) Government/Republic of Iraq - Annual Statistical Abstracts.

Table 20

Flexibility of the Tax Structure in Iraq 1953-1963.

Year	G.N.P.(1) (m.I.D.)	% Change over previous % Δ Y	Total Tax Revenue(2) (m.I.D.)	% Change over previous year % Δ T	Index of Flexibility Col.(5) ÷ Col.(3)
1953	207	-	25	-	-
1954	239	15%	28	12%	.8
1955	245	3%	31	11%	3.66
1956	298	22%	31	0%	0
1957	338	13%	36	16%	1.23
1958	328	-3%	35	-3%	1.0
1959	338	3%	34	-3%	-1.0
1960	375	11%	41	21%	1.91
1961	427	14%	45	11%	.79
1962	471	10%	46	2%	.2
1963	445	-6%	47	2%	-.33
					$\bar{X}$ = .8

(1) Excluding oil sector.

(2) Excluding oil royalties.

Source - Calculated on the basis of data from:

a) Haseeb,K. (mimeo) op.cit. Table 5, p.17.

b) Govt./Rep. of Iraq - Ministry of Finance - Directorate General of Public Accounts - Annual Reports 1953-1963.

Table 21

The Relative Contribution of Major Taxes to Total Tax Revenue in Iraq. 1953-1963.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Year	Total Tax Revenue	Income Tax Receipts as a % of Col(2)	Estate Tax Receipts as a % of Col.(2)	Death Duties receipts as a % of Co.(2)	Import Taxes receipts as a % of Col (2)	Excise Taxes' receipts as a % of Col.(2)	Agricultural Tax receipts as a % of Col.(2)	Totals.
1953	34941	8	4	-	60	16	12	100
1954	27824	7	4	-	61	17	11	100
1955	30614	6	3	-	62	19	10	100
1956	31231	10	3	-	62	19	6	100
1957	35605	8	3	-	59	22	8	100
1958	34734	11	3	-	54	26	6	100
1959	34181	12	3	0	57	22	6	100
1960	41286	10	5	2	59	19	5	100
1961	44718	11	4	1	53	29	2	100
1962	46010	15	4	2	50	27	2	100
1963	47100	15	4	2	54	23	2	100
		$\bar{x}$ =10%	$\bar{x}$ =4%	$\bar{x}$ =1%	$\bar{x}$ =57%	$\bar{x}$ =21%	$\bar{x}$ =7%	

Source : Calculated on the basis of data from:

a) Government/Republic of Iraq-Ministry of Finance-Directorate General of Public Accounts - Annual Reports 1953-1962.

b) Government/Republic of Iraq - Annual Statistical Abstracts 1953-1963.

Table 22

INCOME Tax Payable by Class of Taxpayers in Iraq 1953-1963.

Year	Number of Taxpayers			Tax Yields. (.I.D.)			Relative Contribution To Total Income Tax Yield. *	
	Individual	Companies	Total	Individual	Companies	Total	Individual	Companies.
1953	24319	195	24514	1199280	979337	2178617	55%	45%
1954	25914	729	26643	1244757	100113	2245870	55%	45%
1955	23755	382	24137	2478056	1070699	3548755	70%	30%
1956	31174	1003	32177	1571507	1558765	3130272	50%	50%
1957	35606	1034	36640	2319566	1192455	3512021	45%	55%
1958	41495	1156	42651	2632964	1191256	3824220	48%	52%
1959	44837	1214	46051	2289285	1566738	3854023	59%	41%
1960	34081	509	34590	2565633	2380327	4945960	52%	48%
1961	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1962	35298	532	35830	3014366	3915357	6929723	43%	57%
1963	37783	547	38330	3522998	4497867	8020865	44%	56%

* The percentages above are rounded to the nearest whole figure.

Source : Compiled from, Government/Republic of Iraq - Annual Statistical Abstracts 1953-1963.

Table 23

Personal Income Tax Rates in Iraq.

Taxable Income Bracket* (I.D.)	Tax Rate %
Up to 500	3
500-1000	5
1000-2000	10
2000-3000	15
3000-4000	20
4000-5000	25
5000-6000	30
6000-7000	35
7000-8000	40
8000-9000	45
9000-10000	50
10000-11000	55
11000-12000	60
12000-13000	65
13000-14000	70
14000-15000	75
15000-20000	80
Over 20000	90

* Over the minimum exemption limit.

Source: Republic of Iraq - Income Tax Law No.95(1959)-Section 13, (as amended by laws, No.178(1959),No.44(1960), No.11(1961), No.18(1963),No.113(1963), and No.129(1964).

Table 24

Company Tax Rates in Iraq.

(a)

Joint Stock Companies

(Industrial)

Taxable Income. (I.D.)	Tax Rate %
0-1000	10
1000-3000	15
3000-5000	20
5000-7000	25
7000-9000	30
9000-11000	35
11000-13000	40
over 13000	45

(b)

Limited Liability Companies.

(Industrial)

Taxable Income (I.D.)	Tax Rate %
0-1000	10
1000-3000	15
3000-5000	20
5000-7000	25
7000-9000	30
9000-11000	35
11000-13000	40
13000-15000	45
over 15000	50

(c)

(Non-Industrial)

Taxable Income (I.D.)	Tax Rate %
0-1000	10
1000-2000	15
2000-3000	20
3000-4000	25
4000-5000	30
5000-6000	35
6000-7000	40
7000-8000	45
Over 8000	50

Source : Republic of Iraq- Income Tax Law No.95 (1959) (as amended) op.cit.Section.13.

(d)

(Non-Industrial)

Taxable Income (I.D.)	Tax Rate %
0-1000	10
1000-2000	15
2000-3000	20
3000-4000	25
4000-5000	30
5000-6000	35
6000-7000	40
7000-8000	45
8000-9000	50
9000-10000	55
over 10000	60

Table 25

Legacy Tax Rates in Iraq.

Value of Legacy (I.D.)	Tax Rate %
0-10000	Exempted
10000-20000	10%
20000-40000	20%
40000-60000	30%
60000-80000	40%
80000-100000	50%
over 100000	60%

Source : Republic of Iraq - Legacy and Inheritance Tax Law No.157(1959) (as amended by Law No.130(1964).)

Table 26

Real Estate Tax Rates in Iraq.

Rental Income (I.D.)	Tax Rate %
1000-2000*	2%
2000-3000	4%
3000-4000	6%
4000-6000	8%
6000-8000	10%
8000-10000	12%
over 10000	15%

*Rental Income up to 1000 I.D. per annum is subject to a flat tax rate of 10%.

Source : Republic of Iraq - Real Estate Tax Law No. 162(1959) [as amended by law No. 16(1961)].

Table 27

The Relative Contributions of Direct and Indirect Taxation to Total Tax Revenue in Iraq 1953-1963.

(1)	(2)	(3)	(4)	(5)	(6)
Year	Total Tax Revenue (ooo's I.D.)	Direct Tax Revenue (ooo's I.D.)	Col.(3) as a % of Col.(2)	Indirect Tax Revenue (ooo's I.D.)	Col.(5) as a % of Col.(2)
1953	24941	3057	12%	21884	88%
1954	27824	3145	11%	24679	89%
1955	30614	3084	10%	27530	90%
1956	31231	3690	12%	27541	88%
1957	35605	3952	11%	31653	89%
1958	34737	4953	14%	29784	86%
1959	34181	5161	15%	29020	85%
1960	41286	6643	16%	34643	84%
1961	44718	7759	17%	36959	83%
1962	46010	10447	23%	35563	77%
1963	47100	10920	23%	36180	77%
			$\bar{x}$ = 15%		$\bar{x}$ = 85%

Source : Calculated on the basis of data from:

a) Government/Republic of Iraq - Ministry of Finance -Directorate General of Public Accounts - Annual Reports 1953-1962.

b) Government/Republic of Iraq - Annual Statistical Abstract 1963.

Table 28

Total and Per Capita Government Expenditure in Iraq 1953-1963

(1) Year	(2) G.N.P. (current prices) (ooo's I.D.)	(3) Population (ooo's)	(4) Total Government Expenditure (ooo's I.D.)	(5) Per Capita Government Expenditure Col.(4) ÷Col.(3) (I.D.)	(6) Size of Government Sector Col.(4) ÷Col.(2)
1953	265320	5832	62414	10	23%
1954	306710	5945	74666	12.5	24%
1955	315520	6061	89304	14.8	28%
1956	363410	6180	113317	18.8	31%
1957	383660	6301	131236	21.8	34%
1958	406250	6423	131422	21.8	32%
1959	423890	6548	151067	21.6	36%
1960	470030	6675	161851	23.1	34%
1961	520860	6804	186106	26.6	36%
1962	564550	6936	187697	26.9	33%
1963	552590	7071	203280	29.0	37%
					$\bar{x}$ = 32%

Sources :

Calculated on the basis of data from:

a) Hasceb,K.(mimeo). op.cit.

b) Central Bank of Iraq - Annual Reports 1953-1963 -

c) Government/Republic of Iraq - Ministry of Finance
- Directorate General of Public Accounts - Annual Reports 1953-1962.

Table 29

Indicies of Growth of Total and Per Capita Government Expenditure in Iraq 1953-1963

1953 = 100

(1)	(2)	(3)	(4)	(5)
Year	Total Government Expenditure (ooo' I.D.)	Index of Growth of (2)	Per Capita Government Expenditure (I.D.)	Index of Growth of (4)
1953	62414	100	10	100
1954	74666	121	12.5	125
1955	89304	127	14.8	148
1956	113317	182	18.8	188
1957	131236	211	21.8	218
1958	131422	211	21.8	218
1959	151067	244	21.6	216
1960	161851	261	23.1	231
1961	186106	300	26.6	266
1962	187697	303	26.9	269
1963	203280	326	29.0	290

Source : Calculated from table 28

Table 30

The Relative Distribution of Total Government Expenditure in Iraq, Between Ordinary Budget and Development Budget 1953-1963.

(1)	(2)	(3)	(4)	(5)	(6)
Year	Total Government Expenditure (ooo's I.D.)	Ordinary Budget Expenditure (ooo's I.D.)	Col.(3) as a % of Col.(2)	Development Budget Expenditure (ooo's I.D.)	Col.(5) as a % of Col.(2)
1953	62414	50157	81%	12257	19%
1954	74666	63789	72%	20863	28%
1955	89304	55279	62%	34025	38%
1956	113317	70276	62%	43041	38%
1957	131236	73821	56%	57415	44%
1958	131422	79207	60%	52215	40%
1959	151067	100167	66%	49900	34%
1960	161851	114286	70%	47565	30%
1961	186106	119188	64%	66918	36%
1962	187697	128401	68%	59297	32%
1963	303280	149025	73%	54255	27%
			$\bar{x}$ =67%		$\bar{x}$ =33%

Source : Calculated on the basis of data from:

a) Government/Republic of Iraq - Annual Statistical Abstracts 1953-1963.

b) Central Bank of Iraq - Annual Reports 1953-1963 and Quarterly Bulletins 1963-1965.

Table 31

The Relative Functional Distribution of Government (Ordinary Budget) Expenditure in Iraq 1953-1963).

Functional Category. \ Year	Expenditure as a proportion of ordinary budget expenditure.											
	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	
I. Administrative expenditure.	72.1	72.5	74.7	71.7	79.2	75.3	64.4	64.1	63.3	62.8	64.5	$\bar{x}$ =70%
II. Social expenditure	11.3	13.1	14.2	12.9	12.9	13.6	21.5	22,7	25.4	26.7	26.5	$\bar{x}$ =18%
III. Economic expenditure	16.6	14.4	11.1	15.4	7.9	11.1	14.1	13.2	11.3	10.5	9.0	$\bar{x}$ =12%
Total.	100	100	100	100	100	100	100	100	100	100	100	100

Source : Calculated on the basis of data from:

a) Government/Republic of Iraq - Ministry of Finance - Directorate General of Public Accounts - Annual Reports, 1953-1962.

b) Government/Republic of Iraq - Annual Statistical Abstracts - 1953-1963.

c) Central Bank of Iraq - Quarterly Bulletin,No.54, April-June 1965.

Table 32

The Relative Distribution of Government (ordinary budget) Expenditure in Iraq by Major Economic Categories 1953-1963.

Economic Category \ Year	Expenditure as a proportion of ordinary budget expenditure.										
	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
I. Final Outlay											
a. Wages and Salaries	33.8	36.9	40.4	39.9	43.2	47.4	53.2	53.3	58.1	55.7	52.1
b. Goods and Services	45.2	41.4	38.7	43.8	36.5	32.1	31.2	34.0	30.6	30.4	31.9
Total (I)	79.0	78.3	79.1	83.7	79.7	79.5	84.4	87.3	88.7	86.1	84.0
II. Transfer Payments											
c. Interest payments	.3	.4	.3	.3	1.5	.1	.4	.7	.8	n.a.	n.a.
d. Grants to provinces	11.6	14	14.7	14.1	15.8	17.6	8.5	5.9	6.4	n.a.	n.a.
e. Other grants.	9.1	7.3	5.9	1.9	3.0	2.8	6.7	6.1	4.1	n.a.	n.a.
Total (II)	21	21.7	20.9	16.3	20.3	20.5	15.6	12.7	11.3	13.9	16.0
GRAND TOTAL	100	100	100	100	100	100	100	100	100	100	100

Source : Calculated on the basis of data from:

a) Central Bank of Iraq - Annual Report 1963, table 40, p.201.

b) Al-Saaegh,H.R. "A Survey of Government Accounting Methods" (Ir Al-Iktisadi - Quarterly Journal of the Iraqi Economists Association - No.3.-Year 5 - Nov.1964 (In Arabic)).pp. 78-79.

c) Government/Republic of Iraq - Ministry of Finance - Directorate General of Public Accounts - Annual Reports 1953-1962.

Table 33

Actual Revenue and Expenditure of Iraq's Development Board 1951-1958

(000's I.D.)

Year	Revenue	Expenditure	Annual Surplus or Deficit	Accumulated Surplus or Deficit.
1951	7467	3131	+ 4336	+ 4336
1952	23999	12838	+ 11161	+ 15519
1953	35278	12257	+ 23021	+ 38540
1954	40728	20868	+ 19860	+ 58400
1955	60762	24025	+ 26737	+ 85137
1956	51125	43041	+ 8084	+ 93221
1957	35873	57415	- 21542	+ 71679
1958	61741	52215	+ 9526	+ 81205

Source : Central Bank of Iraq - Quarterly Bulletin No.54. April-June 1965 - Table (28), p.45.

Table[34]

Actual Development Budgets Expenditures by Major Sectors in Iraq 1953-1963 -

Year	Agriculture		Industry		Transport and Communications		Housing and Buildings		Totals	
	Expenditure (I,D.m.)	%	Expenditure (I.D.m.)	%	Expenditure (I.D.m.)	%	Expenditure (I.D.m.)	%	Expenditure (.I.D.m.)	%
1953	7.1	58.1	.5	3.8	1.9	15.6	2.8	22.5	12.3	100
1954	11.6	55.3	2.0	9.8	4.3	20.5	3.0	14.4	20.9	100
1955	11.6	34.0	9	8.5	8.4	24.8	11.1	32.7	32.0	100
1956	12.3	28.6	5.0	11.7	9.2	21.3	16.5	38.4	43.0	100
1957	13.2	23.0	8.6	15.0	12.4	21.6	23.2	40.4	57.4	100
1958	12.6	24.2	11.9	22.7	7.9	15.1	19.9	38.0	52.2	100
1959	10.3	20.7	4.8	9.7	12.6	25.2	22.2	44.4	49.9	100
1960	10.8	22.7	5.7	12.1	7.9	16.6	23.1	48.6	47.5	100
1961	9.7	14.5	7.1	10.6	14.1	21.2	35.9	53.7	66.9	100
1962	6.3	11.6	10.3	9.9	15.8	20.8	26.9	57.7	59.3	100
1963	4.5	8.3	9.5	12.8	18.3	33.7	22.0	45.2	54.3	100
		$\bar{x}$=27%		$\bar{x}$=12%		$\bar{x}$=22%		$\bar{x}$=39%		

Source : Central Bank of Iraq - Annual Report 1963, table (53),p.216, and Quarterly Bulletin No.54, April-June 1965; Table (30) p.47.

Table 35

The Total and Annual Investment Allotments of the Iraqi Five-Years Detailed Economic Plan (1961-1965) by Major Sectors.

Sector	Total Allotment (1961-1965) (I.D.)	Annual Allotments.				
		1961-62	1962-63	1963-64	1964-65	1965-66
I. Agriculture	112990000	19782000	20179000	22760000	24698000	25571000
II. Industry.	166786000	14424000	24675000	39607000	43008000	45072000
III. Transport and Communications	136450000	24860000	32410000	29800000	27980000	21490000
IV. Housing and Buildings	140114000	38073000	30792000	25457000	24009000	21783000
TOTAL	556340000	97139000	108056000	11764000	119605000	113916000

Source : Republic of Iraq - Ministry of Guidance - The Five-Years Detailed Economic plan (Law Np.70,1961). Table 1,p.11.

Table 36

The Relative Distribution of the Total Investment Allotments of Iraq's Detailed Economic Plan (1961-65) by Major Sectors.

Sector	Total Allotment (1961-1965) (I.D.)	%
I. Agriculture	112990000	20%
II. Industry	166786000	30%
III. Transport and Communications	136450000	25%
IV. Housing and Buildings	140114000	25%
TOTAL.	556340000	100

Source : Calculated from table 35

Table 37

Investment Allocation in Iraq's Development Budget Recommended by the I.B.R.D. Mission for (1952-1966).

Sector	Expenditure (I.D.m.)	%
I. Agriculture	62.7	37%
II. Industry	37.0	22%
III. Transport and Communications	31.0	18%
IV. Other*	37.8	23%
Totals	168.5	100%

* Includes expenditure in Community facilities, education, health, and miscellaneous expenditure.

Source 1 I.B.R.D. "The Economic Development of Iraq" (Johns Hopkins Press - Baltimore 1953).

Table 38

Investment Allocation in the Provisional Economic Plan (1959-1963).

/ Law No.181.(1959) /.

Sector	Expenditure (I.D.m.)	%
I. Agriculture	47.9	12%
II.Industry	38.7	10%
III.Transport and Communications	100.9	26%
IV.Housing and Buildings. *	204.7	52%
Totals	392.2	100%

* Includes some expenditure in health and education.

Source : Central Bank of Iraq - Annual Report 1959 - Table (8),p.43.

Table 39

The Relative Distribution of Investment Allotments In the Government's Sector of Selected Countries.

Sector	(1) U.A.R.	(2) India	(3) Poland	(4) Czechoslovakia	(5) Iraq
I. Agriculture	26.9	22.9	11.0	11.5	20
II. Industry	37.3	27.4	46.3	39.9	30
III. Transport and Communications	11.5	28.9	10.2	21.8	25
IV. Other Sectors.	24.3	20.8	32.5	36.8	25
Totals	100%	100%	100%	100%	100%

(1) Ten Year Development Plan (1960-1970) /But the above data refer to first five years/.
(2) Second Five-Year Plan 1956-1961.
(3) Expenditure 1950-58.
(4) Expenditure 1950-58.
(5) Detailed Five-Years Plan 1961-1965.

Source : Republic of Iraq - Ministry of Guidance - The Five-Years Detailed Economic Plan.op.cit.p.75.

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