

United Nations Development Program –
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Discussion and Approval of the National Budget in Iraq

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Executive Summary

The paper is destined for the Iraqi MPs and aims at illustrating the central place of fiscal choices in the economy but also, and mainly, in the consolidation of the functional legitimacy of the state, which is the central concern of Iraq today.

The study insists on the serious and simultaneous challenges that Iraq is facing (the restoration of security and the reconstruction of public facilities, the rise in oil revenues, the setting of rules for federalism and the transition towards market economy) and delineates the risks that are attached to each of them and to their joint occurrence.

It depicts a synthetic image of the effective functional role of public finance and oil revenues in the national economy and shows that, rather than acting as a complement to the economic activity, they tend to represent substitutes. Hence, the problematic of fiscal decisions is envisaged at three levels: their economic and institutional content, their interrelation and sequencing and finally the various processes of decision taking.

It concludes by confronting those theoretical elements with the great challenges that the country is facing, proposing some practical orientations and emphasizing the impact of the choices in public finance and of the processes of decision taking on the form of the state.

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Fiscal Tasks and Challenges, in General

Public finance should not be considered as one of the public administration issues, but rather as the other side of all public administration affairs and issues, as well as a binding dimension connecting them together, whether regarding the means used to accomplish certain actions rather than others, or regarding the complex effects resulting from the accomplished actions.

Thus, public finance is at the very heart of public action. And since the "budget" is the legal document to determine and authorize collection and expenditure, and therefore reflects the State's fiscal decisions, all constitutions and codes gave the budget an exceptional importance, compared to all other public choices and processes, and priority over all other decisions.

In this regard, the Iraqi Constitution dedicates five articles to the budget issue: two of which related to the Council of Representatives (Articles 57 and 62), one related to the Council of Ministers (Article 80), one related to the Federal Supreme Court (Article 91) and one to the exclusive competencies of the federal authorities (Article 110). According to the Article 57, "the session during which the general budget is submitted to the Parliament shall not end before it is approved".

Given the comprehensive character of the fiscal administration, prioritization criteria among fiscal choices are not actually but the essential goals of the State, and may be grouped into two main categories: ensuring people's prosperity through economy regulation and people's security through the consolidation of public institutions. Some might think at a first glance that these goals are theoretically simple, and even self-evident, and that the only difficulty lies in the management of their implementation tools. However, the understanding of community goals is not, in any case whatsoever, a simple task; Moreover, the duality of these goals and their interrelation lead to extremely complicated issues, not only on the practical and implementation level, but also on objectives' identification level.

1. The goals differ from each other first by nature; in spite of the fact that it is easy to imagine many complementary aspects between them, they actually can be substitutes one to the other. There are many talks about the positive interactive relation between economic prosperity and political or social security; this relation is expressed by establishing the connection between growth and democracy, and repeating that any advance in one of the tracks would reinforce the advance in the other track. However, the objective evaluation of history in general, and our situation in particular, also shows that there are many different aspects of substitution and trade-off between both goals, some of which are characterized by a community consensus, where certain social systems choose to enjoy further justice and social security, and to preserve their traditional living habits even if this would cost them loss in their gross income or the income of certain valuable segments, whereas other societies might accept dictatorial regimes or a decrease in public freedom in exchange for some material benefits.

2. Second, prosperity and security are subject to relative, not absolute criteria, except for a minimum level of income which ensures physical survival, and a minimum level of stability which prevents community frameworks from exploding. People get used to what they acquire real fast, particularly on the material level, and they tend to consider it as an inalienable right, without giving any credits to anyone or any circumstance for its fulfillment and sustainability. Behavioral patterns are adapted accordingly, and would any of these "acquired rights" be threatened, they are defended with such tenacity that social stability might be impaired or social categories might withdraw from public life. The perception of social gains might be less obvious, but it is not totally absent. This implies that the achievement of more prosperity and security is not only a matter of quantity, but also of timing and process. Every step taken should be evaluated compared to what was previously accomplished; the referential goal becomes therefore dynamic. In this perspective, it is justified to avoid acute shocks and changes, whether negative or positive, since they impose restrictions on subsequent processes and choices.
3. Third, progress in the tracks of prosperity and security does not happen automatically and not necessarily equally among people, within the same state, and of course among the states. Thus, the State should, within its authorities, couple procedures aiming at abolishing disparities among different categories with other procedures aiming at representing these disparities in such manners that they become acceptable or even impose their acceptance. Redistribution, social benefits and community development policies fall within this context on one hand, as well as policies of persuasion, the use of community fragmentation and even repression, on the other hand. The State should establish a certain balance between both roles in order to ensure global regulation. Moreover, the states are supposed to address all aspects of acute disparity with their neighboring states, on both material and social levels, in an attempt to prevent the risks and crises that might result from these disparities. However, it is to be noted that the difference in the states' regimes and the restrictions imposed on cross-border movements allow for much higher levels of disparity between the states than those that may be accepted within the same state.

These general criteria are present in every fiscal decision; thus, the process of fiscal choices ought to be addressed as an extremely delicate and sensitive issue. And maybe the persistence in considering most of the fiscal decisions as indisputable and bound by urging necessities and previous commitments, while emphasis is made on the simple and boring financial and administrative form in which the budget is usually presented, are just means for the governments in all states to restrict discussion domains and present their choices as unquestionable and irreplaceable.

Fiscal Tasks and Challenges, in Iraq in Particular

All above mentioned general aspects and dimensions apply to the Iraqi State' fiscal choices, just like any other country; however, in the Iraqi context, these choices do not fall under the State's endeavor to reconcile the evolution of the community needs with that of its capacities, while striving to avoid shocks and crises, or to absorb and attenuate their impact, but they rather push the State into a confrontation with imposed shocks and crises that result from a group of severe simultaneous and correlated challenges, including:

- The challenge of security restoration and, in parallel, of physical and institutional reconstruction, after thirty years of wars, siege and occupation;
- The oil¹ challenge, particularly with regard to severe oil prices fluctuation;
- The challenge of federalism², in its two recent aspects: a system of rule stipulated by the constitution as the general framework of the state, and its actual implementation in a part of the country;
- The challenge of transition from a theoretically centrally-planned economy towards market economy.

Each of these challenges can lead alone, in any country, to many severe crises and pressures, as well as to a defect in public policies; thus, one can imagine the consequences of their joint occurrence! It is to be noted that some of these challenges, if associated together, such as the oil effect and the federal system, may lead to an extremely complex problematic. However, these challenges altogether are what determine Iraq's ability to rebuild its State, and consequently reinstate its independence.

The first two rows of the table below briefly show what fiscal and economic effect to expect, according to other countries' experiences, from each of the four challenges, whether positive or negative. The last three rows point at the effects of the joint occurrence of every pair of the four challenges, on both economic (prosperity) and social (security) levels. The first challenge of each pair is shown at the top column and the second one to the left of the row:

	Main Challenges			
Effects	Security stabilization and public facilities reconstruction	Rise in oil revenues	Setting of rules for federalism	Transition towards market economy
Each challenge aside, positive effects	Necessary for community service and private investment promotion	Easy revenues for the State	To reassure and reconcile various community categories with the authorities	Raising productivity of resources use

¹ J.M. Davis, R. Ossowski and A. Fedelino, Editors: "Fiscal Policy Formulation and Implementation in Oil Producing Countries", 2003, IMF

² T. Ter-Minassian, Editor: "Fiscal Federalism in Theory and Practice", 1997, IMF

Each challenge aside, negative effects	Versus difficult planning of investments, pressures on savings and increase in military and political expenditure	Versus an increase in rent behavior on both economic and social levels, and a decrease in goods production	Versus scattering of public competencies and the rise of conflicts about the allocation of resources and charges	Versus an increase in social disparities and the formation of monopolies
Challenges joint occurrence	Security stabilization and public facilities reconstruction	Limited risks: Underestimation of economic and social policies and a decrease in the economic returns on expenditure	High risks: Conflicts about expenditure and duplication in investments	Medium risks: Hesitation and eclecticism in investment and ambiguity in public and private sectors' responsibilities
	Rise in oil revenues		High risks: attempts to monopolize the reserves and a tendency towards its rapid extraction (particularly in others' territories)	Limited risks: emergence of mafia-like interests and effects of the increase in expenditure on investment decisions
	Setting of rules for federalism			Medium risks: Disparity in investment and growth rates between regions, sectors and/or the hindrance of production factors' movement

For instance, it is known that countries with revenues highly depending on oil and adopting a federal system are, first, very few, and second, are far from being successful in the economic and social fields. The most prominent negative case in this regard is Nigeria which was supposed to be the richest African state; however, oil became there a cause for civil war, bribery prevalence and severe conflicts³.

When reconstruction jointly occurs with setting of rule for federalism, many severe difficulties arise, since every part of the country will be inclined to rebuild its equipments by itself, as an attempt to draw expenditure towards its regions, and due to the lack of confidence in the other parts' commitment to provide all necessary services in a sustainable way to the concerned part. This leads to the duplication of the same

³ Thomas Baunsgaard "Fiscal Policy in Nigeria: Any Role for Rules". July 2003, IMF

equipments in different places, causing the loss of benefits resulting from economies of scale and non optimal location of facilities. The duplication of investments leads to a decrease in their total efficiency and/or in the quality of the services they provide.

When reconstruction jointly occurs with the transition towards market economy, many questions arise: Which authority is responsible for the re-capitalization and equipment of public institutions of commercial nature? Should they be privatized despite their bad condition? In that case, for what price? Should they be rehabilitated first at the public funds' expense? In that case, what would justify the privatization process? Most probably, the vacillation between both solutions would persist without any decisive choice, and employees would remain in these institutions, getting their (usually low) wages with little effective production.

When transition towards market economy joint occurs with the setting of rules for federalism, many problems arise regarding social homogeneity and the country unity. This is clearly reflected through the recurrent talks about "disadvantages and deprivation" in Iraq. In addition, federalism presupposes the free movement of individuals as well as capital and goods, or else, economic effectiveness would decrease, markets would be divided and regions and provinces would turn to reclaim rents and reallocate them, which is contradictory to the targets of economic liberalization. On the other side, free movement eliminates the size of population as a reference for the distribution of common resources and assumes the reliance of provinces on their own resources.

Facing these four major challenges, the real picture on the ground seems different from the expected one which would have predicted an interruption in the course of institutional and political activity. In fact, the prevailing characteristic of fiscal and economic systems in Iraq still consists of persistence and preservation. A great number of the main operational policies and institutional frameworks are just an accumulation of those that were adopted or established during various periods of the country's history, from the Baath Party's regime to the war period, then the siege, until the new liberal era under the direct authority of American military forces.

Some of the most illustrating examples: oil revenues which are transferred to a special fund (Development Fund of Iraq), are governed by a special law, just like during the siege, and are allotted special items in public accounts by virtue of the public financial management law, although they represent the major part of public revenues. Similarly, there are the rations and ration cards issues which are still applicable and resulted from the same circumstances. Then there is the theoretical exhaustiveness of the social services coverage; certain articles in the constitution specify the social and economic benefits which are due to all citizens in an almost exhaustive way, including employment, housing and all levels of education. And finally, there is the federalism issue which is still an inherited process, and did not turn yet to a comprehensive and balanced process, with definite procedures and norms.

This formal contradiction points out the difficulty of taking decisions that lead to real change since every effective change starts by the termination of certain existing conditions and their replacement, whereas the preservation of existing systems and the

addition of new ones usually reflect the inability to change, even when addressing challenges, which leads, due to the ambiguity of the general picture and cumulative its contradiction, to the predominance of spontaneous mechanisms.

Finally, there is no doubt that the Iraqi example represents an extreme case of political economy, with regard to the difficulty of choices identification and making, but also to the invention of new procedures for adaptation, confrontation, control of the means' use and prioritization, knowing the fact that it is not always easy to distinguish between issues of substance and of methodologies, or to prioritize any of these aspects over the other due to their impact on the success or failure of the overall action in achieving its economic and social goals, or the success or failure of the political team.

Methodology and Objectives

This paper falls under the work of the United Nations development Program on Governance in the Arab Region (UNDP-POGAR). It aims at outlining some ideas and thoughts, from both analytical and comparative perspectives, about the budget discussion and implementation mechanisms in Iraq, and addressing them to the members of the House of Representative for discussion. Thus, the paper aims at stimulating discussion on public finance issues, expanding the range of raised questions and reconsidering some of the self-evident and ready-made answers.

There are no ready-to-use prescriptions or examples to follow in this regard. Each country and every circumstance has its own economic, fiscal and political characteristics, and we can all imagine how difficult the situation in Iraq is! No one can claim that the Lebanese example is appropriate in the field of political economy management. However, lessons could be drawn from any experience would an effort to analyze be made.

The situation in Iraq might not be that different from the one Lebanon went through at the beginning of the nineties, when three of the four challenges facing Iraq today occurred: the reliance on oil revenues is similar to that on debt with the flow of capital funds entering Lebanon through its banking system (while taking into account the differences between long-term accumulative effects of debts and oil); the federal aspect is actually similar to the confessional rallying and the assembly of every group around their parties emanating from the civil war militias; security restoration and reconstruction challenges are almost the same in both countries. The only difference is that the Lebanese economy never witnessed a planned central system like the one in Iraq.

Available references fall under four categories: statistical, economic and fiscal data which are still approximate and incomplete, mainly including the International Monetary Fund Missions' reports; a series of official documents such as constitution, laws and budgets; minutes of the House of Representatives' discussion sessions, which constitute the most important references to our paper; in addition to international and historical comparative studies.

According to the minutes of the House of Representatives' sessions, the central issues recurrently brought up in the fiscal discussions mainly address the following topics:

Topic	Common Suggestions	Remarks
Oil and its revenues in the budget	Discussions focus on the conditions of estimated oil prices adopted by the Ministry of Finance in the budget revenues evaluation	There is certain confusion whether oil should be considered as a source of state revenues (similarly to taxes) or an economic sector (similarly to industry, agriculture and services); thus there is demand to promote other sectors as if they were sources of public revenues, whereas there is minimum discussion on the issue of taxes.
Expenditure priorities	Particularly when comparing current and investment expenditures, it is obvious that there is a general agreement on the importance of increasing investments, whether by the Government or among MPs	Two main issues are quasi absent: the sectoral choices and policies under which fall general investment decisions as a means for these goals' accomplishment, and the place of the private sector in investment in general, and in sectors in particular, especially through public enterprises of commercial nature
Federalism	This issue emerges when it comes to Kurdistan and focuses on the identification of the central government scope of expenditure, as well as the specification of the province's share of revenues with regard to population count and deprivation criteria	The issue is tackled from two sides: political (the principle and the percentage) and practical (deductions, accounts and transfers), with the institutional (charges and revenues distribution) and economic (disparities and factors' movement) aspects quasi absent
Security Restoration	Security expenditure is at the top of the revealed priorities. It is allotted large funds, although it only constitutes a small part of the discussion	The extreme sensitivity of the security issue in Iraq in general, and in Baghdad in particular, imposes a certain reticence about the discussion of its financial aspects, but rather its economic (sectoral and regional effects) and social aspects (regarding the results, such as increasing migration, or factors causing or contributing to violence)

Social benefits distribution	There is repetitive talk about "the continuous commitment to the social safety nets (namely health benefits) and the "ration card"; however, the actual effectiveness of this card as well as associated corruption issues are questioned, while highlighting the necessity of more scrutiny and control	Redistribution policy governs the Iraqi economy and public finance; it has various, both legal and illegal forms. It requires a clear orientation since its effects go beyond social policies, to reach the whole economic and social structure
Monetary policy and the Central Bank's performance	The discussion focuses on the exchange rates fluctuation effects on budgetary funds regarding, first, oil revenues and, second, the importation of investment equipments as well as the goods included in the ration card, both in dollar.	Considerations dominating monetary choices and resulting economic consequences (prices, interests, monetary sector) seem unclear during the discussion. The accounting aspect prevails over the discussion due to an implicit predominance of the reference to the dollar
Employees	There is a lot of talking about the number of cadre and contractual employees. The numbers' ambiguity is reflected through budgetary numbers, in the estimates and effective expenditure; there is certain skepticism about the qualification of a great number of employees and about the integrity of some.	The number of public sector employees is huge; while very few are effectively productive. This situation constitutes a major challenge, threatening the state's efficiency, role and position, and requires important and difficult choices.
Deficit, deferred credits and closing accounts	There is repetitive demand for closing accounts and questioning the credits' deferral procedures and deficit status between the estimated and effective	The technical issues tackled during the discussion are justified; however, a great part of the confusion is caused by the effects of oil revenues' fluctuation on the whole budget, and consequently on the deficit and residual; it is to be noted that allotted credits always surpass the actual expenditure capacities

The questions and discussions related to sectoral choices (agriculture, industry, transportation, health, education, security, etc.) are not included in the table in spite of their high frequency. The list was restricted to the financial aspect of the debated issues. There is no doubt that the recurrent complaint of the financial officers stating that sectoral policies' elaboration and implementation are not part of their responsibilities is true and justifiable; however, it is also normal and comprehensible for the MPs to question social and economic sectoral choices during the discussion of the budget. Since these sectoral choices do not confront the financial and economic situation except when their requirements and results altogether are included in the budget (otherwise, they would remain as mere imaginary wishes), and since these choices do not acquire their political meaning but because they reflect basic social

orientations that unite them (otherwise, they would remain scattered technical prescriptions), just like budgets and financial plans unite all state's activities.

Central Place of Public Finance in the Iraqi Economy

In spite of the approximate aspect of the general budget numbers and economic indicators, it is necessary to clarify the general picture of the Iraqi public finance and its place in economy in general.

The main characteristic of the Iraqi public finance within the two or three last years was its lack of autonomy vis-à-vis the economy, because its size, compared to the economy, is inflated to such an extent that any modification in the size of public finance figures seems impossible since it might directly lead to an impediment of the main economic functions which rely on the continuous influx of public funds.

Public finance in Iraq does not merely constitute a decisive component of the Iraqi economic product, but also a substitute to this product. Which leads to the following question: What state and what economy does Iraq need?

The table below shows the main components of the state expenditures and revenues, compared to the gross domestic product, including oil in a first stage, then compared to the gross domestic product without oil exportation revenues in a second stage. It relies on the actual amounts of expenditures and revenues (not those allotted in the budgets), according to the reports of the International Monetary Fund mission:

Items	% of the actual GDP with oil	% of the actual GDP without oil
Wages	18	72
Procurements unrelated to oil	18	72
Oil-related procurements	9	36
Transfers	12	48
Debt service	1	4
Investments unrelated to oil	10	40
Oil-related investments	5	20
Total Expenditures	73	292
Oil	75	300
Other revenues	1	4
Grants	10	40
Total revenues	86	344
Surplus - deficit	13	52

Public expenditures constitute three quarters of the gross domestic product with oil, and approximately three times the gross domestic product without oil exportation revenues! Since oil revenues go to the State without directly appearing in the Iraqis' revenue, except for the wages of very few workers in the field of oil, and if we deduct all imports for investment purposes from the public expenditures since they do not translate into domestic expenditure or income, the State would provide through its internal expenditure twice as much the total income gained by Iraqis from the global private domestic economy (including commercial and services public enterprises).

Regarding revenues, they are practically restricted to oil revenues, since all fiscal and non-fiscal revenues (including telecommunication revenues) are insignificant. Coincidentally, the amount of grants almost balances the effective surplus. Since the previous years' budgets did not anticipate the rise in oil revenues, and repetitively allotted expenditures (particularly in investments) that the ministries were unable to spend, they have expected an annual deficit of 10% of the product, which turned into an approximately equal surplus.

At this extent, the main issue would no more be restricted to know whether either beneficiary of this expenditure is worthy of it or not, or to discuss the structure of expenditure's items, but would rather be the problem of economy atrophy or even degeneration. When the State pumps, from oil revenues, twice as much the revenues provided by the whole economy to the Iraqis, this would be much like a serum, and at the same time an anesthetic, circulating in the Iraqi community's veins. The distributed income would turn, as mentioned above, from a complementary to normal income to a substitute.

In conclusion, there is no point discussing the Iraqi public finance itself in the same conditions; in fact, when we look at it, it would be more like looking through a glass panel, revealing a simplified economy, constituted of 75% of oil revenues which are distributed in such a way to constitute 75% of revenues, through various forms and channels, which may not or could not be ideal, or even honest, but ending up as benefits provided to ensure the population subsistence. Hence, the public finance issue becomes completely transparent, not in the ethical sense of transparency, but in a sense that it reflects a much greater problem: the Iraqis' reliance on oil revenues distribution, i.e. the consumption of a non-renewable residual, in a similar way to the reliance on public debt accumulation. Just like debt accumulation seems, as long as available, the easiest solution, politicians anywhere do not hesitate to turn to debt accumulation just like the consumption of non-renewable reserves.

Similarly to people who decide to quit smoking starting from tomorrow but continue smoking and postponing the implementation of their decision, the consumption of non-renewable reserves becomes addictive, justified by current difficulties, and the decision to quit it is postponed day after day.

However, the consequences in both cases are not limited to apprehension about what would happen when, and if, the reserve comes to an end or its extraction revenues drop, but directly affect the economic and state structure which become bound by this distributional mechanism and adapt to its norms.

Problematic of Fiscal Decisions: Their economic and Institutional Contents

After outlining the economic and institutional goals that the fiscal policies aim at achieving in general, and in Iraq in particular, and after pointing out the main function which dominates public finance in Iraq and determines its effects on the country's economic and institutional structure, with respect to its transparency and its subordination to the logic of redistribution as a result of the conjunction of capacities

and needs, it would be useful to complement this "external" approach to public finance by an "internal" approach, focusing first on the characteristics of public expenditure on both economic and social levels, in an attempt to identify standard norms which allow for the estimation of its effects and the assessment of its performance, and second on the issue of the prioritization of choices and control of the operational process that turns those choices into fiscal policies.

First, there should be an understanding of the fact that every good or service, be it private or public, is inevitably to be paid for, and that the talk about the State that "offers" this or should "offer" that does not have any economic sense. The price is paid either by the consumer, through the price payment, which is normally the case with commercial goods and services, or by the tax payer, through the taxes collected by the State and used to cover the whole fees of free public goods or services, or the unpaid part of the fee when the good or service provision is partly compensated.

Some might think that this is no absolute rule, referring to expenditure funding by debt or by the use of the proceeds of the depletion of some kind of reserves. However, both cases constitute the reverse of the same medal. They both lead to the modification of the net public assets level, whether through the consumption of a positive reserve, such as funds or oil, or through the accumulation of a negative reserve, i.e. debt. Second, the effect of any service or good offered cannot be measured but within the assumption of the stability of the net public assets level, since every public debt is to eventually lead to more taxes for its service and payment, and any consumption today of a non-renewable reserve means its subsequent loss.

Hence, the main difference between investment expenditure and current expenditure emerges: the first type of expenditure increases the value of the public assets when financed by taxes, without decreasing it when financed by debt or the use of non-renewable reserves (of course in the case of an efficient investment), whereas the second type of expenditure would inevitably cause the net public assets to drop in case it is not financed by fees and taxes.

In addition to the price and tax fees, public services result in two types of additional fees:

- First, complementary fees to the public services, required from the beneficiary when the service is incomplete in nature or coverage, such as partial health coverage or low level education requiring additional expenditures by the parents, or irregular electrical supply, requiring the use of private generators, etc.
- Second, external effects resulting from incomplete public services provision, which consist of real but deferred or indirect economic losses, which are not noticed by the beneficiary, such as public health damage, environmental hazards, etc.

Second, the question of the scope of public service emerges. The main issue here is not related to what the state has to "offer", since, eventually, it doesn't offer anything, and the society and economy in general would have to pay the fee. The problem to discuss is the distribution of these fees between the beneficiary and the tax payer (which is a social and political decision), as well as the total size of these fees (which is an economic and technical decision).

The main social decision lies in setting the scope of public services which are not ruled by the market commercial mechanism, but by the public financing procedures, i.e. the tax collection (with the eventual accompanying modification in public reserve assets, and private funded complementary expenditures and external effects, but keeping in mind that the economic decision remains responsible for the safeguarding of public assets and the decrease of complementary and external costs).

Setting the scope of public services is thus the founding activity of the State. However, there is no use in setting the boundaries of public services unless this would result in an effective distribution of charges and responsibilities. Thus, when the constitution points out the responsibility of the state to provide public education to specific age categories and educational levels, it is assumed that tax payers would pay the fees of this service, regardless of whether they benefit from it or not, and that specific public authorities, in the central state or the provinces (knowing that any confusion in this regard would jeopardize the goal achievement) would be responsible for the use of collected taxes in order to provide the service in question.

Some services may only be provided through taxation, but they are almost limited to justice, security and certain big facilities which cannot be afforded by private economy. Regarding all other services, there is certain rivalry among them concerning which to be considered as public services and which as commercial. It is to be noted that the Iraqi constitution drafts an extremely wide scope for public services, which means that the economic market domain is squeezed, at least theoretically, within narrow limits, whereas the reliance on direct or deferred taxation (through debt and/or reserve exhaustion) is very high.

The *third* issue to draw our attention and require some explanation, is the relation between public services and the redistribution processes. When the state decides to include primary education in the domain of public services and to make it free and obligatory, i.e. assumed by the tax payers, not the beneficiaries and their parents, without leaving any choice to the beneficiaries (or their parents) to avoid school, it actually accomplishes a two-sided process: first, burdening the tax payers with the service's charges; second, binding the beneficiary with the use of collected funds merely for education, playing the role of a guardian, imposing on its citizens a specific form of benefit. Even when the public service is not obligatory, the refusal of the beneficiary would deprive him from the funds spent on the service's production. Guardianship is a main aspect of public service.

On the other side, when collected funds are distributed to potential beneficiaries in form of cash income, they would have been given the choice to use this money the

way they want. In fact, states also fulfill "pure" redistribution processes without any guardianship dimensions. This is basically done through specific legalized channels, such as tax exemptions and progressiveness, granting the minimum income for families and unemployed persons, or through illegalized channels ranging from surplus labor and disguised unemployment to illegal seizure of funds and public utilities.

Interestingly, redistribution mechanisms in Iraq, in spite of their exceptional size, rarely go through "pure" and "legalized" channels. The most illustrative example in this regard is the food rations distribution system, where redistribution is associated to guardianship, while the justification of this guardianship should be questioned since its occurrence with redistribution leads to extremely high costs, ranging from the goods' compatibility with actual needs and the administrative cost of the rations process, to the facilitation of corruption and manipulation.

The *fourth* issue requiring our attention for the repetitive confusions it entails is the distinction between public responsibility in the service provision and the state's commitment to the service production within its own institutions. Theoretically, the beneficiary does not differentiate between the construction of a public hospital where the patient is treated for free, or the same patient going to a private hospital with the public finance covering his fees on the bases of precise conditions and procedures. The difference which might favor either procedure depends on productivity, the ability to provide necessary services and the quality of operations and services, which are all economic and technical considerations, different from the social and political considerations which make hospitalization a public service. Here again, the Iraqi constitution includes texts that not only bind the state to provide a certain service, just because it is considered a public service, but also to produce it; in fact, there is an express indication to the necessity of building hospitals, which means that the State would no longer have to generalize the social security system since it will be paying the fees to itself. Such economic and technical choices depend on variable estimates, and should not necessarily be considered as main social and political choices since they might hinder instead of facilitating them.

Based on what was previously cited, expenditure becomes the starting point for fiscal choices rather than revenues. As a matter of fact, expenditure comes first since it reflects the founding choices of public services, and consequently of the state, its role and position. As for revenues, they come to cover the cost of the expenditure that the society bound itself to through its decision of taxing and deducing certain amounts from the citizens' income or wealth. But revenues and tax collection have in turn both economic and social effects, and hence, the consequences on economic and social levels result from expenditure as well as tax collection.

Thus, we reach the *fifth* issue, related to revenues. The talk about expenditure's priority since it reflects major social and political choices which determine the public services

domain versus the commercial economy, leads to the fact that its share of the gross domestic product does not vary significantly, unless there is a noticeable change in the general orientations of the State. This should consequently apply to revenues. However, the examination of public finance statistics shows that the stability rule is not absolute, but subject to circumstantial fluctuations. In fact, these fluctuations usually apply more to expenditure than to revenues; however, they translate in all cases into deficits and surpluses in budgets, and they are due to the fact that governments tend to increase expenditure in times of recession as a way to fight unemployment and boost demand, considering that revenues would normally increase again in times of growth, and surpluses cover then the deficits of the previous stage; this is what constitutes the function of the state's "macroeconomic management".

In Iraq (like in most oil countries), we witness the totally opposite case, since revenues intensively fluctuate according to the fluctuation of production volume and barrel prices, whereas expenditure follows revenues, increasing with them, even after a certain delay due to the inability of the administration to increase its expenditure at the same rate as revenues, and marking a deficit when oil revenues decrease, since the administration is also incapable of decreasing expenditure at the same rate as the revenues' decrease.

Hence, whether due to their different economic nature, since they result from the pricing of a physical non-renewable reserve, or due to their fluctuation which should not, and may not, be reflected on the financial and economic situation of the country, oil revenues may never be considered as part of the public finance revenues. In this regard, it is not normal for Paul Bremer's Law for financial management to include oil revenues, as exceptional incomes, with ordinary revenues; neither to divide fiscal and non-fiscal public revenues to two parts: fiscal oil revenues and fiscal non-oil revenues, non-fiscal oil revenues and non-fiscal non-oil revenues. What's the economic logic of this categorization? It is economically and financially invalid, and leads to decisions which may seem self-evident whereas they are dangerous.

Problematic of Fiscal Decisions: Their interrelation and Sequencing

The problematic of fiscal decisions revolves within two main dimensions: one related to choices delimiting public services and their financing sources; this may be referred to as the "strategic" or "basic" dimension, the characteristics of which were previously cited; and the other related to the sequencing of decisions and procedures, which is a "tactical" or "practical" dimensions, quickly outlined as follows:

It is to be noted first that these two dimensions, the basic and practical, are interrelated, at least for two reasons:

- The first reason is related to disparity in reliability levels of the data upon which essential decisions are based (especially in situations of fluctuation of external effects, as the case in Iraq) and the assessment of their different effects and the economic and financial reactions they trigger, since the effects' chain is complex. In addition, secondary effects which are not taken into consideration

often lead to negative results that exceed the positive direct impact expected from the suggested change;

- The second reason is related to the limited political and administrative ability to make and sustain change since every change is resented at the beginning by the beneficiaries of current conditions which are to be changed. It is well known that change leads to the decrease of political popularity of the advocating party; hence every change is promoted as a "reform".

In this regard, the sequencing of actions (usually referred to as "priority" in spite of the confusion this term may entail) gains a decisive importance since the prioritization of the procedure "A" over the procedure "B", or vice versa, may facilitate or hinder the implementation of the following procedure, whether because the effects of the first procedure are less risky or because they lead the way to more clarity in the second procedure's aspects or because they reinforce the concurrence of interests that facilitate the implementation of the second procedure. The reservation towards the term "priority" is due to its insinuation to an absolute precedence of one procedure over the other, while the practical logic considers procedures as an interrelated sequence.

Even in case of an acceptable level of clarity regarding the essential (social and economic) choices, it is not easy to set a sequencing of actions according to these basic considerations, not to mention the necessity of maintaining certain flexibility within this sequencing in order to adapt it to potential or possible external changes (scenarios approach).

When a high level of ambiguity regarding the essential goals is associated to a limited knowledge of the effects of the practical sequencing, the talk about fiscal decisions becomes a mixture of two simple speeches that might seem self-evident: one about "the legitimate needs" which suggest "reform projects", each of which would be considered as a priority by its advocates, and another speech about "urging necessities" and the pressures of the *fait accompli*. Both speeches cohabit but in parallel, without ever intersecting, and the logics of importance and urgency remain like two opposite blocs.

It is difficult to combine between the logic of importance and reform and the logic of urgency and realism. The talk about a limited transitional period (but without a specific commitment regarding its general time range), governed by the urgency aspect, and after which we move to the stage of institutional choices is simplistic and unrealistic since all decisions, even those justified by urgency and the ultimate need, result in permanent facts and situations difficult to renounce, be it on the level of behavior patterns or through the establishment of relevant administrative and political structures, or due to the emergence and agglomeration of interests, or due to the resources consumption and liabilities accumulation.

The discussion of long-term issues should never be postponed. Between transitional periods, fixed parameters and non-reversible situations, there should be awareness towards the limits of easy solutions in the fields of programmed scheduling and opportunistic observation of external changes.

A series of classical approaches in the sequencing of procedures related to public finance may be identified. You may find below a brief overview of these approaches.

First, there are the believers in comprehensive and immediate reform. Apparently, this might seem appealing; however, it is inapplicable in whatsoever case or place. Others believe that there are many required procedures, all necessary and "priorities", revealing their intention to implement as many actions as possible; they make checklists similar to shopping lists, and end up implementing whatsoever possible, due to lesser opposition or to the availability of funds or to special interests, regardless of priorities. Some others advocate for the necessity of prioritizing reforms which are supposed to lead to positive secondary effects, postponing those that might lead to negative economic or political effects. There are also adepts of the prioritization of reforms addressing the most prominent and severe economic problems... Some scientific approaches⁴ favor the concentration on actions addressing the most severe constraints, where modifications and efforts may lead to the highest level of general economic gain, be it as a result of the direct or indirect effects of procedures; however, this approach requires an accurate assessment of the economic situation, the interrelation among its components and the severity of its constraints.

In conclusion, it is not easy to set priorities. The feeling that certain choices are self-evident, as well as the feeling that priorities are equal letting circumstances and capacities availability responsible for choices identification are not justified and neither capable of problems solving.

Some illustrating examples, drawn from the House of Representatives deliberations:

There is much talking about the absolute priority of oil production increase. But why would Iraq need an increase in its oil production whereas budget expenditures in general, and investment costs in particular, are not spent in reasonable percentages and financial surpluses are accumulated, in spite of the continuous expansion of employment through the contracting process in public institutions or public sector? Isn't there any weight given to the limits of the absorptive capacity of the Iraqi economy in general and of public finance in particular?

What is the utility and what are the costs resulting from the exchange rates fixing policy whereas dollarization is largely adopted and held responsible for a great part of the increase in prices inside the country?

What is the utility of the continuous use of ration cards, knowing that these distribution channels lead to an immediate atrophy in the simplest link of the economic movement chain, i.e. the retail commercial sector, etc.

⁴ R. Hausman, D. Rodrik and A. Velasco (2004), Growth Diagnostics, John F. Kennedy School of Government, Harvard University

Fiscal Decision Taking Processes

Hence, the budget is not a matter of numbers but rather policies, i.e. a group of institutional (social and economic) choices and practical considerations that command the sequencing of the implementation actions of these choices.

In case of a consensus on this understanding, the procedures of budget preparation, discussion and implementation should be adapted accordingly. It is better, or even a must, to prepare and present the budget (then monitor its implementation) on the basis of the actual, deferred and ruled out choices (the three aspects are all necessary together for the clarification of choices and their sequencing) upon which it was based.

The question remains about how to discuss and face these choices, since choices are necessarily settled when confronted to reality, even if they remained hidden. It is possible here to identify three reference approaches, but not as exclusive and pure approaches of which the country only chooses one, but because the actual approaches in every country and circumstance constitutes a mixture of these, with relatively different percentages. Most of the time, one of these approaches predominates over one of the aspects of trade-offs (choices or sequencing) or over a specific level (regional or sectoral):

The first approach may be identified as *the central political comparison*, and it is based on the settlement of MPs in the House of Representatives in a detailed and applicable way, and not as generalities, a number of choices that mainly revolve around:

- Scope of public interests and services and methods of provision;
- Means of funding, including specifically the intertemporal choices, related to the modification of the net public assets (modification of the debt stock, rythm of the oil reserve exhaustion, modification of the reserves' size, investments implementation, acquisition or sale of assets);
- Sequencing of implementing actions of the modifications resulting from the decisions.

This approach has many technical and political requirements. Its success mainly depends on the distinction between its technical and political aspects, since the predominance of one of these may hinder any rational comparison and lead to domination. The trade-off between choices covering the nature of services, their means of provision and their channels of financing as well as implementation priorities requires a high level of economic expertise and culture, first in the administration, since it is responsible for the translation of these choices into clear and faithful forms, but also among community forces (parties, unions, professional associations, etc.). It also requires an advanced political awareness and a high level of trust between the citizens and their representatives and among politicians themselves, without which officials would not find the courage to raise the facts as they are since they would fear that opposing parties would take advantage of the difficulties entailed by putting the trade-offs openly on the table .

It is surely difficult to guarantee all these requirements, even in peaceful and stable countries, and in Iraq a fortiori. However, this approach is not merely an ideal picture; its implementation varies from one country to another, from circumstantial (at the major turning points in public life) to selective (addressing choices related to public services more easily than intertemporal choices⁵). However, the adoption of this approach, even if partially or in limited contexts (inside the parties or committees for instance) is necessary, particularly in Iraq, since it is the most efficient way to move the political movement from the fight over power to institutional levels.

The second approach may be described as *negotiating and contractual* since it calls for the regulation of public affairs through the reliance, in choice making, on the effects of negotiations and contracts concluded between different bodies founded on binding balances. This approach requires the presence and establishment of institutions capable of conducting these negotiations and contracts by assigning to them proper competencies and responsibilities, enabling them to advocate for a bloc of interests.

This approach is based on the fact that choices in general and fiscal choices in particular, are a process of distributing costs and benefits between citizens and blocs of interests which are emerge among them, and not a dual power issue between the citizens from one side and a theoretical entity called the State on the other side. Thus, the approach is based on a realistic logic, and has many benefits, including the fact that it strips fiscal choices of their usual ambiguity, and keeps them off power manipulations. However, there are some serious related risks, impairing not only regulation mechanisms but even the institutional structure of the state whenever a party violates the "rules of the game". Hence, this approach should not be adopted in some of the key sovereign and security functions, and it should be conducted with extreme care since it is more sensitive than the central political approach. Whenever the balance is threatened or the relation between responsibilities and costs from one side and competencies and resources from the other side is weakened, the risk becomes higher. In the case of Iraq and oil producing countries in general, these risks become even higher because it is difficult to deal with oil resources as an economic costly item since the extracted quantity would only be missed at a later stage.

Many groups and bodies might participate in the negotiating and contractual regulation mechanism, according to every country's conditions and economic characteristics; thus, they might be political (parties, regional, municipal), technical (monitoring and auditing, experts, judiciary) or sectoral (syndicates, trade unions). This mechanism supports the emergence of specific modes such as decentralization, privatization of certain public services while the state retains contracting and control rights and sectoral negotiations between syndicates and employers...etc.

Insomuch as the institutional blocs' commitment to specific interests would be obvious, the rules of the game should remain absolute. The main balance criterion in this regard is the one of Rawls stating that a consensus on the rules should be reached

⁵ In this regard, we note the prevalence of political debate in western countries on retirement systems' amendment

by all parties before the allotment of interests and positions; however, as wise as this theory may be, it is not always easy to apply.

As for the third approach, it may be called the *pragmatic opportunistic* approach. It simply states that the ruler should be responsible for financial issues, conducting them according to circumstances, trying to alleviate any difficulty and benefit from any advantage. This simplistic description is erratic since it ignores the fact that public finance is made of choices; thus, there is focus on two basic principles: the internal orientations are fixed (supported by different ideologies) whereas external circumstances are just accidental.

This mode presents the state as a rigid authority, separating it from the community choices issues, and relating it to different mottos, symbols and rituals that address people's thoughts and feelings rather than interests, so that they end up entrusting all administrative issues to the ruler. Hence the term "socio-economic files" which considers such issues as annexed to politics.

Nevertheless, the refusal of choices' confrontation and the persistence on ignoring them and preventing the establishment of conditions and institutions which allow the expansion of the scope of the relevant contractual negotiation balance do not change the fact that practices have their own logic, resulting from the spontaneous and fixed movement of the institutions as well as from external factors. Since reality is difficult to change, the refusal to confront choices limits eventually and accumulatively the free movement of administration. Hence, clashes and violent crises multiply in authoritarian regimes.

The conditions favoring the precedence of this approach may be grouped into two categories: negative conditions (lack of factors favoring the alternative approaches, lack of trust in community institutions, fear from instability and chaos) and positive conditions (external (or considered as external) factors, such as external support, external tension or oil). Oil in Iraq (just like debt in Lebanon) contributes to the postponement of choice making to a following stage, while ignoring negative effects caused by this postponement.

All authorities in the world strive to promote their choices as self-evident, or secretly circulate them as long as possible. This strategy may be adopted as a temporary measure in exceptional circumstances, when external factors seems urgent and difficult to predict (such as wars); however, it should not turn into an administrative strategy since this would entail major risks and constitute an indicator to the weak social structures and the despotic regimes that might result or be accepted by these structures.

Fiscal Choices, Processes of Decision Taking and the Form of the State

This paper attempted to show how the form of the State is determined by fiscal choices' sequencing and mechanisms. It might be useful to cite some examples about

the general, political and institutional effects of fiscal choices, in relation to the situation in Iraq and the major challenges mentioned above.

We will tackle successively the challenge of "security stabilization and public facilities reconstruction" from the angle of "public services domain identification", then the challenge of "rise in oil revenues" from the angle of "intertemporal choices", then the challenge of "setting of rules for federalism" from the angle of "contractual negotiation", and finally the challenge of "transition towards market economy" from the angle of "pragmatic opportunistic approach"; it is to be noted that all these major challenges are affected, at varying extent, by the different levels of fiscal choices.

When we consider the social choices regarding the setting of the scope of the public services, we note that Iraqis who endured all kinds of difficulties and atrocities during the last decades, and considering the rise in oil prices, and with the hope that social security would consolidate the foundations of this young state, aspire in general to widen the scope of public services similarly to other oil producing countries; This is reflected by the constitution and the House of Representatives' deliberations, although the real situation is still far from ambitious aspirations. Nevertheless, the expansion of the public services domain may result in serious risks and burdens. The wide expansion of public services requires a limited size population, which is not the case in Iraq, or unlimited fiscal means; otherwise, the services' quality and coverage scope would decrease. Nevertheless, it would still be possible to stand the emerging situation, provided that the general level of consumption remains compressed and complaints remain in control. When consumption rates start escalating, even if just for one part of the population, and complaints are no longer controlled, dual systems would develop in all field of basic services consisting of developed services for a minority of rich people and "minimum level" services for the whole population, with all resulting economic and social costs, exclusion and repression. It is necessary to reach a wise and balanced delimitation for the State's role in public services as well as a commitment to all consequences resulting from this delimitation, allowing the State to play effectively its designed role. Such choices cannot be made unless through political trade-offs made by the parties and social forces, and discussed by politicians. These are not technical choices: there is no technical aspect to rely on while comparing the choice of basic, obligatory, free and high-quality education to the choice of public universities in all majors. This is a social choice. Similarly, health coverage, quality and services issues, as well as housing rights are not self-evident or technical, but at the very heart of the social choices and should be addressed politically.

When we consider social choices related to intertemporal trade-offs, the issue of oil policy immediately emerges. As mentioned above, oil extraction should not be considered as ordinary public revenue especially that the State re-distributes the major part of the produced wealth in economy in order to compensate for incomes which may not be spontaneously provided by the economy. The consumption of oil reserve constitutes an impoverishment mechanism for future generations and is more likely to burden them with public debt accumulation. Oil reserve is considered as part of the country's wealth, and its extraction is merely a process through which a natural reserve

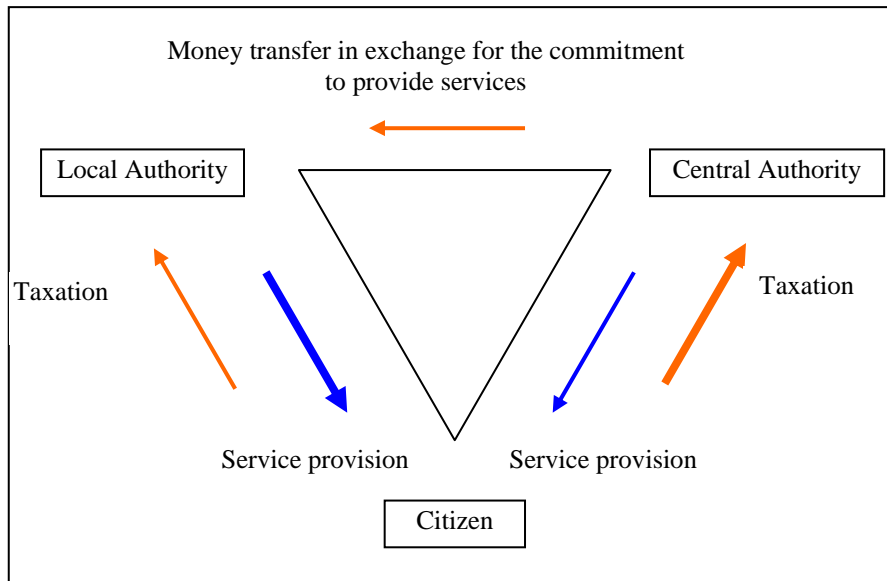
is replaced by a reserve of financial assets; this replacement is economically justified when the revenue resulting from financial assets exceeds the one resulting from natural assets. The natural assets revenue cannot be measured by their extraction, but by the change in the size of their reserve (depending thus on their prices and extraction costs), whereas the financial assets revenue depends on their investment; if they are kept as receivables, their revenues would depend on the effective interest rate; if invested in facilities or equipments, their revenues would depend on those of the resulting activity; if they are consumed, then their revenues would be equal to zero. From this angle, the meaning of the intertemporal trade-off: The elaboration of oil policy, from the country's point of view (which is different from a corporation point of view) depends on the population age categories and available work opportunities. The exhaustion of a non-renewable resource to finance regular consumption cannot be economically justified, and its exhaustion for investment purposes is conditioned by the investment's utility. It is to be noted that these variables are affected by various risks and are characterized by a limited reliability. The choice to make is not obvious at all here again, but it is sure that oil revenues should not be considered as an ordinary part of public revenues.

When we consider the contractual negotiation mode as one of the fiscal choices modes, the issue of federalism would naturally emerge.

The talk about the association of state unity and federalism (or decentralization⁶) means that the relations which allow for public services to be provided and their costs to be settled are arranged in a triangle shape, relating the citizen to both central and local authorities. Complementarity between central and local authorities is reflected through tasks responsibilities distribution, and consequently through taxation and collection competencies distribution, knowing that it is not necessary for the local taxation to be equal to the exact value of locally provided services' costs; similarly, central taxation doesn't have to be equal to the exact value of centrally provided services. Hence, the party which benefits from surpluses transfers them to the party which has to provide for additional services costs. Responsibilities and competencies distribution as well as transfer processes are thus organized within referential binding frameworks emanating from the negotiation between central and local authorities.

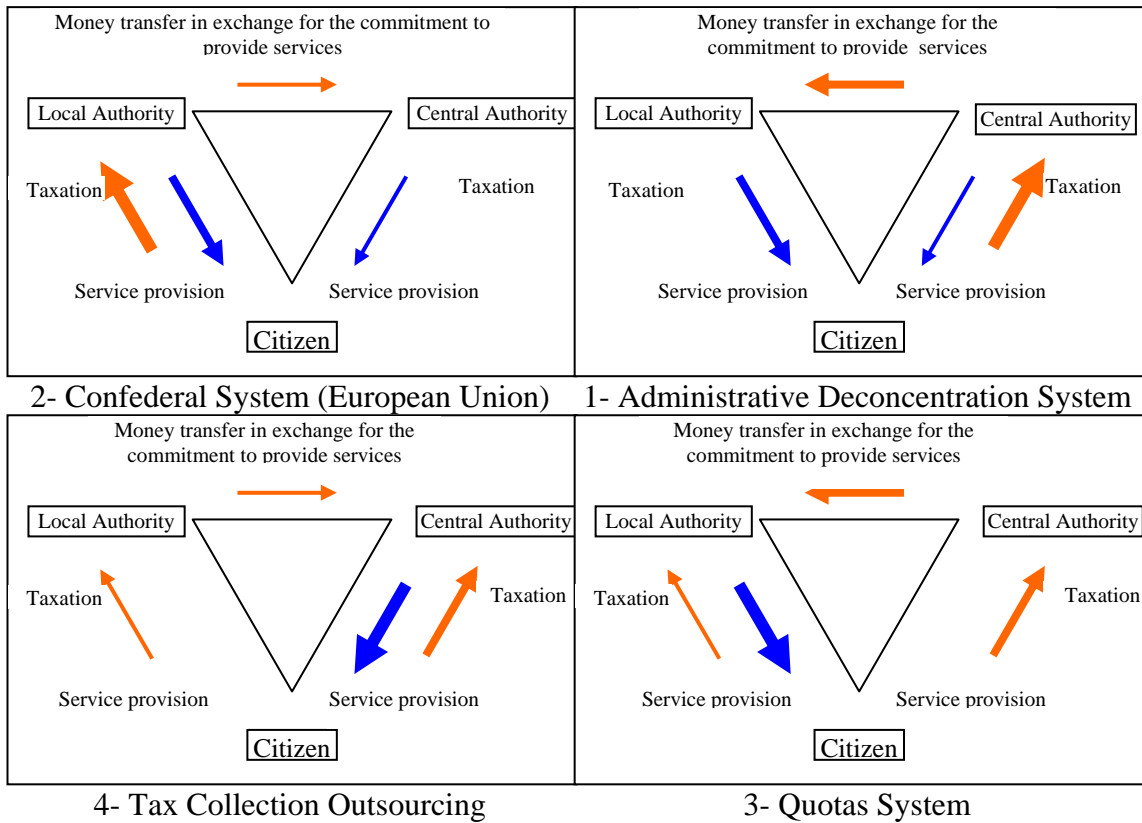
This is illustrated in the following figure. It is to be noted that the values of taxation and services are not necessarily equal on every side (hence, there are different degrees of intensity), but each of the three parties, the central authority, the local authority and the citizen have equal totals of amounts and received or provided services.

⁶ The main difference between them is that federalism is considered as an entity characteristic of the state, appearing thus in the constitution, whereas decentralization is one of the state organizational procedures, and is thus governed by a law; hence, the state could (theoretically) reinstate all central competencies which were transferred to decentralized authorities established by virtue of this law.



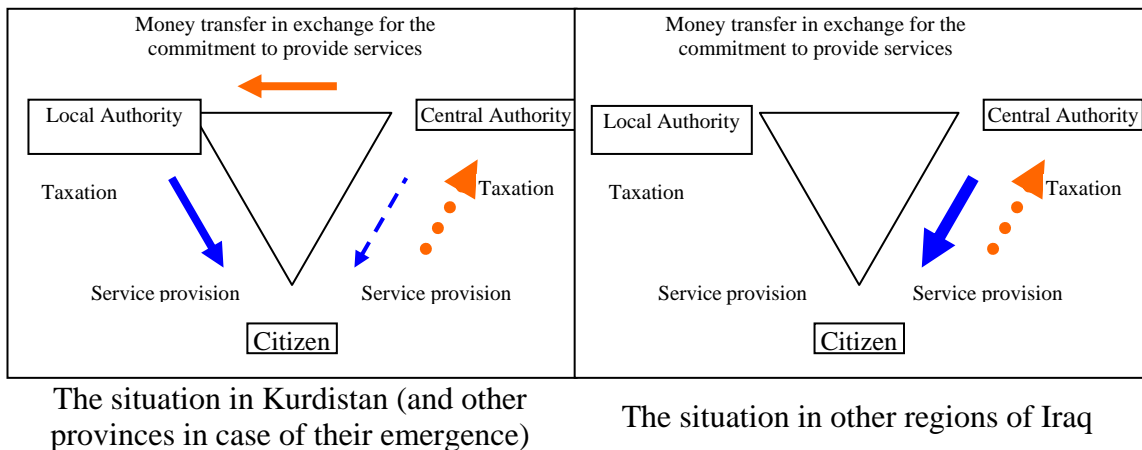
If one of the triangle's sides is omitted, or one of the flows taking place on its line (services and taxation flows) is interrupted, the figure structure will change into other structures, even if the terms decentralization and federalism are kept. This is illustrated in the four figures below:

1. The lack of local taxation and the reliance of local authorities exclusively on transfers from the central authority which continues providing services directly to the citizens, transform the local authorities into executive tools for the central authority; this is what's known as the administrative deconcentration;
2. The lack of central taxation, the funding of central authority by funds collected by local authorities, then the provision of services to citizens by both parties constitute a structure similar to hidden confederalism in the European Union, where European states are on their way to turn into local authorities;
3. The continuity of taxation on both local and central levels, with the services provision being restricted to the local authority, cause services provision to be mainly based on transfers received by the local authority from the central authority; thus, the local authorities enter a very intense competition, which is known in Lebanon by the "quotas system";
4. Finally, when the role of local authorities is restricted to the taxation of citizens and money transfer to the central authority, the system becomes a system of tax collection outsourcing and feudalism which used to prevail in the ancient empires, namely the Ottoman Empire.



Where does Iraq stand today?

One should differentiate between Kurdistan Province and other Iraqi regions; however, the emergence of provinces or regions with local competencies is possible, and they are expected to follow the example of Kurdistan.



Outside Kurdistan, there is no local authority or taxation; people do not deal with oil revenues on the basis of their economic reality. Considering the lack of dual institutional form of the authority, i.e. local and central, the transfers made in the direction of Kurdistan seem like an appropriation.

As for the situation in Kurdistan, in addition to the fact that central taxation is quasi-absent for the same reasons, there is no local taxation on the one side, and on the other side, most of the public services are provided by the province authorities with very few

provided by the central authority (sovereign services). Compared to the four reference figures, the institutional situation in the province seems to oscillate between "administrative deconcentration" and "quotas system".

In conclusion, whether on the province level, within federalism, or on a smaller level of local authorities, within decentralization, as long as the role played by the local authority consists of managing a part of expenditure without being responsible for covering this expenditure from the beneficiary group, it will definitely have to turn to the central authority in order to claim its quotas or be subordinated to it, without being responsible for "balancing" between the two aspects inherent to the public authority's role, i.e. services and taxation.

If there is serious intention to elaborate negotiation and contracting modes for the good exercise of the federal and decentralized system, it would be important for the local authorities not to turn into subordinate forces to an absolute master or to engage in conflicts over quotas, because the quotas mechanism does not include self-regulatory components to prevent any excess, but relies on the population and leaders' political awareness. When there is insistence on preventing tension, a well-known result would eventually emerge, based on: First, the increase of oil pumping and second, creating certain uniformity among all regions. However, this reconciliatory solution (towards which Iraq seems to advance) combines two problems: First, it accelerates the exhaustion of a non-renewable reserve and promotes rent economy; second, it abolishes the benefits that might result from decentralization since the principle of similarity and fixing quotas counteract the functional justification of the distinction between local and central authorities.

Therefore, a work should be done on the budget, even if only partially, with regard to costs and benefits, i.e. incumbent responsibilities on every level of public authorities and available resources. Thus, it is useful to consider accelerating the establishment of a link, even if only partially, between tax collection and distribution of oil revenues, for all different bodies of the municipalities, provinces and regions, so that transfer is not paid unless counteracted by a specific percentage of collection (the percentage may vary according to required services). This means that the lack or failure to collect taxes prevent the expenditure of a part of the rent. There is no doubt that the collection of direct taxes, even in a partial way, is more efficient in increasing the sense of responsibility among the leaders and the spirit of accountability among citizens, since indirect taxes, even if easier to collect in general, pass through raising consumption prices, and the citizen would not be aware of them.

It is to be noted here, just as previously mentioned, that negotiation and contracting modes are not conditioned by federalism and that they are more apt to develop the spirit of accountability between citizens and leaders. On the other hand, the reliance on rent revenues hinders this monitoring awareness. In this regard, while we point again at the risks of the joint occurrence of oil and federalism, it is worthy to note what the negotiation and contracting modes can do in order to heal the negative effects resulting

from reliance on oil revenues as long as there are clear and bold conditions for the fiscal and institutional track⁷.

Concerning the pragmatic opportunistic mode as one of the public finance choices management modes, we will only point out two issues: views appearing lately calling for allotting oil revenues directly to citizens, since they seem as an extreme mode for quick transition towards market economy, and the framework of dealings with the institutions of the public commercial sector, since these institutions still represent the main pillars of production, particularly of labor in basic sectors of the Iraqi economy.

Regarding the argument of direct distribution of oil revenues to citizens which appeared in the economic literature⁸ a few years ago, its main characteristic is that it completely removes oil revenues from public revenues and imposes on the state the reliance on tax collection in order to cover public expenditure. However, the cost of such a solution is very high since it leads to the exhaustion of the major part of the non-renewable reserve through consumption (in fact, households will only invest a part of their income resulting from the oil revenues' redistribution and consume its major part, and the State will invest back a part of the taxes collected on the households' additional income).

This argument, as provocative as it may seem, has the merit of clearly pointing out the extent of economic and institutional risks resulting from the states' reliance on oil revenues and the importance and delicateness of the trade-off between possible alternatives.

Regarding the public commercial institutions, progress is slow because decisions are difficult to take. Their privatization in their current bad condition would lead to the unemployment of thousands of workers, not to mention their apparent low value. On the other side, their restoration through the increase of investments requires a great deal of these investments, and may seem as a withdrawal from privatization and the transition towards market economy.

It is to be noted that the nature of possession, as important and delicate as it may be, is not the decisive economic criterion. It is just a means and not an aim. The criterion is the way resources are used, and in this regard, any distortion in price structures or any overlapping between commercial and redistribution mechanisms may result in very serious consequences. The decrease of these distortion and overlapping goes through restructuring these institutions and separating their commercial activities' accounts from all relevant different subsidy and redistribution mechanisms (goods sold at a lower price or bought at a higher price, bad debts, social investment, etc). It only takes a little bit of political and fiscal courage in order to make redistribution processes

⁷ The Norwegian experience is an excellent example here considering the fact that it is a democratic oil-producing country which separates oil revenues from the government's revenues

⁸ This idea was suggested in 2003, in the course of an analytical study addressing the negative effects of oil revenues in Nigeria on the institutions performance and work, and consequently on economic growth, where the authors state that direct distribution of oil revenues to citizens remains better than the State's performance. Xavier Sala-i-Martin and Arvind Subramanian "Addressing the Natural Resource Curse: An illustration from Nigeria", July 2003, IMF

public and include them in the budget, without canceling them, but rather increasing their utility when necessary. It is also indispensable to ensure necessary financial and moral conditions to recruit a financial and technical team capable of performing this restructuring process.