

Structure of the Public Revenues and Expenditures and their Effect on the Deficit of Jordanian Public Budget

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Abstract

This study aimed to identify the effect of public revenues and expenditures structure on the Jordanian budget deficit and the effects of budget deficit on the internal and external debts since 2006 through 2014. The data annually published on the Jordanian public budget and publications of Jordanian Studies & Economics Policies Directorate will be used, financial ratios were calculated using the (Excel software program) and simple and multiple regression analysis used to test the hypotheses of the study. The conclusions of this study were: the tax revenue's effect Jordanian public budget deficit is larger than non-tax revenues, also the current expenditures effect public budget deficit is larger than capital expenditures, and the Jordanian public budget deficit effects the internal debts and external debts, the researcher emphasized on his recommendation to policy making increasing the effective employment of external and internal loans in investment rather than consumption projects for purpose of raising the level of gross domestic product GDP, as doing so assists the best exploitation of the hidden resources strengths which reflect on increasing the direct and indirect public resources with an effect of reducing the deficit level in the public budget.

Key Words: Public Revenues, Public Expenditures, Internal Debts, External Debts, Public Budget.

Introduction

The public budget is important because it reflects the social, economic, and political objectives of a country and is used by the executive authority to influence these objectives. Since the budget embodies a significant part of the national income as represented by the revenues levied, from one side, and the public expenditure, on the other; the latter forms a momentum for the economic, thereby the public budget can be viewed as an essential basis for investment, public consumption, and redistribution of the national income and steering the expenditure and available resources. As a result the available resources need to be directed to the right place, and used for the most significant purpose which should be cost-effective and generating optimum benefit as is the case with the countries that suffer from rarity of resources, and being incurred huge obligations and they need much more of the funds and considered underdeveloped.

In this context, the public budget is viewed as an effective instrument for creating social and economic equilibrium. Specifically, the public budget is not an mathematical process of revenues and expenditure; rather it represents future plans and projects included in the instructions of the public budget implementation to create a relative stability between the revenues levied by a country and planned expenditures (Quraishi 2012).

The more the public expenditures, the heavier burdensome on the public budget and it becomes paramount to make structural analysis of the current and capital expenditures. Perceivably, the huge amount of current expenditures out of the total public expenditures increases the burdensome on public budget revenues and

limits the ability of financial policymakers to reallocate the available resources towards capital expenditures. In addition, sizable current expenditures hinder the financial policy that aims to control and rationalize public expenditure by targeting priorities towards improvement development and social welfare. The present study contributes in the existing literature by enhancing the public views in improving public budget implementation by addressing the practical aspects of revenue and expenditure sides of the Jordanian public budget in order to demonstrate the effect of revenues and expenditures structure on the overall deficit of the Jordanian budget since 2006 through 2014. The data annually published on the Jordanian public budget and public debt publications will be investigated and analyzed to suggest possible solutions and mechanisms to implement and control the public revenues and expenditures, within prioritize expenditures and reallocate resources in order to minimize the deficit in the budget, that lead government to seek for loans to cover current expenditures, thereby weakens the government ability to achieve its developmental goals, and improve the social welfare.

Problem Statement

The imbalance between the public revenues and expenditures increases the deficit, which in turn creates economic difficulties and a serious dilemma for the government, especially if it hasn't have ability to cover the deficit and fulfill its internal and external obligations from internal resources, or from effective investment projects. So the government finds itself forced to borrow from internal and external resources. Then the public debt service adds burden to government obligations in terms of debt payments and interests which consider as part of its current expenditures, with the result provided poor quality of service and increase the estimated deficit. All in all, will motivate government to borrow again from internal and external resources to fulfill the deficit or the doubled deficit thereby entering in the vicious cycle of accumulated deficit in the public budget over time. So the present study investigates the effect of public revenues and expenditures on the Jordanian public budget deficit, and effect of that deficit on the country debts whether internally or externally.

Hypotheses

Based on the earlier analysis, the hypothesis of the study is as follows:

1. The tax revenue's effect public budget deficit is larger than non-tax revenues at a significant level ($\alpha \leq 0.05$).
2. The current expenditures effect public budget deficit is larger than capital expenditures at a significant level ($\alpha \leq 0.05$).
3. The Jordanian public budget deficit effects the internal debts at significance level ($\alpha \leq 0.05$).
4. The Jordanian public budget deficit effects the external debts at significance level ($\alpha \leq 0.05$).

Significance of the Study

The significance of the present study stems from importance of the public budget in general and the vantage position assigned to the public budget as an effective financial policy instrument in the accounting and financial literature. The public budget takes a significant part in the social and economic development. In addition, it is important to study the structure of the public revenues and expenditures and effect on deficit of the public budget and country debt. The significance of the present study can be summarized as follows:

- 1- Borrowing is one of the most risky results of the budget deficit with ramified social, economic and political influences. Socially, debts acquires a large proportion on gross domestic product (GDP) and lessen the financial resources that otherwise could have been employed for savings and social welfare. Economically, debts increases inflation rate and devalue the national currency, thereby motivating migration of the domestic capitals abroad, increasing the inflation rates, and employee layoff, which

finally result in serious social problems. Politically, there would arise an attitude among creditors that conceptualizes the public debt problem in stumble countries as being bankruptcy rather than shortage of liquidity. These trend adopters adopting this perspective support replacing productive assets with foreign debt, bartering the equity of projects owned by the government with foreign debts, which in fact threatens the national sovereignty of such countries (Asfor 2014).

- 2- The public budget is viewed as an essential instrument to evaluate performance of the public sector and determining why the development opportunities waste, and cause of poor service quality. On the other hand, the public budget measures the government ability to face the social and economic challenges and other international commitments.
- 3- To study the effect of both the tax and non-tax revenues on the public budget deficit by focusing on the collectible fund resources that don't contradict with the government objectives in an attempt to fix the estimated deficit at a minimal possible level.
- 4- To investigate the effect of both current and capital expenditures, prioritize expenditure, and find out practical solutions for variances on them by applying advanced methods of estimating the public expenditures for various areas.
- 5- Suggest recommendations to the concerned authorities, such as policymakers, and decision-makers at the Ministry of Finance, Public Debt Directorate, Public Budget Directorate, and different tax agencies; and Ministry of Planning as well as other government departments of relevance with the budget preparation whether pre, through and after budget enactment by the parliament in order to assist them take rational decisions that accomplish the targeted goals.

Literature Review & Theoretical Framework

The public budget is referred to as "a detailed statement of the estimated public revenues a country expects to collect and the expenditures it is committed allocate within mostly a coming fiscal year (Jordan Department of the General Budget 2014). The public budget is defined by (Mahini 2010) as a "set of goals and programs that are expressed numerically and the political authorities intends to carry them out through the various governmental units at a minimal possible cost within the next period, and the size of expenditure for each goal or program, and determine available resources allocated for each goal or program". On the other hand, (Shoulsters & Freeman 2004) defined public budget as "a plan valued by monetary units that include data on the proposed expenditures and revenues, the goals targeted by the expenditures, types, and how such expenditures shall be financed within a specific time span.

Essentially, the very purpose of the public budget has been to create an effective control from the financial and legislative aspects. Later developments of the statutes of public budget and advanced preparation approaches have upgraded the functionality of the public budget to include other purposes such as providing information for the government that assist effective management and optimal use of the available resources, and also to achieve efficient use of the resources by linking the inputs (expenditures) and the outputs (accomplished goals), which requires rational justification of the public budget before final enactment from legislative authorities (Mahmoud 2010). However, (Khafaji 2013) called for a mid-term financial framework to create a system to predict future public revenues and expenditures (next 3-4 years) coincided by estimated budgets for the same period at the level of the Iraqi ministries and governorates, which will provide clearer picture of direction followed by a country. A study by (Kulon 2013) investigated the relationship between lack of allocations assigned on the investment item of the public budget and implementation of development and infrastructure projects in an attempt to suggest solutions to cope with that problem, basically in aftermath of the catastrophic earthquake that hit the Indonesian coast of Sumatra. The study suggested modifications to the public budget system currently in place by encouraging partnerships with the private sector to provide services of overall benefit. Furthermore,

(Quarishi 2012) found an upward tendency in the Iraqi budget deficit due to increased public expenditure, primarily the current operational expenditures on the account of the investment expenditure, and the fact that oil sector still accounts for the largest portion of the public revenues compared with relatively little contributions from other sources such as customs, taxes, etc. The study concluded that Iraq should adopt modern methods to develop more accurate estimations in its public budget; and enhancing coordination between the legislative and executive agencies to rationalize the public expenditure. A study by (Sous & Chalabi 2012) concluded a weakly positive relationship between deficit in the public budget and the foreign public debt, and stressed on the need to employ the domestic and foreign loans in investment projects rather than consummation projects to purpose of increasing the gross domestic product (GDP) and the national income, thereby increasing the direct and indirect tax revenues to decrease deficit in the public budget. On the other hand, (Salem 2012) argued the reason for deficit in the Iraqi public budget is structural imbalance between public revenues and expenditures and inaccurate estimates published by the Ministry of Oil in addition to ineffective tax management. The study stressed on the necessity and importance productivity of public expenditure and the need and the importance of the productivity of public expenditure, rationalization and rehabilitation.

In the context, (Koshk 2012) concluded that public sector in Saudi Arabia need develop partnership strategies with the private sector to improve the service provided, and minimize waste of public resources by applying modern approaches in public budget preparation in Saudi. A study conducted by (Eungha 2009) aimed at identifying factors that contribute to public budget imbalance, mainly the expenditures item, and concluded that the agreements made by the government with public and private organizations to implement projects helped produce more realistic numbers in the public budget. A study by (Groech 2009) investigated the effect of increased public expenditures and public debt on public budget balance, found that a rational expenditure on the public budget typically results in growth of national income in case of the government implement public projects that have benefits for the community as a whole, and also improve welfare because such expenditure targets essential services such as education and health. However, expenditure excessive than the amounts allocated on the budget will result in deficits that might continue on the long run, thereby enhancing the cycle of increased public debt.

In the context, (Cogan et. al. 2009) demonstrated that in the case of the United states continue increase of public spending multiplier caused by current expenditure on the account of capital expenditure would result in increasingly higher unemployment rates, and decreased tax revenues from the working individuals, thereby higher deficits in the public budget, the scenario which could motivate the government to borrow internally or externally. (Arkoub 2009) compared the ratio of public debt and public budget deficit to the gross domestic product (GDP) of a number of Arab countries (Jordan, Egypt, Tunisia, and Morocco). The study found that the Arab countries sampled were unable to get rid from the public deficit and debt problems, despite they applied reform programs including privatization which had limited influence. The worse is that the public debt in these countries continued feeding itself, and any attempt to reduce expenditure, and increase tax revenues in order to downsize the public debt still ineffective and creates a situation of social injustice. On the other hand, (Hamad 2008) investigated major factors contribute to excessive public debt for the developing countries that preclude their progress towards development and to get out of circle of economic, social and political backwardness. The study stressed that failure of developing counties to find practical solutions for the debt problem; they surely will be in the position of dependency and debt service. In addition, (Jansen 2008) showed that the Netherlands government performance is measured by financial performance indicators regarding the public budget through the disparity between the estimated values and real expenditure and revenues on the budget. A study by (Monacelli and Perotti 2008) sought to identify the effect of discrepancies between the estimated and eventual government current expenditures in the US federal budget and to measure its effect on the macroeconomic indications. The study demonstrated that with one per cent point increase in the public expenditures relative to the gross domestic product (GDP), the highest individual consumption will remain within this portion; thereby much higher prices which will be borne by the citizenry. The study discouraged expansion of the current public expenditures as it might causes imbalances in the budget with inevitable

effect of price inflation. On the other hand, a study by (Huber & Runkel 2008) discussed the government's choice of borrowing to cut down the burdensome of taxes. The study found that two contradicting effects result from the increased tax burdensome borne by taxpayers. While increases the government revenues, it simultaneously reduces individual consumption and leads to negative affects on individual and institutional investments, and finally will have negative influences on the economic performance of the whole country. In addition, discount lump-sum tax will result in decrease of the tax revenues levied to the government treasury; thereby forcing the government to borrow. In general, countries need to develop carefully their planned budgets that are rational, balanced practical; especially those countries with limited resources, and borrow internally or externally to cover the deficit in the budget. A study by (Qatawneh & Adaileh 2010) found that the increase in current government expenditures that exceeds the devoted funds on the budget, results in decline of the investments with negative effects on the country's economic growth, since a shortage in investments typically accompanied by raise of interest rates. Similarly, (Khateeb 2006) concluded that the tax law enforceable in Palestine was old and outdated that the growth of the tax revenues was poor relative to the total public revenues in the Palestinian budget. In Jordan, (Thneibat 2004) found that the public revenues declined due to the increased domestic expenditures in the Jordanian budget. The study recommends improve the local revenues, so that to cover greater proportion of the current expenditures by an effective tax collection and overcome the problem of tax evasion, in addition to find other revenue resources for country to be able to cover the new expenditure.

Research Methodology

This study was conducted depending on an inclusive review of the related literature to develop study's hypothesis and objectives. In order to addresses the practical aspects and structures of revenue and expenditure sides of the Jordanian public budget, it depends on the data annually published on the Jordanian public budget and public debt publications during the period (2006-2014).

Procedures

The data that were used for testing the hypothesis of this study were the primary data of the public revenues, expenditure, and internal and external debts, as appeared in the Jordanian public budget and annual public debt publications during the period 2006-2014.

Statistical Method

The analytical approach was used and the financial ratios were calculated for the tax revenues and expenditure, public deficit and the internal and external debts using Excel software program, to explain and analysis overview aspects of revenues and expenditures structures in the Jordanian public budget and debts percentages during the period (2006-2014). To test study's hypotheses, the Statistical Program for Social Sciences (SPSS) was used; particularly multiple-regression and simple regression analysis was used to predict the dependent variable value based on a set of independent variables. The effect was represented between the dependent and independent variables as linear equations. The explanatory power of the independent variable with the dependent variable was measured using (R^2) to denote the explanatory power of the independent variables to explain the change in the dependent variable. Further, (F) value was employed indicate acceptance of the regression model and that the value of variation in (R^2) was statistically significant at significance level ($\alpha \leq 0.05$); Beta regression coefficients were also used to determine the independent variables that have the largest effect on the variation of the dependent variable as the significance level ($\alpha \leq 0.05$).

Statistical Results

Analytical percentages of the revenues and expenditures in the Jordanian public budget and public debts percentages for the years (2006-2014) show in the table (1).

Table(1): Jordanian public revenues and expenditures and debts Ratios for the years (2006-2014)

year	Total public revenues/tot al public expenditures	taxes revenue/t otal public revenues	Non taxes revenue/ public revenues	current expenditures/ total public expenditures	Capital expenditures / total public expenditures	Internal debts/ budget deficit	External debts/ budget deficit	Total debts/ budget deficit
2006	0.89	0.62	0.38	0.80	0.20	-2.78	-0.24	-3.01
2007	0.93	0.60	0.40	0.78	0.22	-4.61	-0.27	-4.88
2008	0.86	0.63	0.37	0.78	0.22	-3.98	-0.10	-4.08
2009	0.89	0.60	0.40	0.78	0.22	-6.41	-0.17	-6.58
2010	0.87	0.63	0.37	0.82	0.18	-6.52	-0.12	-6.64
2011	0.82	0.65	0.35	0.84	0.16	-3.62	-0.06	-3.68
2012	0.85	0.61	0.39	0.85	0.15	-5.46	-0.04	-5.50
2013	0.82	0.61	0.39	0.83	0.17	-3.70	-0.02	-3.72
2014	0.85	0.62	0.38	0.84	0.16	-2.84	-0.02	-2.87

Reference to the table (1) reveals that the proportion of public revenues to public expenditure for the years (2006-2014) ranged between(82%-93%) where the difference represents budget deficit ranging between (7%-18%), while the tax revenues (income tax and sales tax revenues) accounted for (60-65%) of total public revenues. However, non-tax revenues account for the remaining percentage (35%-40%) representing amounts reaped by the government for the services provided to public including pension proceeds, surplus revenues from ministries, extra fees on property transactions, car registration, vocations licenses, and others in additions to donations and grants. This analysis shows that essentially the Jordanian budget heavily depends on taxes to generate revenues almost representing two-thirds of the public budget resources. Comparatively, out of the total expenditures, the current expenditures accounts for (78%-85%) representing salaries of the civil and military service apparatuses, public debt interest, and other expenditures. The remaining percentage ranging between (15%-22%) represents the proportion of capital expenditures to total expenditures. The capital expenditure represents the amounts spent on undergoing, running or new infrastructures projects. From the earlier discussion we can see that the current expenditures largely higher than the capital expenditures, indicating that primarily Jordan is a consumption country that relies on the current expenditures rather than depending on investment to finance its different consumption needs.

As for debts, compared with the budget deficit, the internal debt accounts for (2.78%-6.52%) of the total deficit, whereas the external debt ranged between (2%-27%) of the total budget deficit; and the total debt (internal and external) accounted for (2.87-6.64%) of the total budget deficit, indicating heavy dependence on the internal debts to fill up the deficit in the Jordanian public budget.

The multiple-linear regression of the public revenues and expenditures on the Jordanian public budget deficit for the period (2006-2014) shows in table (2).

Obviously the analysis in table (2) shows that ($R^2=1$) implying that the tax revenues, non-tax revenues, current expenditures and capital expenditures fully account for the deficit in the public budget which is reasonable, since the public budget deficit represent the difference between the total public revenues (tax and non-tax revenues) and total expenditures (current and capital). The variance analysis demonstrates that (F) value was statistically significant at significance level ($\alpha \leq 0.05$), meaning that the values of (R^2) and regression model was statistically acceptable.

The multiple regression equation can be reformulated so that the effect of the tax and non-tax revenues as well as current and capital expenditure on the Jordanian public budget deficit can be demonstrated as follows:

$$Deficit_i = 10353142 + 1.818 * TR_i + 1.174 * NTR_i - 3.505CuEx_i - 0.523CaEx_i + \varepsilon_i$$

Then the regression coefficient of tax and non-tax revenues were (1.818 and 1.174) respectively, that means the change in tax revenues has the largest positive effect on the deficit of the Jordanian public budget compared with the change in non-tax revenues at a significant level ($\alpha \leq 0.05$); thereby accepting the alternate hypothesis “the tax revenue's effect on the public budget deficit is larger than non-tax revenues at a significant level ($\alpha \leq 0.05$)”.

Table (2):multiple-linear regression analysis for the independent variable (tax revenues, non-tax revenues, current expenditures, and capital expenditures) and the dependent variable, (public budget deficit).		
$Deficit_i = \alpha_i + \beta_1 TR_i + \beta_2 NTR_i + \beta_3 CuEx_i + \beta_4 CaEx_i + \varepsilon_i$		
Dependent Variable (Deficit _i)		
R-squared	1	
F-statistic	F-Ratio	10353142
	Prob.(F)	0.000***
Constant	Coefficient (Beta)	000
	Sig(t)	1
Tax Revenue (TR)	Coefficient (Beta)	1.818
	Sig(t)	0.000***
Non tax Revenue (NTR)	Coefficient (Beta)	1.174
	Sig(t)	0.000***
Current Expenditure (CuEx)	Coefficient (Beta)	-3.505
	Sig(t)	0.000***
Capital Expenditure (CaEx)	Coefficient	-0.523
	Sig(t)	0.000***

*** Significant different from zero at the 1% level. ** Significant different from zero at the 5% level. * Significant different from zero at the 10% level.

As for the regression coefficients of current and capital expenditures, results show that the regression coefficient values were (-3.505) and (-0.523) respectively which were statistically significant at ($\alpha \leq 0.05$) level; the implication is that the rate of change in the current expenditures negatively affects the Jordanian public budget deficit larger than the capital expenditures at a significant level ($\alpha \leq 0.05$); thereby accepting the alternate hypothesis “the current expenditures effect on the public budget deficit is larger than capital expenditures at a significant level ($\alpha \leq 0.05$)”.

The simple regression related to the effect of Jordanian public budget deficit on both internal and external debts shows in table (3):

The simple regression represents in table (3) shows (R^2) amounted 0.501 and 0.642 respectively and statistically significant at ($\alpha \leq 0.05$) level. That means budget deficit explain the variation in internal and external debts by 50.1% and 64.2% respectively, with assumption of any other factors remain constant, also simple regression (F) values were statistically significant at ($\alpha \leq 0.05$) level, meaning that the values of (R^2) and regression model were statistically acceptable.

Table (3) shows the value of simple regression coefficients of the budget deficit on the internal debts was (-0.708) and on the external debts was (0.802) and were statistically significant at ($\alpha \leq 0.05$) level; meaning that the variation in the Jordanian budget deficit influences both internal and external debts of the country. In case of the internal debts the regression values of the budget deficit show negative regression coefficient. But in case of the external debts the regression coefficient of the budget deficit was positive. The implication is

that budget deficit positively affects the internal debts (since the regression coefficient and deficit both negative).

Table (3):simple regression to the independent variable (public budget deficit) on both dependent variables (internal and external debts)		
$Internal\ Debit_{i_t} = \alpha_i + \beta_1 Deficit_{i_t} + \varepsilon_i$		
Dependent Variable (Internal Debts _{i,t})		
R-squared	0.501	
F-statistic	F-Ratio	7.028
	Prob. (Sig)	.033**
Constant	Coefficient	1036748.5
	Prob. (Sig)	0.352
Deficit	Coefficient	-0.708
	Prob (Sig)	0.033**
$External\ Debit_{i_t} = \alpha_i + \beta_1 Deficit_{i_t} + \varepsilon_i$		
Dependent Variable (External Debts _{i,t})		
R-squared	0.642	
F-statistic	F-Ratio	12.577
	Prob. (Sig)	0.009***
Constant	Coefficient	130407.32
	Prob. (Sig)	0.000***
Deficit	Coefficient	0.802
	Prob. (Sig)	0.009***

*** Significant different from zero at the 1% level. ** Significant different from zero at the 5% level.* Significant different from zero at the 10% level.

In the final analysis, the higher the Jordanian budget deficit is, the higher the internal debt will be; and the lower the Jordanian budget deficit is, the lower the internal debts will be. However, the effect of budget deficit on the external debts was negative (since the regression coefficient was positive and the deficit was negative) meaning that the increase of Jordanian budget deficit negatively influenced the external debt for the country. From the viewpoint of the researcher, this could be due to the structure of the internal and external debts of Jordan. As table (1) shows, the internal debts accounted for the largest proportion of the budget deficit compared with the external debts (*See Table 1), indicating that Jordan primarily relies on the internal debts to meet the deficit in the Jordanian public budget.

To represent the relationship between the budget deficit, internal debts and external debts, the following simple repression equations can be formulated:

$$Internal\ Debit_{i_t} = 1036748.5 - 0.708 (Deficit_{i_t}) + \varepsilon_i$$

$$External\ Debit_{i_t} = 130407.32 + 0.802 (Deficit_{i_t}) + \varepsilon_i$$

Based on the earlier analysis, both hypotheses: “the Jordanian public budget deficit effects the internal debts at significance level ($\alpha \leq 0.05$)”. And “the Jordanian public budget deficit effects the external debts at significance level ($\alpha \leq 0.05$)” will be accepted.

Results and Recommendations

As a result of the analysis revenues, expenditures, the Jordanian deficit of the budget, the internal and external debts, the study concluded with a number of findings and recommendations that called Jordanian

decision-makers concentrate on the structure of public revenues and expenditures in the Jordanian public budget so as to enhance rationalization of public expenditures, and raise the public revenues through a conscious policy making that ensures diversification of income sources and optimal use of resources. The study emphasized on the effective employment of external and internal loans in investment rather than consumption projects for purpose of raising the level of gross domestic product GDP, as doing so assists the best exploitation of the hidden strengths which reflect on increasing the direct and indirect public resources with an effect of reducing the deficit level in the public budget. The government shall adopt transparency and adopt reform programs such as financial liberation, free foreign trade, partnership between public and private sectors in some areas so long as such countries entrenched in a vicious cycle of ineffective financial policies which were a result of cumulative deficit in the public budget over years and doubled internal and external debts. Therefore, the public budget should be viewed as an integrated process in which one element has an effect on the other elements and poorly made decision will negatively affect the other parts in a way or another.

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