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The Effects of Tax Revenue on Economic Growth in Algeria

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Abstract

The aim of this article is to show the effect of tax revenues control during the massive economic liberalization processes on sustainability and economic growth.

In practice, tax revenues are used as an important instrument to carry out its action, whether it is structural policies or cyclical ones.

It is necessary to examine the mode of operation of public finance control because of the Algerian political system which is social in nature.

The study of these different tax revenue control mechanisms is therefore very important in Algeria. In order to achieve this, we have looked at a multitude of variables that deal with this object. Thus, we were able to conclude with the help of statistical analysis that the control of tax revenue has no influence on economic growth in Algeria.

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I- INTRODUCTION:

There is a particular form of economic organization which is the State. It has a detained power of constraint which is based on legitimacy, assuming stable public law rules and the existence of a specific political apparatus.

Initially the State was absent from this field, it eventually took an increasing part in economic and social questions. Its various missions and its means of action have developed considerably after the Second World War. Various interpretations have taken place following the emergence and development of the role of the State. For Durkheim, the rise of the State is justified by the growing complexity of societies. In Marxist analyzes, the State is an instrument of domination for the dominant classes.

According to E. Moussé:

"An economic policy is a set of coherent decisions taken by the public authorities, aiming, using various instruments, to achieve objectives relating to the economic situation of a country. The pursuit of objectives which may be more or less long term ".

Tax revenues appear as an original multidisciplinary science whose definition is by the same delicate and varied sources.

They constitute an important instrument used by those in power to carry out their action,

In the 19th century, the State's main function was to operate collective services such as national defence; management of tax revenues etc., the State began to invest in large areas, such as industry, insurance, provision of services etc ... until the 20th century especially since the Second World War and more. We have thus moved from the conception of the "police State" to that of the Welfare State. There are several reasons for this which will be explained as we progress in this work. However, the goal of the research of this section is to outline, on a theoretical level, the contours of state intervention in public finances.

This observation is relatively recent, undoubtedly to make recognize the science of the tax receipts and their particularity which would come from their clear distinction of the private finances; however the delimitation is not so easy as the examination shows.

We can stick to the fact that public finance is then presented as the study of the economic aspects of the receipts and expenditures of the budgets of public authorities. In reality, it is advisable to specify the objective of public finances. In this regard, we note that there is unanimity among the authors on the modalities and divergence on the finality.

But the State does not intervene in economic affairs. It does so only when cyclical deficiencies dictate, but often when this becomes a necessity imposed by failures inherent in the model of pure and perfect competition.

Our objective is not to deal with all aspects of tax revenue, but we therefore limit ourselves to strengthening the control of public finances, on the theoretical and empirical levels.

And for this we have chosen the fundamental question:

To what extent can the control of tax revenues promote economic growth and sustainability in Algeria?

The hypothesis on which our research will be based is as follows:

The answer to our problem can be approached by verifying the following hypothesis which consists in supposing that the control of public expenditure positively affects the rate of economic growth in Algeria.

Through the hypothesis we try to see the influence of tax revenue control or, more precisely, the effect of public expenditure control on economic growth in Algeria. To answer this question, we have organized our work in three stages.

II- IN SEARCH OF CREDIBILITY OF PUBLIC FINANCES.

State tax revenue is the expenditure of a state in a wide variety of areas, which may depend on different budgets. Evoking a budgetary policy implies first of all specifying the budget, the origin of the means and the destination of expenditure.

The consolidation of tax revenues must be based on quality structural measures introduced at the earliest stages of the budget process. These include sound revenue and expenditure policies for the medium term as well as short-term measures that stimulate growth. Social safety nets help to mitigate the short-term costs that rebalancing tax revenues imposes on the poor.

Can taxation play an active role in economic policies; According to Keynesian doctrine, a priori a reduction in taxes leads to a first wave of virtuous effects: increase in disposable income, increase in consumption and national investment.

Tax revenues have been brought under control in several phases which correspond both to the use of different approaches and methods and to the rise, in public opinion, of the idea that public expenditure was too high and that 'they had to be reduced.

Successful rebalancing of tax revenues improves the fiscal position sustainably and effectively while minimizing welfare costs.

Success depends on a set of variables, in particular the timing, speed, extent and quality of the adjustment.

In the eyes of many public finance observers, it is no wonder that government spending increases over time. "Wagner's Law" states that in the long run public expenditure tends to increase faster than national production and, consequently, that economic progress would be accompanied by a significant increase in public expenditure in the economy.

New needs are developing in infrastructure and services as a result of industrialization and urbanization. For the proper functioning of the economy, they require heavy investments, which are unprofitable in the short term and require public funding.

While the theoretical validity of this law has never been demonstrated, particularly with regard to the more than proportional increase in expenditure relative to GDP, time has given it practical confirmation as public budgets have continued to grow.

1. General information on public finances:

Governments use tax revenue as an important instrument to carry out their work, whether it is structural policies or cyclical policies.

Tax revenues appear as a multidisciplinary science (A), original (B), whose definition (C).

This finding is relatively recent. No doubt, to have the science of finance recognized as the fourth branch of public law. In reality, it constitutes a crossroads science, because of the diversity of the phenomena that it apprehends.

Constitutional phenomena**:** Parliament's right to political control was only asserted through budget control. Even today, the discussion of the budget in Parliament is a pretext for examining all government policy.

"The budgetary debate is the privileged moment when the parliament can exercise the fullness of its control over the action of the government and the administrations of the state. It must be said that if this debate did not exist, it would be very difficult to force the government to explain its policy.

- Political phenomena**:**

Through the budget, the results of the action of pressure groups can be quantified. Isn't the budget the best indicator of the imperialism of the donation between states and that of their real independence? In short, one just has to read the financial documents to be able to determine the pressure that a political regime is under and exerted.

- Economic phenomena:

No one thinks of neglecting the economic aspects of public finances. The productive effects of spending, the impact of the budget balance or imbalance on the economy, the consequences of the tax levy on the economy ... are all data that influence the preparation of the budget.

The interaction of tax revenues and the economy no longer needs to be demonstrated: economic structures as well as the conjuncture condition public finances, whereas these appear to be an effective means of influencing.

- Social phenomena:

The science of finance is enriched by several social sciences. The role of tax revenue has often been decisive in triggering revolutions. Tax revenues are illuminated by sociology itself when it reveals that financial mechanisms are not arbitrary creations of political regimes, but reflect social structures and a certain balance of power between various social groups. It is not even psychology that cannot appreciate the problem of the confidence of public opinion in matters of borrowing.

2. State, tax and public policy:

The sovereign functions of the state - justice, police, and defence are an example of pure public good, subject to the phenomenon of stowaways, which explains the emergence of the state as an economic actor complementary to private initiative. Principle of profit, transparency, contributory capacity and tax neutrality: The thesis of tax incidence and the concept of tax credit have shown that the principle of taxing companies, originally wealth, appears as a fundamental question of economic policy.

Neoclassical theory puts the stress on the counterproductive nature of corporate taxation in its version of a police state. It highlights the concept of fiscal transparency.

MUSGRAVE (R.A, 1989, p. 32) and MUSPAVE P. B wrote:

"The logic of income tax therefore requires that this income be imputed to the owners of shares in companies. However, there is no room left for a separate or absolute corporate tax . HABERGER (1990, p. 35) is even more categorical: "it is difficult to find your way, ..., in something which seems as economically abnormal as the corporate tax ".

It is difficult to determine the impact of tax, let alone corporate tax. Two lessons are implicit in this proposition:

- The formal impact of a tax is irrelevant; the tax collector does not necessarily wear it.
- Any agent bears a share of the incidence, even more so that he cannot substitute another activity for the taxed activity; the elasticity's of supply and demand for a good influence agent surpluses.

Thinking about the common characteristics that these three types of goods have in common would help to radically distinguish them from private goods. These have two essential characteristics that should be remembered.

3. The new anti-Keynesian theory of tax revenues which favours the control of tax revenues:

This new theory pronounces on the recessive nature of fiscal policy beyond its ineffectiveness and is an extension of the classic view. Moreover, the fiscal adjustment and rebalancing programs proposed by the FMI are essentially inspired by this new anti-Keynesian view**.**

In fact, several studies show that growth can be accelerated by reducing the budget deficit, especially when public debt is high and unsustainable. A reduction in government borrowing to finance expenditure through a systematic deficit usually pushes interest rates down, which encourages investment.

However, the argument rests on several questionable assumptions. Indeed, detractors of the NAK Theory think that, a priori, the NAK effects can only operate in a classic situation where production is constrained by supply or when this situation will be reached in the near future.

First, on the demand side, the mechanism of expansionary fiscal contractions is put in place through two channels:

The first is the interest rate channel, the one where it falls; following the reduction in the risk premium demanded by the capital markets, raises the value of the financial wealth of households and generates favourable effects on the investment, through the reverse eviction mechanism, thereby increasing production capacity. As for the channel of private sector expectations relating to the effects of budgetary tools, it acts on the perception that households have of their permanent income.

In other words, a budgetary adjustment translates into a consequent change in agents' expectations, namely a renewed confidence and optimism about the future, and consequently by an increase in activity and income. Detribalized since the first oil shock, has confirmed such a result.

Finally, the nak theory only involves anticipation effects which are more important than liquidity effects. For example, a reduction in current taxes, at unchanged public expenditure, induces an increase in the consumption of financially constrained households and a decrease in that of unconstrained households, since they anticipate a future increase in taxes and they know that this here will induce a drop in production, the second effect outweighing the first.

4. *The functions and objectives of the state:*

Three functions of the state were described by Richard MUSGRAVE in his 1959 public finance theory:

The allocation applied by THE STATE: resources are allocated in a market economy by the price variable, the state corrects market imperfections and produces non-salable public goods.

The State is a producer of non-market services and possibly controls State enterprises placed in the relevant commercial sector stabilizing the economy can be a state responsibility, that is, to defend the major macroeconomic balances and to achieve strong and regular growth.

The state is striving for greater social justice. To do this, it uses direct debits and transfers.

This result has an impact on income distribution. In addition, conflicting objectives may arise between the effective allocations of research for a more equitable distribution of income.

5. *Reform, transparency and governance of tax revenue control:*

The aim of tax revenue accountability laws is to impose sustainable fiscal discipline and to address the problems associated with the trend of budget deficit. Civil service reforms play a major role in adjustment programs budgetary.

They aim to reduce the wage bill, a goal they rarely achieve, improve productivity and discourage corruption.

Centralized reform strategies are based on functional analyzes that identify unnecessary positions and programs. Decentralized reform strategies aim to change the structure of incentives (freedom of hiring, firing and compensation decisions, results-based budgeting and managerial evaluation). The success of a decentralized reform necessarily requires full accountability and transparency.

Civil service reforms are particularly difficult to implement, but proper sequencing of measures is very useful. Civil service censuses and functional analyzes should precede the design of downsizing programs.

The rebalancing of tax revenues is facilitated by fiscal transparency by contributing to the adoption of sound and sustainable policies and by strengthening financial accountability.

Financial transparency allows the general public to better understand the structure and functions of government, the objectives of fiscal policy, the quality of public accounts and budget projections.

It should promote a better balanced adjustment of public finances, in particular in the short term, to the extent that objectives can only be set for activities which are the subject of sufficiently reliable declarations.

Budget transparency should also help make adjustment measures sustainable by increasing the understanding and support of the population, by facilitating donor support through credible commitments regarding the use of their funds and by improving the predictability of financial markets, therefore the confidence of stakeholders.

Transparency imposes more responsibilities on civil servants and limits the possibilities of evading the announced adjustment effort, for example by thwarting attempts to put certain activities off-budget. Parliament can play a major role in ensuring transparency.

III- Economic growth handicapped by the mismanagement of tax revenues:

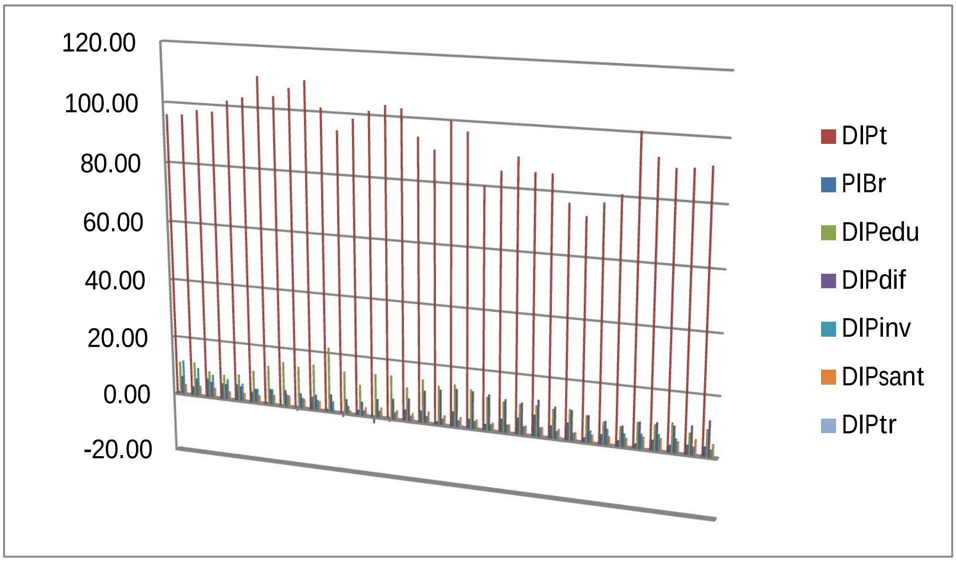
Algeria is an oil country. Good monetary policy cannot neutralize the great pressure of demand because; petrodollars and their conversion into local currency play a big role. In general, the government makes excessive commitments and deviates from basic policy principles during years of rising prices.

After the good performance of tax revenues recorded during the years 2000 and 2001 with an overall Treasury surplus of 400.0 billion dinars and 171.0 billion dinars respectively, the situation of the Treasury operations recorded during the year 2002 only a surplus of 10.4 billion dinars.

Within the framework of the complementary finance law, a revenue regulation fund was set up for the year 2000 in order to mitigate the effect of external "shocks" on the conduct of fiscal policy.

We will now analyze the different public expenditures chosen for this study given their importance for the acceleration of economic growth and the rate of control of public finances.

Fig.1. Changes in tax revenue by sector and real economic growth from.



Source : Produced by the author from ONS data Ministry of Finance Directorate General Of Taxes.

Throughout the chosen period, it can be seen that spending on health, investment, defence and education has a direct link with total state budget spending. So, as soon as there is an increase in the various expenses of these sectors there is systematically an increase in the total expenses and vice versa, as soon as there is a decrease in the total expenses these results in a decrease in the total expenses.

The study of the relationship between the expenditure of the different sectors chosen for this study and economic growth is important because, as long as there is an increase in public expenditure there is an increase in economic growth particularly in the years 1982 , 1989, 1992, 1999, 2001, 2007, 2009 and 2012; Likewise, when there is a decrease in spending in these sectors, the result is a decrease in economic growth, which characterized the years 1983, 1991, 1997, 2000,2006, 2011 , 2012,,,,,.

Therefore, according to this analysis, economic growth is directly affected by the public spending of the sectors in the years indicated above. However, for other years not shown in the previous analysis there is a slight impact of government spending in the year on economic growth in the following year.

***Conclusion*:**

We tried toanalyze the role of the state from controlling tax revenues to act on economic growth. To be sure, the supply-side economics approach has started to exert a strong influence in the design of policies recommended by international institutions in recent years.

The effectiveness of public policies available to policymakers differs between developed and developing countries, especially in fiscal policy. In developing countries, indirect taxes represent a large proportion of tax revenues at the expense of direct taxes. In general, the “tax-to-GDP” ratio in developing countries is much lower than in developed countries. As a result, governments find it difficult to increase their income from tax revenues and the possibility of stimulating the economy through tax cuts is less.

Indeed, we have examined the role of tax revenue control capable of fostering economic growth on a permanent basis. There Is, as a matter of fact, some capital that the state should encourage accumulation. Thus these capital-based policies, through public expenditure, are conducive to long-term economic growth, since they increase the supply capacity of an economy.

When it comes to the importance of public policy, they can positively affect the rates of economic growth through direct policies, through the supply of goods. Of course, these economic policies are necessary but they are insufficient since other incentive policies capable of promoting economic growth should accompany these policies.

We can mention at this level public policy and good management of public finances. These so-called accompanying policies appear to be equally important in fostering economic growth.

We have also shown that despite the fact that there is strong evidence that better control performance goes hand in hand with reduced state size. Studies are far from unanimous on this point. An examination of the performance of fiscal revenues recorded by fiscal policy confirms this idea.

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