

The effect of tax revenues on the inflation rate in Iraq for the period 2004-2020

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Abstract:

In Iraq and after the creation of the year (2003), the external factors played a role in influencing the inflation rates due to Iraq's openness to the outside world, as most of the components of the consumer basket are importers, which made the Iraqi economy vulnerable to the expected price fluctuations in the world, negatively or positively.

Introduction :

Inflation is one of the topics that are still controversial about the factors that cause it, and therefore the appropriate policies to address it, but it can be said that inflation is generally affected by internal and external factors whose importance varies according to the nature of the economy and the degree of its openness to the outside world. In a small economy that is open to the outside, external factors play A role that becomes more important with increasing openness

The importance of the article: The importance of the article lies in the impact that tax revenues have on inflation in Iraq through

1. The close correlation between tax revenues and inflation in Iraq for the period (2004-2020)
2. Statement of the effect of tax revenues represented by inflation

Article problem: Does tax revenue have an effective effect on inflation in Iraq for the period (2004-2020)

Article hypothesis: The research stems from the hypothesis that tax revenues have a significant impact on inflation in Iraq for the period (2004-2020)

Article Objective: The research seeks to achieve a number of objectives, including:

1. Determine the reality of the impact of tax revenues on inflation in Iraq for the period (2004-2020)
2. Knowing the reality of inflation in Iraq for the period (2004-2020)
3. Measuring the impact of tax revenues on inflation in Iraq for the period (2004-2020)

Article Methodology: In order to establish the objectives pursued by the research and to test its hypothesis, this article has relied on the inductive method and the quantitative method (standard) to show the impact of tax revenues on inflation in Iraq for the period (2004-2020)

Article Structure

In order to reach the goal of the research, it was divided into three sections

The first topic included tax revenues and inflation as a theoretical framework, while the second topic included the second topic analyzing the reality of tax revenues and inflation in Iraq for the period (2004-2020). The third topic included measuring the relationship between tax revenues and inflation. It concluded with a set of conclusions and recommendations

The first topic: tax revenue and inflation, a theoretical framework

The first requirement is the theoretical framework for tax revenue

First: The concept of tax revenue: It is one of the financial policy tools on which the government relies in financing its public expenditures, and that the nature and objectives of taxes have evolved through the development of political, economic and social systems (Khadija Al-Asar, pg. 136). Taxes can be defined as an amount of money that the public authority deducts from individuals forcibly and permanently without direct consideration in order to achieve the goals of society, and the use of taxes is the most used method by the state at the present time and modern financial thought. its public bodies forcibly through imposing taxes on the resources of the various economic units with the aim of covering public burdens without a specific consideration and distributing these burdens among the units according to their mandated ability (Ali Youssef Abdullah Mahmoud, p. Definitely, free of charge, on the basis of the principle of social solidarity between members of the same state in bearing public burdens (Oyewo, Michael. 2013, PP. 34-40).

Taxes were also defined as a sovereign deduction by public authorities to achieve public goals and the distribution of its burden according to the tax capacity of the citizen (Ismail Abdel Fattah, 2005, p. 315). Also, tax arfa (Mail) as a cash deduction imposed by the state or its public body on natural individuals according to For their mandated ability in a final and free manner and with the aim of covering public burdens and achieving state intervention (Adel Falih Al-Ali, 2003, p. 145), as well as considering the imposition of taxes as an act of national sovereignty and an inherent right of the state to finance its spending programs that it designs to achieve its goals (Atef William, pg. 463). Others also define it as a monetary performance imposed by the public authority by law on the taxpayers in a final and free manner with the intention of covering public costs (Abdullah Al-Saeed, 2006, pg. 300). The researcher also defines tax revenue as a cash deduction from the wealth of society and individuals that the state takes forcibly without return, and this does not mean The taxpayer who pays the tax does not benefit from the public services you provide, not because he is charged with taxes, but as a citizen

Second: The basic rules of tax The basic rules of tax

1- Justice: The system must be fair and considered as such if it arranges equal treatment for payers with similar circumstances on the one hand, and imposes higher tax rates on those who can bear higher tax burdens (Adel Ahmed Hashish, 2006, p. 151).

2- Certainty: The tax must be clear information for the taxpayer, that is, it is necessary that the taxpayer be fully aware of the extent of his tax obligation in terms of determining his financial position, as well as he must be aware of the taxes that he is obligated to pay in terms of their importance, price and related provisions starting from determining the base to How to impose and collect it, that is, tax legislation should be clear so that the general public can understand this, and this affects the abundance of tax revenue. himself, which may lead him to evade taxes in the future, and the state must make the laws, regulations, and decisions that regulate taxes under the control of taxpayers through well-known means of publication (Taher Janabi, p. 76).

3- Proper payment: The provisions of the tax must be compatible with the conditions of the taxpayers in terms of choosing the base, the method of determining it, the method of tax collection, its date and procedures, that is, the date of collection of the tax at the time from which the taxpayer obtains the taxable income (Rania Mahmoud Amara, p. 32).

4- Economy in collection: This rule is intended to ensure ease of application and flexibility and to avoid the obstacles of red tape and complexity, which incurs the financial management huge expenses in order to collect taxes.

5- Efficiency: It means that it is preferable in the tax system as much as possible not to practice any distortion on the allocation of resources, in the sense that it enhances economic efficiency rather than detrimental to it (Khadija Al-Aasar, p. 137.).

Third, the objectives of tax revenue

The tax has several goals and purposes in all fields, and this is because of its impact on the economic, social and political structure, in addition to the financial purpose.

1- Financial objectives:

These objectives are to obtain the necessary funds to finance public expenditures, in a wayIt ensures that it performs its traditional functions in a neutral state (the tax is directed to the financial treasury).

2- Social objectives:

The social purposes that the tax can help achieve are several, including the following:

- Redistribution of income and wealth in order to reduce the differences between classes.
- Encouraging the consumption of socially desirable goods or combating some harmful goods.
- Exempting young investors from paying taxes for a period in the areas to be developed.

3- Economic objectives:

There are several economic purposes that the state can use taxes to achieve. Among these goals are:

A- Encouraging or combating some forms of economic activity through discrimination in treatment (Mohammed Taqa and Hoda Al-Azzawi 2007, p. 160).

B - Encouraging savings and capital formation by deciding some exemptions according to the type of commodity (Ghazi Enaya, 2000, p. 72).

C - Reducing the severity of economic fluctuations through tax policy.

As for the purposes of tax in developing countries, it is determined mainly in the mobilization of resources economy and directing it in order to serve the purposes of development, and therefore it is used to encourage savings, As well as influencing the tendency to invest and directing it towards economic activities to be developed.

4- Political objectives:

Taxes may be used to achieve policy goals at the expense of one class and at the expense of another, or to facilitate or limit trade with some countries, by reducing or even exempting customs taxes on imports, or raising them in the event of a desire to limit trade with them (Ghaz. Abd al-Razzaq al-Naqqash, 2001, pg. 48).

The second requirement: the theoretical framework for inflation

First, the concept of inflation: It is one of the rare concepts that is similar to the law of supply and demand, and it means that inflation is a rise in the general level of prices as a result of a decrease in the purchasing power of money. Technological innovation and inflation.

For example, a low-income person may look at the price of a new car or a university education and notice how the cost of these goods varies over time, but they ignore the fact that the goods sold today may bear the same name as the goods that were sold in the previous days. Now these products are not equal, as measured Inflation through consumer price indices, as well as inflation may result when a large amount of money chases a small amount of goods (Rabbitt, Tristan, 2020. P38). Inflation is the excessive increase in money in circulation with a decrease in the purchasing power as defined by the economist Robert Rothorn that inflation is the production of continuous tension between the working class and the dominant capitalist class(Ghaz. Abd al-Razzaq al-Naqqash, 2001, pg. 48)., as he defined inflation is the economic rate that leads to an increase in the general level of prices for services and goods, which leads to a decrease in the purchasing power of the currency

Second: Types of inflation

Inflation is divided into a group of types, based on various economic criteria, which are: Inflationary pressure criterion, and it is divided into two types:

A- Demand inflation:

It is the increase in prices as a result of higher demand than supply, which leads to the inability of supply to meet the rise in demand due to the full use of the productive elements, or the inflexibility of the means used in supply to meet the excess demand.

b- Inflation of costs:

This type of inflation arises when the costs of production factors increase at a rate that exceeds the rate of increase in production, which leads to an increase in the general price level. P38. The rapid increase in wage levels thanks to strong trade unions also

leads to higher price levels when this increase is not matched by the productivity of labor in some key sectors within the national economy (Bassam Al-Hajjar, p. 312).

Third: the effects of inflation

1- Economic effects

A - the loss of money and its function as a store of money: The continuous increase in prices leads to money losing part of its purchasing power, and this is reflected in the weak confidence of individuals in the national currency, and this leads to a weak incentive to save among individuals” and an increase in the tendency to consume versus a decrease in the tendency to save (Bassam Al-Hajjar, p. 312), which may lead to Some convert their “cash balances” in excess of the need for consumption into stable currencies, gold or foreign currencies, or speculation in the purchase of real estate, and thus lead to benefiting from the cash balances in their possession before the decrease in their purchasing power, due to the effect of inflation. Accordingly, inflation leads to an increase in consumption rates. For goods and services, this leads to an increase in aggregate demand, which in turn exacerbates inflationary pressures in the economy, especially when the economy reaches the level of full employment (Bassam Al-Hajjar, pg. 312).

B - imbalance of payments: The high annual inflation rates in the national economy have a negative impact on the balance of payments, as inflation leads to a rise in the prices of locally produced goods, and this is what reduces the competitiveness of local products compared to foreign goods (Bassam Al-Hajjar, p. 312) and this leads to a decrease in the volume of exports and an increase in The volume of imports, and this leads to an exacerbation of the deficit in the balance of payments. To deal with this imbalance in the balance of payments, government authorities resort to putting in place a set of measures to prevent the leakage of purchasing power, by putting in place a set of measures that limit the increase in imports, which leads to high inflation rates and also leads to the occurrence of Successive rises in the levels of local commodity prices, while the quantity supplied remains limited (Bassam Al-Hajjar, p. 312)

Misdirected investments: The economic development process aims to expand production capacities in all sectors of the economy, through the optimal use of production capacities, with the aim of providing various commodities, whether they are consumer or investment, and the government usually sets economic plans and programs aimed at directing investments towards those areas, and that In order to achieve an increase in the productivity rates of these investments, however, inflation stops achieving this, as the increase in aggregate demand for necessary consumer goods leads to an increase in their prices and thus achieve huge profits for their producers, and therefore capital owners tend to invest in productive projects that enjoy

rapid circulation These areas are represented in consumer goods production projects, where their producers achieve quantitative profits as a result of their high prices in light of the limited real supply of them and the increase in the volume of total demand for them, and this leads to a decrease in the volume of investments directed towards projects that are characterized by high profits. Slowly the turnover of the invested capital, which causes an imbalance in the distribution of investments in the national economy (Bassam Al-Hajjar, p. 312), where investments in The projects of the production of consumer and luxury goods have grown significantly due to the increase in the rates of aggregate demand for them and the high profits they achieve. At the same time, the service sector is witnessing significant growth due to the increase in investments directed to it due to the high return achieved by investments in this service sector, in addition to directing investments to Areas of building and constructing luxury buildings and housing, which do not benefit the development process in its early stages, and which require directing investments towards areas that contribute to increasing production capacity in the national economy and achieving economic stability.

2- social effects

A - usually equitably distributed: The entry of tourism into the neighboring community is the most influential as a result of inflationary pressures in the economy, as the role of successive rises in economic levels, which represents a category among them and capital, due to the huge profits that it achieves, resulting from the rise in demand for its products, and for renting real estate At the same time, the suffering of the second category, which was presented in society and includes income earners, pension holders, bond holders, and savings deposit holders... Inflation rates, increases at the same time. As a result, the score obtained through the first round, was to lead to weight gain

b- Prevalence of bribery and administrative corruption; graph in the graph that rises in the graph in the graph at the beginning at the beginning at the beginning in the local atmosphere, and a letter begins to graph at the beginning at the beginning in the local atmosphere. Against this, and equal to the values of your works in the ordinary, and equal to his value against his ordinary works at their real levels, and equal to them in exchange for material. (Ghazi Hussein Inaya, pg. 19).

C - brain drain abroad; As a result of the instability in the atmosphere and the reasons that led to the significant rise in the atmosphere abroad. Universities Thousands of professors who came to the Gulf states and universities provide attractive salaries, and this loss was not limited only to the university sector, only in some disciplines related to higher technology from Canada to that information.

The second research: Analysis of the reality of America's taxation and inflation in Iraq for the period (2004-2020)

The first requirement: the percentage of direct taxes from the United States of America in Iraq for the period (2004-2020)

Second: Analysis of the percentage of tax contribution from public revenues in Iraq for the period (2004-2020)

Direct taxes in Iraq from income tax and income tax are direct income tax (2) direct taxes (73568) million dinars in 2004, while the percentage of taxes in US taxes amounted to (47.49%) and this is due to the result of tax exemptions on income granted by Law No. 37 of the year 2003 and Law 49 of 2004 indicate an imbalance in the tax structure (Tax Strategy, 2004). In 2007, direct taxes were recorded (438951.6) million dinars, while the proportion of direct taxes out of the total tax revenues was (67.75%) and this is the application of the direct tax system on income. From the year 2007 (Abbas Nasser Saadoun, Ali Ghanem Shaker, 2017, p. 386.), As for the year 2009, direct taxes amounted to (603040) million dinars. The direct tax revenue percentage of the total financial revenues (51.14%) 5-297, in 2015 And direct taxes rose to (1592,410) million dinars, while the proportion of direct taxes from the total tax revenue amounted to (80.07%), which is the highest percentage throughout the research period. For foreigners, and their duties against taxes and income in Iraq, and income and income from public revenues, which is higher than the percentage of indirect tax revenues, which amounted to 48.66% This is due to the low income tax and transport tax due to the negative effects of the Corona pandemic on the Iraqi economy, and the government has reduced taxes and granted exemptions, taking into account the conditions of citizens and their suffering from the social and health conditions facing them.

Table (1)

The percentage of tax contribution from public revenues in Iraq for the period (2004-2020)

Million dinars

Percentage of direct tax contribution from tax revenue (6)	tax revenue (5)	Direct taxes (4) (1 + 2 + 3)	Income Tax(3)	Transport Tax (2)	real estates tax (1)	years
47.49	154881	73568	37835	31196	4537	2004
60.88	302321	184071	133808	40416	9847	2005
57.55	533189.3	306872	256495	39788	10589	2006

67.75	647900.6	438931	387638	40001	11292	2007
55.95	938845	525251	405939	98116	21196	2008
51.14	1179205	603040	395991	172229	34820	2009
66.43	1087205	722264	421779	250149	50336	2010
67.32	1297578	873541	580141	241065	52334	2011
69.15	1658538	1146943	788385	298699	59859	2012
69.72	1947620	1357833	981007	313582	63244	2013
72.97	2006298	1463998	1137206	265953	60839	2014
80.07	1988768	1592410	1275352	249881	67177	2015
78.86	2990886	2358502	2118569	164978	74955	2016
74.44	4621742	3440218	3215016	134522	90680	2017
66.50	5165561	3435334	2315619	223389	96326	2018
41.61	6334160	2635334	2179632	231319	86039	2019
51.44	5651821	2907031	2316053	315187	275800	2020

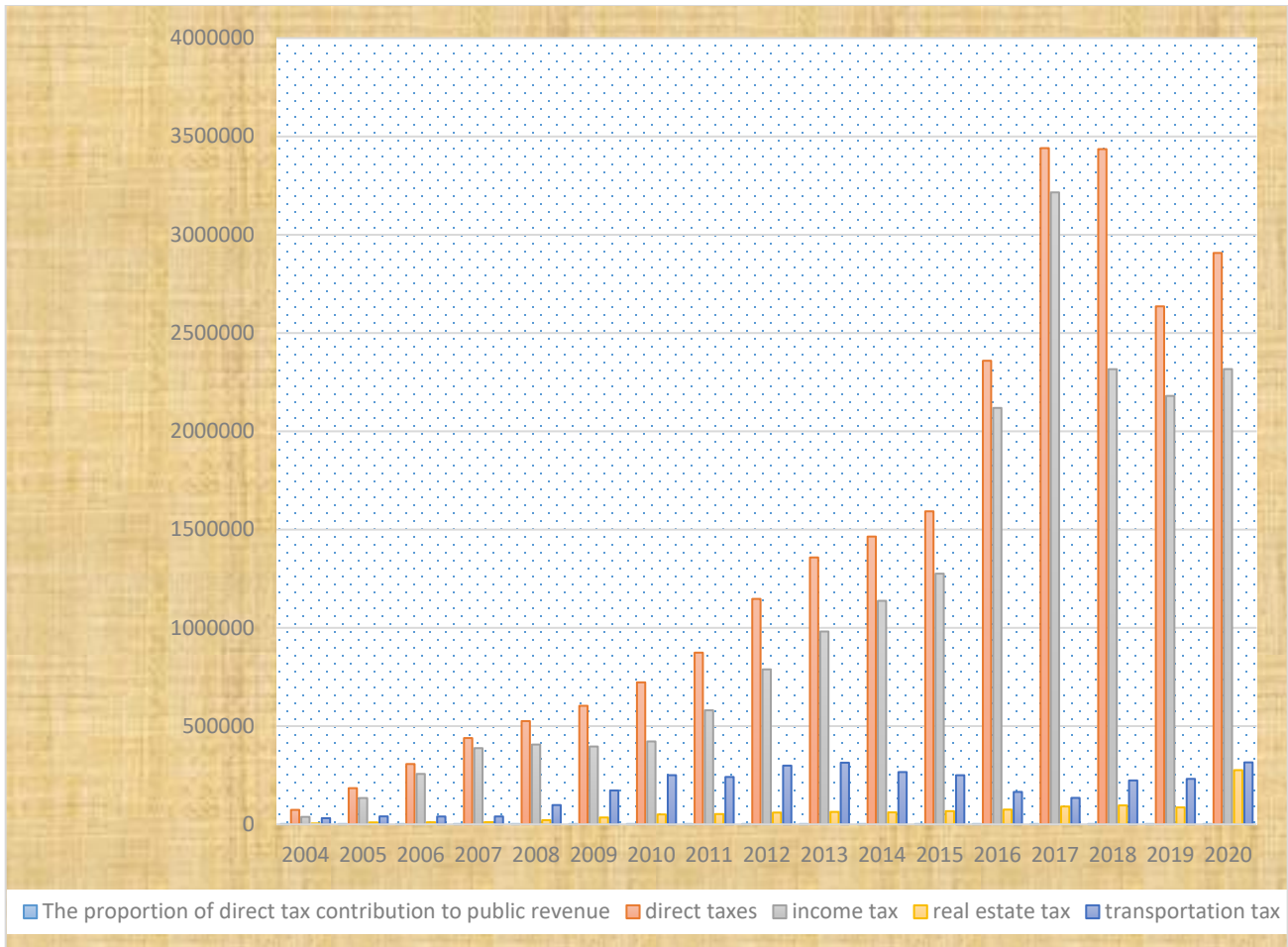
Reference: The Ministry of Finance and the General Tax Authority, Planning and Follow-up Section

- Central Bank of Iraq, Directorate General of Statistics and Research, Statistical Bulletin, for different years

Column (6) of the researcher's work

figure (1)

Percentage of direct taxes contribution from tax revenues in Iraq for the period (2004-2020)



reference: Prepared by the researcher based on data from Table (1)

The second requirement: analysis of the development of inflation in Iraq for the period (2004-2020)

The rate of inflation is measured through consumer price index numbers, that is, consumer prices reflect the amount of increase in expenditures resulting from changing prices necessary to obtain the same quantities of goods and services in the base year (Kulthum Abdel Qader Hayawi, Abdel Hamid Suleiman Zaher, 2019, p. 383) .as well as Iraq witnessed severe fluctuations in inflation rates after the year 2003, and this is the result of Iraq’s transition towards a market economy and integration into the global economy, which led to an increase in inflation rates as a result of the structural imbalances that affected it after the occupation period, due to the lack of seriousness in implementing economic and investment programs and plans, represented by the failure to implement the economic development plan as well as On the monetary policy's ability to reduce inflation rates by one decimal place after the issuance of Law 56 of 2004, and this is an achievement to be reckoned with. We note through table (10) that the consumer price index was recorded (36.4) and the inflation rate (37.83%) in 2005,

meaning that inflation trends in Iraq were characterized as upward, especially at the beginning of the occupation, and this is a result of the increase in oil revenues, oil revenues and the increase in the volume of current and operating expenses, as well as currency exchange. Patriotism is one of the most important factors in raising the level of inflation in Iraq, which opened the way for the Central Bank to carry out open market operations to pump more dollars to reduce the general level of prices. This is due to the increase in consumer spending and the increase in the quantities of imported goods from abroad after the decline in trade policy measures through the reduction of customs duties imposed on imported goods, and this led to an increase in the commodity supply and the impact of the national economy on imported inflation (Ahmed Abrihi Ali, 2015).

As for the year 2010, the inflation rate was recorded (2.46%), and this decline is due to the success of monetary policy in achieving stability in the general level of prices, and this decline is positive for monetary policy. After that, the inflation rate continued to decline until it recorded (-29.66) in 2016, which is negative and the lowest throughout the research period. This decline is the most low in the history of inflation in Iraq as a result of the decline in oil revenues and the control of ISIS gangs over some areas and some border crossings (Istibraq Ismail Hama Jalil Kamel Ghaidan, 2015)

In 2020, the inflation rate in Iraq reached (3.25%), which is a low rate, and this is a result of the outbreak of the Corona pandemic, which led to a decline in demand for oil, and on the other hand, an increase in food prices as a result of a shortage in the supply of goods, as well as the partial and total closure of the borders (the Bank Iraqi Central)

Table (2)

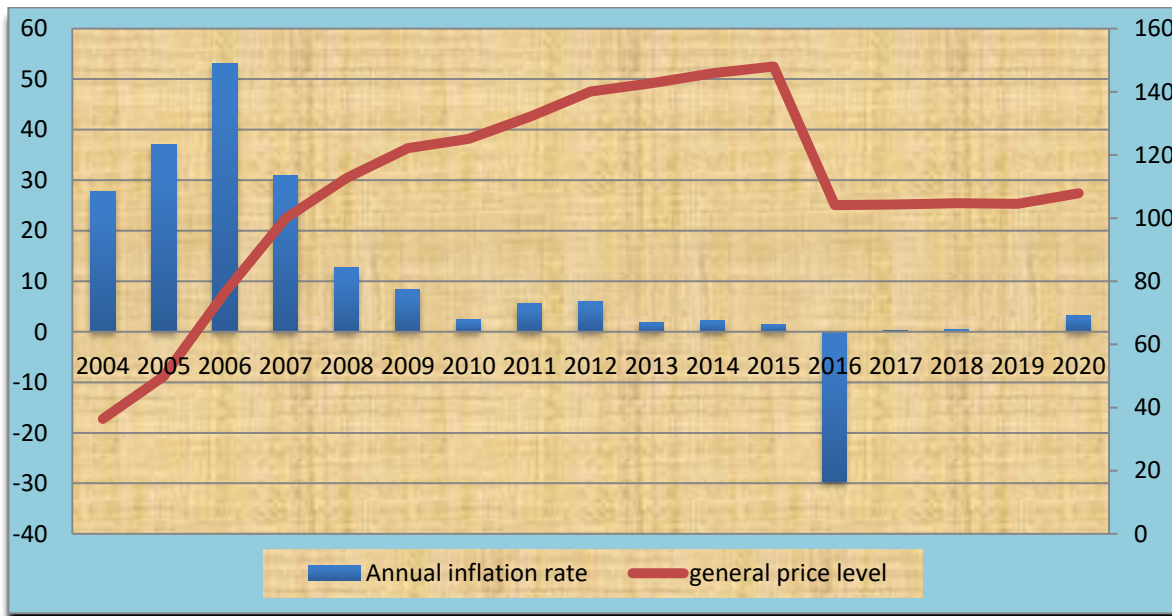
The development of the inflation rate in the Iraqi economy for the period (2004-2020)

Annual inflation rate	general price level = 2007 100	years
27.83	36.4	2004
37.09	49.9	2005
53.11	76.4	2006
30.89	100	2007
12.70	112.7	2008
8.34	122.1	2009
2.46	125.1	2010
5.60	132.1	2011
6.06	140.1	2012
1.86	142.7	2013
2.24	145.9	2014

1.44	148	2015
-29.66	104.1	2016
0.19	104.3	2017
0.38	104.7	2018
-0.19	104.5	2019
3.25	107.9	2020

reference: Central Bank of Iraq, General Directorate of Statistics and Research, Statistical Bulletin for different years

figure (2)
The evolution of inflation rates in Iraq for the period (2004-2020)



reference: Prepared by the researcher based on data from Table(2)

The third topic: Measuring the relationship between America's taxation and inflation

The first requirement: testing the stability of commercial chains After the root detection test was performed, and as a test, we obtained the following results which show the table (15, 25, 30). The operating conditions were at a different time for the ADF test and PP Test.

Table (3)
Unit root test results for the studied variables using ADF test and P.P test

Variables	Level		1 st Difference	Critical value				test Equation
	ADF test	Prob		ADF test	Prob	1%	5%	
Lnf			-3.614740	0.0005	-2.605442	- 1.946549	-1.613181	None
TRGR	-4.747827	0.0003			-2.602185		-1.613448	None
Variables	P-P TEST	Prob	p-p test	Prob	1%	5%	10%	
LNF			-4.588523	0.0000	-2.602794	- 1.946161	-1.613398	None
TRGR	-2.216032	0.0268			-2.602185	- 1.946072	-1.613448	None

reference: Prepared by the researcher, based on the statistical program 12 Eviews

We note through table (15) above in the Dickey-Fullor test that the independent variable represented by the tax revenue growth rate (TRGR) has stabilized at the level and the first difference without a fixed limit and a time trend where the estimated value was (-4.747827) less than the tabular value (-2.602185). At a significant level of 1%, that is, it is stable at degree I (0) as well. The dependent variable inflation rate (INF) is stable at the first difference with a significant level of 1% without a fixed limit and a general trend where the estimated value was (-3.614740) less than the tabular value (2.605442). -) At a level of significance of 1%, meaning that it is of rank I (0) .. and when conducting the Fables-Peron p.p test

To ensure the stability of the time series, we also note that the independent variable, represented by the growth rate of tax revenues at the original level, and the first difference without a fixed limit and time trend, at a significant level of 5%, with a probability of (0.0268), that is, the estimated value was (-2.216032), which is less than the tabular value (1.946072). - When testing the stability of the variable, the inflation rate continued (INF) by means of the Philip-Borne test. We note that it also stabilized at the first difference, i.e. the estimated value reached (-4.588523), which is less than the critical value (-2.602794) and with a probability of (0.000000), i.e. a level of 1%

The second requirement: the co-integration test

1- Limits of Integration Test: Estimating short and long-term relationships After completing the estimation of a model according to the ARDL methodology, we proceed to conduct a bound test to ensure the presence or absence of co-integration between the studied variables, that is, the presence or absence of a long-term equilibrium. This test is conducted through the null hypothesis versus the alternative hypothesis and refers to Cointegration exists when the calculated F is greater than the tabulated F. The results of this test are clear

Table(4)
ARDL Long Run Form and Bounds Test

ARDL Long Run Form and Bounds Test
Dependent Variable: D(LNF)
Selected Model: ARDL(2, 1)
Case 2: Restricted Constant and No Trend
Date: 07/22/22 Time: 19:02
Sample: 2005Q1 2020Q4
Included observations: 62

Conditional Error Correction Regression				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
	-			
C	0.964635	0.749243	-1.287479	0.2031
	-			
LNF(-1)*	0.115144	0.031904	-3.609129	0.0006
TRGR(-1)	0.052485	0.021548	2.435674	0.0180
D(LNF(-1))	0.456352	0.102502	4.452113	0.0000

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D(TRGR)	0.060742	0.054008	-1.124695	0.2654
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* p-value incompatible with t-Bounds distribution.

Levels Equation
Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TRGR	0.455820	0.175429	2.598316	0.0119
C	8.377634	6.839917	-1.224815	0.2257

EC = LNF - (0.4558*TRGR - 8.3776)

Null Hypothesis: No levels relationship

F-Bounds Test

Test Statistic	Value	Signif.	I(0)	I(1)
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			Asymptotic: n=1000	
	4.81695			
F-statistic	9	10%	3.02	3.51
K	1	5%	3.62	4.16
		2.5%	4.18	4.79
		1%	4.94	5.58

			Finite Sample: n=65	
Actual Sample Size	62			
		10%	3.143	3.623
		5%	3.787	4.343
		1%	5.35	6.017

			Finite Sample: n=60	
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10%	3.127	3.65
5%	3.803	4.363
1%	5.383	6.033

reference: Prepared by the researcher, based on the statistical program 12 Eviews

The above table indicates the detection of a co-integration relationship between the growth rate of tax revenues and the inflation rate, that is, there is a long-term equilibrium relationship between the independent variable and the dependent variable, so it appeared in the test that the calculated F value of (5.031) is greater than the values of the upper limits of the test at level 5 This rejects the null hypothesis that states the existence of joint integration and accepts the alternative hypothesis that states the existence of joint integration and this confirms long-term linear relationships between the growth rate of tax revenues and the long-term inflation rate.

Conclusions

1 - The high rates of some direct taxes, although they do not satisfy citizens, indicate that their role in combating inflation is considered effective, but it is stipulated that it does not discourage them, so the results are the opposite of what was expected.

2- Iraq witnessed severe fluctuations in inflation rates after 2003, and this is a result of Iraq's transition to a market economy and integration into the global economy, which led to an increase in inflation rates as a result of the structural imbalances that affected it after the occupation period.

3- The statistical tests came to support the existence of the extent of the impact of tax revenues on the inflation rate in Iraq, through this model that has a high explanatory power. In the aggregate, we find the calculated value of F greater than the tabulated f

4- The statistical tests came to support the existence of the extent of the impact of tax revenues on the inflation rate in Iraq, through this model, which has a high explanatory ability.

Recommendations

1- The tax system must be applied well because it is considered one of the financial tools used in directing investments, as well as it must be used in dealing with economic and social crises.

2- Emphasizing the role and importance of taxes in Iraq as one of the financial policy tools that it uses in economic treatment

3- Stressing the need to implement an effective tax system to increase public revenues to face financial crises and control the inflation rate

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