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Fiscal Policy: An Economic-Philosophical Review of the Power State

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Abstract: It is necessary to present the historical development of the role of the state and the scope of its intervention in social and economic life, so that this concept can be clarified.

Considering that the first part of the term (politics) includes a number of meanings, among these meanings is that politics is nothing but a set of procedures, measures or positions taken by an authority in a certain field. The nature of the state's role and the limits and areas of its intervention in public life will certainly have a clear impact on drawing up that policy.

In order to give a clear picture of the development of the state's roles in the areas of life, these roles will be studied starting from the establishment of the nation-state until the present time, and those roles of the state will be discussed according to the intellectual schools that have emerged throughout history.

Keywords: Economic school, state, financial policy.

Introduction: The importance of the research: The importance of the research stems from the fact that it addresses one of the issues of great importance to economic theory through a theoretical review of the economic ideas of economists and identifying the similarities and differences between economic schools and identifying the most important treatments provided by these schools.

Research objective: The research aims to highlight the main roles of the historical development of economic schools for the concept of fiscal policy throughout the development of economic theory, and the importance of playing the main roles in addressing the problems facing the global economic structure.

Research problem: The problem of the research lies in the fact that most schools emphasized that their ideas alone are the ideas that can be relied upon to explain the performance of fiscal policy. Some of them criticize fiscal policy and limit its role, while others make all market interactions the responsibility of fiscal policy.

Research hypothesis: The research is based on the hypothesis that fiscal policy has evolved over time through different points of view that have played a fundamental role in directing fiscal policy in the right direction, relying on all opposing and supporting opinions for its importance.

The intellectual disagreement of economic schools on the role of fiscal policy constitutes one of the basic pillars in the fields of scientific research in economics. When referring to most of the economic trends that contradict and agree on the concept of fiscal policy and the optimal way for the state to act in the tools of this policy, we note that most of these schools adopted an economic approach that is opposed to the school that preceded it. This difference in viewpoints is due to the fact that these schools adopt the treatment of economic issues that occurred at a certain time and were basically the ones that led the economic decision. Throughout the ages, classical ideas were and still are a turning point in the performance of fiscal policy by calling on the state not to interfere in the market in any way, because this, according to their point of view, has negative effects on economic performance and makes the market balance itself, believing in the state of the invisible hand responsible for restoring the market to balance. In contrast, the Keynesian school came criticizing all classical views and presented a new model after the Great Depression in 1929, as this school adopted the decisive role of the government in economic activity and the role of the state to be interventionist in all economic joints and activities. In order to restore the market equilibrium and activate the aggregate demand to achieve economic stability, then came the Chicago School claiming that economic activities do not work efficiently whenever there is government intervention, and that achieving economic stability requires that monetary policy be responsible for the performance and activities of the market to control inflation and address unemployment, and thus achieve the state of full employment. These opinions and others will be addressed in this research to reach results that prove the right of economic schools to prove their points of view, and the importance of having a theoretical balance to clarify the main roles of these schools.

The first section: Financial policy according to ancient schools: the beginning of development

First: The commercial school

The end of the fifteenth century AD is the beginning of the emergence of the nation-state in Europe, as that era witnessed the disintegration of feudal relations and the collapse of the feudal system and the weakness of the power of the feudal nobles. This collapse was facilitated by the interaction of several factors, including the increase in population and the increasing demand for food and the weakness of the closed economic system that prevailed in that era and its inability to provide food for the population, as well as the Renaissance movement and religious and social reform that Europe witnessed and the movement of geographical explorations and other factors that played an important role in the collapse of the feudal system and paved the way for the emergence of the nation-state. (Al-Jubouri: 1987: 84)

After long wars, the nation-state was formed. This country began to seek to build its military, political, economic, financial and commercial powers, and these countries began to feel that the source of their strength was the precious mineral wealth they possessed, such as gold and silver. Thus, these countries began to compete to obtain these two metals, until that era was called the era of (the two metals), in reference to the utmost importance that the precious metal occupied for the countries.

With the expansion of countries, each country became required to take measures and procedures that would increase its financial resources. Countries resorted to issuing legislation according to which taxes were collected from individuals as the first source of revenue, and other countries increased their commercial activity in order to achieve their goals. In those circumstances, ideas and theories were generated that glorified and organized the commercial work of individuals, called the commercial doctrine, whose ideas began to drive the commercial activity of the state. Among the most prominent economists who had an interest and passion in organizing the financial affairs of the state are: the two Germans (Van Goste (1717-1771)) and (Dares (1714-1791)), so we can say that the beginning of interest in public financial affairs in their organized form can be attributed to these two thinkers as a result of the work they did to organize the resources of the state treasury and classify its expenditures, so that they used the term (camera) in the German language to indicate the place where the state treasury is located, and the state's revenues were generally composed of taxes, customs duties and domain. (Salman: 1984, 166)

The economist (William Petty) (1623-1687) also had an important impact on organizing the financial and accounting aspects of the state.

The economic philosophy of the state's role according to the commercial doctrine lies in the following (Othman: 2018: 22)

The state must be strong, and their theory is often called (the economy of power).

The state must strive in various fields to increase its wealth and consider wealth as a source of power.

Seeking to make the trade balance in a state of surplus.

It is noted from the ideas brought by the mercantile doctrine and its supporters that it has always tried to give special importance to the political aspect of the state and its intervention in public life. This interest may be due to the nature of the stage in which the nation-state emerged. On the other hand, mercantile ideas called for the necessity of subjecting foreign trade to complete state control and the size of the role of the private sector.

Among the manifestations of state intervention with merchants is the imposition of customs duties on imports with the aim of preventing them and protecting local products and providing financial revenues to the state treasury. The other manifestation is represented by state intervention in helping emerging industries by reducing customs duties on raw materials that enter into these industries, as well as granting privileges and providing export subsidies for the purpose of producing and exporting certain goods. Other aspects of state intervention include determining wages and prices and establishing industries for goods.

Second: The first classical school: This role of the state was linked to the ideas of the classical school, whose ideas became popular in the nineteenth century, and whose most prominent pioneers were (Adam Smith) (1723-1790) and (Ricardo) (1772-1823), and this

The school called through its ideas for freedom of work and economic activity and the principle of competition, which it believed were sufficient to create a society governed by justice and progress, and that competition and freedom of work were sufficient to achieve economic stability without any interference from the state (Kanaan: 2011: 33). Among the other principles that the classicists believed in was the state of economic equilibrium and full employment. If the economic system is left to operate normally without any interference from the state, then its interference, according to their belief, will hinder the mechanism of automatic equilibrium and thus generate undesirable negative effects. This idea of economic equilibrium was based primarily on the law of markets of the French economist (Say), which states that the total supply of goods and services will generate demand for it and equal it. There is no surplus in the supply or demand for goods. Therefore, any intervention by the state in economic life will lead to an imbalance in the economic balance and thus the occurrence of economic crises that will increase its public spending and lead to an imbalance in the financial balance, the effects of which will appear in the economic balance. Therefore, the state must be neutral. (Al-Dulaimi 1991:66)

The main idea of classical thought is to limit the role of the state and limit it to some necessary matters and satisfying public needs that the private sector cannot do, such as defense, security, justice, and some public utilities. In order for the state not to exaggerate in satisfying those needs, the classicalists have established some rules, including:

- The rule of tax and spending neutrality1

By neutrality, we mean the state not influencing the decisions and actions of individuals in the private sector by imposing taxes or implementing public expenditure.

2- The rule of budget balance

This rule requires that the state's public expenditures be equal to its public revenues, so the state must estimate its public expenditures within the limits of its public revenues and in a way that allows for satisfying the four widows, as they call them (defense, security, justice, and some public utilities).

As for revenues, the state covers its expenses from its regular revenues such as the public domain, and if it is not sufficient, it can resort to taxes. The classicists prefer taxes that reduce the state’s interference in the freedom of individuals, such as indirect taxes, and do not prefer direct taxes that affect individuals’ cash income and thus affect savings, which they consider the main factor in forming capital. (Al-Jamal: 2006, 12) The classicists also demanded that the state not resort to issuing money or public loans to cover its public expenses except in exceptional cases and when necessary and under special conditions such as wars, as they believeClassic: The method of issuing cash to finance public spending is not preferred because it is a hidden tax, as cash issuance will lead to an increase in the amount of money in circulation, and thus an increase in price levels and inflation.

In addition, borrowing from within will lead to the emergence of competition by the state with the private sector for loanable funds, and then the emergence of what is called the crowding-out effect, and thus the private sector's ability to finance its investments will decrease. (Othman: 2011: 32).

Tax according to Classic:

Taxes are the most important tools of financial policy because they are one of the important sources of revenue that flow into the state treasury. Countries have resorted to them in the past to finance their public expenditures, and their importance has increased as a result of the expansion of countries and their intervention in economic and social life. Today, taxes have become, in addition to being a source of revenue, a tool for achieving economic stability, addressing economic fluctuations, and a tool for distributing income among individuals and directing investments in a way that serves the general goals of economic and social development. There are some theories that have tried to explain the legal basis on which the state imposes taxes, including the theory of the (financial contract) formulated by (Hobbes) and (Locke) at the end of the eighteenth century and the beginning of the nineteenth century. This theory was later developed by the Frenchman Jean-Jacques Rousseau and was later called the theory of the (social contract), which believes that there is an implicit contract between the state and individuals. This contract is of three types:

1- Business lease contract: According to this type of contract, the tax is the price of the services provided by the state to individuals.

2- Insurance contract: Those who support this trend believe that the tax is like insurance premiums paid annually by individuals in exchange for obtaining security, stability, and preserving their lives and money.

3- Partnership contract between the state and individuals: The state is like a company, and individuals are the partners.

Then the theory of social solidarity emerged, which considers that individuals must show solidarity with each other, each according to his ability to meet the burdens of the costs borne by the state.

This is due to the nature of its sovereign role and the care of its individuals. This is a monopoly right for it similar to its right to issue currency. At the same time, the tax is a duty on every individual in harmony with the principle of social solidarity in bearing the public burdens of the state. The state must take into account the social and economic circumstances of its individuals and the extent to which they bear these burdens and allocate tax revenues to the public interest and not the individual interest (Talal, Kadawi: 1990: 136).

Supporters of this type of tax, such as Van Gooste and Adam Smith, believe that this type of tax is characterized by justice and equality among individuals, as everyone is subject to the same price, regardless of the size of their wealth. It is also characterized by the ease of imposing and calculating it, but in reality this tax is far from justice because it does not distinguish between the rich and the poor. Tax justice: The rule of tax justice is the most important basic rule governing the imposition of taxes, in addition to other rules represented by the rules of suitability and certainty, as well as the rule of economy. The issue of tax justice has received the attention of many financial writers and has been the subject of much controversy, especially since one of the conditions for imposing taxes is to take into account justice among individuals (those liable) for the tax. Based on the fact that justice is equality, this equality takes two forms:

A- Horizontal equality: Under this equality, all individuals are equal in paying taxes as long as everyone benefits from the services provided by the state to them. It is noted that the origin of this equality is based on the principle of utilitarianism, and the first to demand this equality were the ancient classicists such as (Adam Smith) and (Van Gooste). The proponents of this rule believe that taxes whose prices are fixed for all individuals (proportional taxes) are what achieve justice among individuals.

But in reality, if we consider this equality to be absolute equality, it does not achieve justice because it will have a greater impact on those with low incomes than those with high incomes if both pay the same amount of tax based on equality. Likewise, if we consider this equality to be relative, it will be apparent equality unless the incomes of all individuals are equal. Horizontal equality between individuals is based primarily on the principle of utilitarianism that we have referred to, and the principle of sacrifice of income. In return for individuals benefiting from the services provided by the state, their sacrifice of income must be equal, which is a necessary principle for the classicists in order to achieve tax justice.

The second aspect: If we assume the opposite, that is, if we assume that individuals' incomes are equal, and this matter, as mentioned above, cannot be imagined, but to justify the subject, we will assume that they are equal and thus the sacrifice of individuals from income will be equal, and this case will result in the benefits for all individuals being equal, and this is very difficult. From this, we conclude that the principle of horizontal equality is flawed by some distortions in the aspect of justice, and this leads us to discuss the other type of equality:

B- Vertical equality: According to this type of equality, individuals who are not equal in their ability to pay are treated differently, which means that the (tax burden) that individuals will bear will differ from one individual to another, and according to this ability to pay, if justice is to be applied, we see that the owners of this principleThey relied on introducing variables subject to quantitative measurement such as income, consumer spending or wealth of individuals and replacing them with the principle of sacrifice that is not subject to measurement.

In line with the principle of vertical equality, taxes imposed on individuals are not determined according to the personal benefit that each individual obtains due to the difficulty of measuring the extent of benefit for individuals, but rather the imposition of taxes by the state is subject to its assessment of the extent to which individuals bear public burdens according to their ability to pay and the extent of their contribution to social solidarity and bearing these burdens. Here, the tax is of a general nature, thus achieving the rule of (generality of taxes), but this does not mean that this rule is free of exemptions or exceptions, but there are some exemptions that the state grants to individuals and institutions, taking into account several reasons that may be social, economic, administrative or political.

In light of this, the proponents of this principle of vertical equality were able to justify progressive taxes whose prices rise with the increase in the taxpayer's income or wealth, considering that the more the taxpayer's income increases, the higher the tax rates that he must pay. In conclusion, we can say that the issue of tax justice is a thorny and complex issue that includes many opinions and debates in an effort to achieve it. Whether taxes are organized according to the principle of horizontal or vertical equality, the tax legislation law remains primarily subject to the political decisions of the government and the extent of its understanding of the economic and social status of individuals. Through the reality of the legislation of the tax systems of different countries, we see that they used various financial arts to impose taxes. Some countries legislated taxes in consideration of their economic status without studying the social status of their individuals, and others tried to apply the tax law to combat luxury consumer areas and encourage productive areas, and others imposed a tax law through which they could redistribute wealth among individuals. Thus, these countries were able to combine the principles of (benefit) and the ability to pay to achieve their goal of imposing taxes. Third: The Keynesian School: The Interventionist Command State When the Great Depression occurred in 1929 and the economic problems worsened, represented by the increase in the supply of goods and the increase in their stock, the shutdown of many industrial facilities, the layoff of workers, the emergence of unemployment, which reached rates of about 25%, and the decline in wages, the classical theory failed to find a reasonable explanation for this crisis because it originally did not believe in the occurrence of such crises, as it believed that the state of economic equilibrium is the prevailing state and the imbalance is an exceptional or temporary state that quickly turns into equilibrium.

This crisis has proven the weakness of the classical theory and its inadequacy in dealing with crises, and that the principle of freedom and competition in which the theory believed later gave birth to a monopolistic capitalist society in which misery and poverty prevail among most of its members, especially the working class. The capitalist system witnessed a major intellectual transformation after this crisis occurred, especially after the emergence of the ideas of economist (John Miner Dickens) which he put in his famous book (Shaqir: 1990: 66) (The General Theory of Employment, Interest and Money). Through his ideas, he called for increasing the role of the state and expanding its functions to include all areas of life and moving beyond its traditional functions and abandoning the policy of freedom of economic activity and non-interference in order to stimulate effective aggregate demand, which he sees as the main key to getting rid of this crisis and addressing high levels of unemployment. This demand by (Keynes) for state intervention and expanding its economic activity was based on several considerations, including economic considerations that push the state to intervene to address economic crises such as depression and inflation, and social considerations that aim to achieve a high degree of social welfare for individuals by providing them with the best goods and services at symbolic prices such as health, education, housing and other services, in addition to financial considerations. When the state budget witnesses a surplus, this requires raising the level of services it provides to individuals and increasing its infrastructure and moving away from the idea of balancing the budget and not resorting to loans that the classicists believed in. (Al-Zubaidi: 2018: 397)

Hence, the state became in need of taking certain measures and procedures through which it plans its public expenditures and manages its sources of revenue in line with its general objectives. These measures and procedures related to the financial aspect are what is called fiscal policy, and this term developed as a result of the development of the state's role, as this term remained synonymous with the concept of (public finance) for a period of time, then crystallized and became clear and distinct from the concept of public finance despite the difference in writers in giving a specific definition of it. Fiscal policy is defined as: (The use of the general budget to direct the economy through the deliberate adjustment between tax rates and the level of government spending to achieve a desired level of income and use). (Mr. Ali: 1984, 154)

Some economists define it as: (deliberate government efforts and attempts to achieve full employment without inflation through spending and tax policies)

Others see fiscal policy as nothing but the use of the general budget to achieve overall goals such as full employment, achieving long-term economic growth, and stabilizing the general price level (Khalil: 1992: 28)As for Hisham Muhammad Safwat Al-Omari, his view of financial policy is more comprehensive than the previous ones, as he explains it: (as the path taken by the government to plan its expenditures and manage its financing means as it appears in the general budget, which may tend towards economics in public expenditures and limit itself to performing basic services and thus adopt the principle of neutrality or tend towards expanding its expenditures by replacing public activity with private and intervening in the production of some goods and correcting the defects of capitalist devices and stopping the risk of crises and limiting economic cycles and narrowing the disparity between individuals' incomes and amending the foundations of economic construction and adopting the nature of intervention or even reaching the socialist nature through its ownership of the means of production) After this presentation of some concepts of financial policy, the researcher believes that the appropriate definition of financial policy is: a set of procedures and measures taken by the government in the financial field by determining its sources of revenues and the appropriate spending aspects of these revenues in an effort to achieve the desired goals. (Al-Omari: 1986: 401)

Third: The Chicago School:

There was a great deal of controversy and wide discussion between supporters of the Keynesian school and other economic schools in terms of the principle of choosing the appropriate policy to achieve the goals of stability and full employment. Among the most prominent schools that called for this discussion and debate is the school of monetarists and its most prominent pioneers (Milton Friedman). This controversy focused on the nature of the appropriate policy to achieve the above goals. The Keynesian school believes that it is necessary to rely on fiscal policy with its tools (taxes - public spending) and prefers it over other policies. Keynes considers the general budget an effective weapon in confronting unemployment and inflation and achieving investment. As for the monetarists, on the contrary, they believe that monetary policy serves the same purpose as fiscal policy in achieving the desired goals. Monetarist school's interpretation of the state of instability:

The monetarist school is based on the classical ideas based on the quantity theory of money, which believes that the quantity of money leads to changes in price levels. It also assumes that prices and wages are highly flexible according to the economic situation, being low in cases of depression and high when the economy reaches full employment.

The school relied in the essence of its analysis on the principle of freedom of work and avoiding state intervention except in certain areas. Based on this principle, the state of stability in the market is the common state and instability is only rare cases.

In contrast to Keynesian ideas, which assumed that money is not a basic factor behind economic Monetary school explains price fluctuations through the decrease in the volume of investment and consumption (Al-Jabouri: 2006: 56). On this basis, the Keynesian school explained economic fluctuations and price fluctuations through the mechanism of aggregate supply and aggregate demand. The monetary school attributes price fluctuations to the change in the quantity of money supplied in the short and long term periods (Behravesh: 1988: 379). Friedman believes that the relationship between changes in the quantity of money and price levels is not dynamic, but can be affected by changes in the volume of production and the amount of money that individuals wish to keep in the form of cash balances, which he considered a luxury form of keeping money. In Friedman's opinion, it is a relatively independent change in the long run, and depends on the size of the individual's real income (wealth) and the cost of keeping money, which is equivalent to the interest rate on other non-cash assets, which depends on the general level of prices or inflation. (Al-Jubouri: 2006: 83) As for the other factor, the volume of production, which Friedman considered an independent variable, it is not a fixed amount as assumed by classical theory. Therefore, critics believe that the depression crisis that occurred during the years 1929-1932 was caused by a shortage in the money supply. The inflation that occurred in the late sixties and mid-seventies was attributed to the increase in the money supply (Al-Dulaimi: 1990: 316)

The state of economic stability:

The other issue is the state of economic stability and reaching the level of comprehensive employment, as supporters of the monetary school believe that the authority to manage the money supply is always responsible for that in an economy that operates by the free market mechanism, and growth rates in the money supply must be fixed, ranging between 3-5% to avoid inflation and deflation. On the contrary, Keynesians believe that the market mechanism in a free economy is rarely the one that affects the stability of the economy, and the equilibrium level of income can be below the state of full employment, because the Keynesian theory assumes that monetary wages are fixed downward, so unemployment can exist for a long time, and this has led Keynesians to believe that there is nothing to prevent inflation from occurring even if the money supply does not increase, as it is possible to use the policy of managing aggregate demand to stimulate an economy that suffers from a high rate of unemployment and has idle economic resources. Increasing public spending in all Its components will work to increase production without increasing prices until the economy reaches full employment, and such an expansionary fiscal policy will not be affected in its effectiveness in addressing the deflationary gap. However, if the economy does not have idle economic resources, i.e. it is operating at its maximum production capacity, then adopting an expansionary fiscal policyfluctuations (as Keynesians believe that there are other non-monetary factors in addition to the publicRaising the level of aggregate demand will also raise the general level of prices, and thus an inflationary gap will occur. To prevent such a gap, the financial authority must be as careful as possible in predicting the use of appropriate financial policy (Edgeman: 2004: 183)

Effectiveness of financial policy:

Regarding the effectiveness of financial policy from the point of view of monetary scholars, (Friedman) believes that the expansionary financial policy that Keynes set to address the crises of depression and raise employment levels has a limited ability in its effectiveness and achieving its goals. (Milton Friedman) believes that the principle of (the intended budget deficit, if it is financed by assumption in addition to the available local resources (assuming the stability of the money supply), this will lead to an increase in interest as a result of the increase in the government's demand for loans, and the effect of the rise in the interest rate will appear on the volume of private investment, in which the interest rate plays a major role in determining its size. The rise in the interest rate will lead to a decrease in the volume of private investment, and thus the budget deficit policy based on increasing public spending and financed by loans, as we mentioned, will lead to the emergence of the crowding-out effect and the displacement of private investment from economic activity to be replaced by public investment (discussion :2014:74) It is no secret that any decrease in private spending (investment + consumption) will at least lead to a reduction in the expansionary effect generated by increasing government spending due to the multiplier effect. Therefore, the main goal (reaching full employment) is difficult to realize because new government activities add additional effort to the workforce but do not expand the new employment capacities in the economy and absorb unemployment resulting from the displacement of the private investment sector. Monetarists believe that this method will lead to a small increase in the size of the national product in the long term (Guartini: 2006:315). Therefore, monetarists believe that increasing public spending must be financed in a way other than borrowing from citizens, but rather through the issuance of new money or increasing taxes. If it is financed through the issuance of new money, it will inevitably lead, according to the opinion of monetarists, to a large increase in the size of production without displacing private capital. However, if it is financed through increasing taxes, the effect of that will lead to a small increase in the product in the long term due to the decrease in investment as well due to the small expected profits. Keynesians respond to this by saying that increasing public spending will indeed lead to an increase in the demand for money, as the monetarists claimed, but it will raise the interest rate. However, this increase will be very small and not as the monetarists expected, because the demand for money is governed by three motives: (demand for the purposes ofTransactions, demand for precautionary purposes and demand for speculative purposes) and therefore demand does not depend on the interest rate only but also on income (Al-Suwaidi: 2000: 187).

On this basis, the effect of crowding out private spending will be very small and imperceptible, and therefore the expansionary effect of fiscal policy will not decrease and its effectiveness will not be affected.

If the central bank follows an expansionary monetary policy by purchasing government bonds from the market, thus increasing the amount of money in circulation and maintaining the stability of the interest rate, the same is the case if private investment is not flexible with respect to the interest rate, then the increase in the interest rate resulting from the expansionary fiscal policy will not greatly affect the volume of private investment.

Section Two: The Actual Effects of Taxes:

In the field of drawing up tax policy, it is necessary to study the reactions of individuals towards the different levels of tax, taking into account that any tax imposed on a specific productive activity may be a source of economic inefficiency due to the low level of this activity despite being a source of financial resources that it generates for the state treasury.

In this regard, it is appropriate to study the economic effects of taxes on three levels, namely:

The effect of taxes on labor supply:

There is no doubt that imposing a tax on the worker's income will inevitably lead to a reduction in his net wage rate, and as is known, the worker's income is determined according to the hours of work that the worker puts in and according to his preferences between working hours and rest hours, and thus he will choose the optimal combination of working hours and rest hours at the appropriate prevailing cash wage level. This decision depends on the form of the preference pattern and, more precisely, on the marginal benefit of income and the marginal benefit of rest, noting that the loss in a certain aspect must be compensated for in the other aspect so that the worker is in a good position, and this is what the classical theory of work confirmed.

Accordingly, the normal labor supply curve responds directly to the increase in wages. The effect of the tax on working and rest hours is not clear due to the substitution effect. Some may prefer rest hours instead of working hours when wages decrease, and others may work more hours than before to compensate for the losses caused to them by taxes. Therefore, it can be said that the substitution effect and income will work in a way that is contrary to taxes (Al-Rawi: 1999: 33).

If the labor supply curve is elastic (a direct relationship between wages and labor supply, and according to the classical theory, reducing wages due to the imposition of a tax will lead to a reduction in the quantity of labor offered due to the emergence of the substitution effect, i.e. replacing work hours with rest hours), but if the labor supply curve is abnormal (an inverse relationship between wages and labor supply), which is what the modern theory of labor suggests, then reducing wages resulting from the tax will encourage individuals to work more hours than before to compensate for the losses they incurred as a result of imposing the tax on them, and here the income effect appears (replacing work hours with rest hours) (Guartini: 1984: 34). In this regard, we point out that the ability of any individual to work depends on a number of factors, including biological, social and psychological factors that are linked together to form the ability to work, and perhaps the income factor is the only factor that determines this ability through its impact on the physical, health and psychological skills of the worker, and inspires him to work, and therefore the design of a tax based on income should not target the working class of society because it is basically low-income and imposing a tax on it will lead to a reduction Its level to more than before and thus its ability to work will be lost in addition to the humanitarian considerations that must be taken into account.

The impact of taxes on consumption and savings:

To clarify the impact of taxes on consumption and savings, it is necessary to identify the factors that determine each of them. Consumption is affected by several factors, including income, tastes, consumer preferences, population size, prices of alternative and complementary goods, and consumer expectations. Income is considered one of the most important of these factors as it is the main determinant of individual consumption. As for the rest of the factors, their impact is less than the income factor (Samuelson: 1999: 321).

As for savings, it is that part of income that is not directed towards consumption. It will also be affected by the size of the individual's disposable income and the marginal propensity to consume. Keynesian theory assumed that income is distributed between consumption and savings. Therefore, everything that affects the size of income will show its effect on savings and consumption, negatively or positively, due to their relationship, i.e. (saving and consumption), in a direct relationship with income (Edgeman: 1984: 112).

Both direct and indirect taxes negatively affect individuals' income. Indirect taxes imposed on goods and services raise the prices of these goods and services, which in turn reduces demand for them by individuals and reduces their real incomes as a result of their reduced consumption of goods and services due to their high prices.The impact of indirect taxes on commodity prices depends on the type of goods and the elasticity of demand for them. Essential goods that are characterized by having a low elastic demand have prices that are more affected by the tax than other goods that have a high elastic demand (Al-Janabi: 1991: 57). As for direct taxes, their impact will inevitably lead to a reduction in individual disposable income, which will show its impact on reducing the volume of consumption and savings for individuals because they are directly related to individual income. The impact of direct taxes on the volume of savings depends on the nature of the technical organization of the tax and the income categories or brackets that constitute the tax base. If income taxes are of the type of proportional taxes, the volume of total savings will be affected in a small and imperceptible way because proportional taxes affect the rich and the poor alike and their impact is relatively small on the rich class that is characterized by a high marginal propensity to save. If direct taxes are of the progressive type, their impact on reducing savings will be significant because they will cut off a large portion of the income of the rich that may be allocated to saving, but this decrease in saving can be compensated by increasing the income of low-income individuals through the income redistribution policy, of which progressive direct taxes are one of the most important tools (HEIJDRA, BEN. 2012: 25

Modern theories in fiscal policy: In the same context, a school called the supply-side school emerged in the early eighties, and its pioneers were (George Sheldor and Akritol). This school criticized the Keynesian financial ideas that remained dominant in economic activity until the mid-seventies. The owners of this school believe that Keynesian theory always emphasized the aggregate demand side and neglected the aggregate supply side, as the pioneers of this school believe that the best way to improve economic performance is to focus on increasing the aggregate supply of goods and services, as well as reducing high tax rates because of their significant impact on investment decisions, labor supply, and savings. Supply-side economists believe that high marginal tax rates reduce Savings and increases consumption and limits the incentive to invest. (Kazem: 2016: 73) and thus reduces economic growth rates in addition to decreasing tax revenues. Therefore, supply-side economists demand reducing marginal tax rates to encourage workers to increase labor supply, encourage investors, increase productivity, and raise growth levels, thus increasing tax revenues. One of the analytical tools used by supply-side economists to support and support their opinions is the graphic curve developed by economist Arthur Laffer, which illustrates the relationship between tax rates and the total tax revenues received by the state.

The researcher concluded that there is a wide debate about the concept of fiscal policy among economic schools, and according to the classical school, fiscal policy should be a neutral fiscal policy that guarantees private property rights based primarily on Adam Smith's ideas of non-government intervention in the market.

The Keynesian school dealt with the concept of fiscal policy and the importance of the government's interventionist role, which according to their vision is the source of strength and economic success and ensuring the future, and that the government should have a decisive and effective role in market mechanisms to ensure economic stability, which was set as the first goal of fiscal policy by Keynes.

Monetarists believe that increasing public spending should be financed in a way other than borrowing from citizens, but rather through the issuance of new currency or increasing taxes. If it is financed through the issuance of new currency, it will inevitably lead, according to the opinion of monetarists, to a significant increase in the volume of production without displacing private capital.

If the central bank follows an expansionary monetary policy by purchasing government bonds from the market, thus increasing the amount of money in circulation and maintaining the stability of the interest rate, the same is the case if private investment is not flexible with respect to the interest rate, then the increase in the interest rate resulting from the expansionary fiscal policy will not greatly affect the volume of private investment.

RECOMMENDATIONS

The researcher recommends the following:

The increase in the interest rate will lead to a decrease in the volume of private investment, and thus the budget deficit policy based on increasing public spending and financed by loans as we mentioned

Note that the horizontal axis represents the tax rate and the vertical axis shows the total revenues that the state receives from taxes. The Laffer curve takes the shape of an inverted U, as tax revenues increase with increasing tax rates and reach their maximum at point (M) and then begin to decline with increasing tax rates. This supports the ideas of supply-side economists. When the tax rate is zero, the total revenues will also be zero. The same applies if the tax rate is (100%), as the total revenues will also be zero because individuals refrain from engaging in investment activities because they are unprofitable. The best tax rate is at (50%), as the total government revenues reach their highest level at point (M). After this tax rate, tax revenues begin to decline, considering that high tax rates will reduce the supply of labor, savings and investment and push taxpayers to evade or avoid taxes. Supply-side economists have come up with changes to the structure of the tax system called supply-side tax cuts, improving incentives by lowering marginal tax rates, making the tax system less progressive, and designing it to encourage productivity and stimulate aggregate supply rather than relying on aggregate demand.

1- It will lead to the emergence of the crowding-out effect and the displacement of private investment from economic activity to be replaced by public investment.

2- Following Keynesian mechanisms in the event of a financial deficit in the general budget chapters by reducing public spending to the lowest levels to reach the desired state of economic stability.

The point of view of the money-makers is one of the most important achievements, which is the lack of overlap between the monetary authority and the government by giving the full role to the central bank to exercise its role correctly, since most government interventions had negative and destructive effects on the economy, including excessive issuance of currency to cover the deficit in the general budget, which leads the economy to a state of economic insta.

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