Assessment of the effect of oil revenues on tax revenues in the economics of Iran: By an experimental study 1989-2008

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ABSTRACT
In the economics of Iran according to the mixture of the incomes of the country, tax can be considered as a kind of assured income. Whereas the important part of tax revenues in Iran depends directly and non-directly on oil revenues, this important matter has severely damaged the tax incomes against fluctuated oil revenues. Being lower 20 percent share of direct incomes to general budget can be assessed as an increased share of oil from the incomes of government. The results of this research present that the extent of the oil revenues of the country has negative effect on tax revenues during research ages. The result is that for revising the structure of country tax system, this matter should be considered in execution process and how to use of expertise people power and revision in this case must be done in order that tax system be efficient in national economy.

INTRODUCTION

Tax has been considered as one of the most important financial sources from formation of societies and states. According to the definition, tax is the money that government receives based on law from incomes, natural property, and legal persons. Tax is the most important economic basis that has a role in sustained growth and development, the supply of social justice through redistribution of incomes and wealth and sources optimal allocation. Tax is as one of the most important sources of the government’s income. This element not only has a major role in compensation and supply of some costs of public sectors, especially current cost, but also it is considered as one of the effective tools in performing the financial state's politics. Furthermore, taxes have also balancing roles and play an important role in halting of some economic fluctuations, such as inflation or economic slump. So, not paying on time causes disorder in country’s economic system. But surveying the combination of state's incomes indicates that this problem, tax revenue, is placed in lower level in compression to the other income sources of the government, such as oil revenues. Tax system is one of the major factors in economic risk. The higher the tax in the economy of the country or it does not have suitable structure and system, the less the companies are keen on investing. The existence of effective and efficient tax policies is one of the major factors in realization of tax goals. Tax policies are symptoms of national sovereignty and part of economic policies in each country. Tax policies are effective in the way of public investments, and incomes redistribution. Of course, this, policies should be codified that in addition of increasing tax revenues don’t cause undesirable among people and don’t have unfavorable effect on the economics of the country and government pays a little cost to receive it. In relation to our country, Iran and in this current situation—such reduction of oil cost has happened in 2008—the a role of other government’s incomes is more sensible. [9]

In the economy of Iran, the dependence of the government of Iran is more on government incomes, and because of this, the volumes of the imports of the country have dramatically increased in 2006-2008. With regard to this situation, in country's budgetary planning system, a measure should be taken about oil and tax revenues. The experience has shown that increase and decrease in oil revenues extensively influences the cost of public part in Iran economy. The more dependence of the budget of the country on oil revenue until now underlies of public sector and increases the extent of the strength of the government and increase in official and personal structure. The government, by increasing oil revenues in recent year has caused more financial expansion policies, like the policies that the government of the Poland applied in its economy in 1960. On the other hand, due to the rise in government’s expenses, especially current expenses because of the increase in oil revenues of inflation situation, the public prices have risen.

3. The large sources of natural gas explored at north sea’s in early 1960s (district belong to India), that India had huge currency income and export, introduction of this currency incomes to India economy had surprise results which clearest symbols is strict increase of imports and decrease of industrial goods exports in this country that finally cause to strict record in industries part, increase of unemployment rate and decrease of economy growth that country.
In the fourth program of the economical development and the 20-year perspective of the country, the aim is to decrease budget dependence on oil revenues in Iran’s economy. Disadvantages of the dependency of public budget on oil revenues during recent years have prevented discovering the abilities and actual capacities in Iran economy. The dependence on providing the expense for the oil revenue makes the country inattentive to other sources of income. According to the fluctuation in oil price and sensitivity of the economy of the country to the variety of tax revenues of the government since 2004, performing the third program of the economic development, changing policies, doing revisions in tax system and revival of its duties have called government’s attention. In this field, making the rate of the tax logical, canceling some inefficient exemptions and discriminating tax according to revision of direct tax laws have paved the way for investment growth. Tax system in developing countries imposes high expenses on them. The low efficiency, the cost of high receipt, the waste of the customers and personal time, the low receipt extent and the deviation of source’s optimal allocation are properties of this system. The revision of tax system should be considered as a section of revision of tax system and major core of approval polices, and economic recession in economic evolution scheme. One of the tools of policies in country’s development is minimizing the governmental structure and making it efficient through decreasing current and unnecessary costs of government’s economy. [11]

Government, in economy, should seriously notice the management sources and supervise the budget performance of executive system to expand the government’s financial sources based on the needs and necessities. As the leader of the Islamic government of Iran emphasized on codification order part-22-3 in cutting dependence of current government costs on oil and gas revenues ending of fifth program, government must try to accomplish this aim.

In this study first, we deal with tax revenues rate in Iran economy and then in third sector we consider ways of collecting the information and indicate the total econometric model policy OLS and the relationship between oil revenues and taxes in Iran economy. In last section, a suggestion for increasing of tax revenues in Iran functional economy is presented.

The rate of tax revenues based on available statistics in Iran economy

Statistics show that the relation of taxes with the gross domestic production in Iran’s economy has jumped from 5/2 percent in 1991 to 7 percent in 2008. This relation has expedited the procedure in recent years. It is probable that by reducing oil revenues in the country and government’s emphasizing on the increase of oil revenues in 2009, this relation will augment. Of course, this rate of tax revenues and its contribution to gross domestic product is not considerable in comparison with other countries, specially developed countries, and even compared to some developing countries. The considerable point is that stagnancy in universal economy and its impact on Iran economy, will generate a stagnant situation in our economy in the future; however, the increase in tax revenues by 58 percent in 2009, and on the other hand, 7/2 percent rise in current costs is similarity inherited and uncertain. This year, the share of tax revenue from public incomes of government was 64/3%, which has been less than that of last year (65/6 percent). Tax revenue of the government in 2007 was 19/1 thousand billion which has increased in comparison with last year (26/5 percent). The amount of tax revenue, certainty of this year, has estimated 97/2 percent in relation to the approved budget figure. The amount of additional direct taxes certainty is equally 1/2 percent, and lack of certainty of indirect taxes is equal by 97/2 percent. Like last year, a higher share of tax revenue (2008-65/9 percent) has been devoted to direct taxes. The tax share of public incomes of government during 2003-2007 has shown a falling trend. This share decreased from 82/6 percent in 2003 to 64/3 percent in 2007. Therefore, reliance of the government on tax revenues to provide current cost has decreased during these last 5 years. This year, the performance of other incomes of government (from public incomes) with 33/8 percent growth reached 10/6 thousand billion Tomans, in comparison with approved budget figure that had 32/6 additional certainty. In 1886, the transferring of assets of capital became 17/4 thousand billion Tomans in comparison with last year 4/4 decrease and in comparison with approved budget 99/5 measured. From the total of transferring of assets, respectively, 17/3 thousand billion Tomans and 127 thousand billion Tomans were obtained from oil revenue and sales of movable and immovable that in comparison with last year respectively has 4/6 decreased and 38/9 increase. However, movable and immovable transferring in relation to approved budget had 61/1 lack of certainty. The income of row oil sales reached 13/9 thousand billion Tomans, which in comparison with last year has increased 5/9. [4]

The share of various components of tax revenues in the economics of Iran

The Study of various components of tax during 1991 to 2008 shows that the share of direct taxes in tax revenues during the studied period has been more than the share of indirect taxes. More formal figures indicate that the share of taxes to the companies is the highest in total taxes revenue and is the least in the share of possession-income. The rest of tax components are also included. The share of income of tax to the companies, tax to the import, tax to the income, tax to the sales and consumption and finally tax to the asset has been (0/48, 0/25, 0/14, 0/09, 0/04) respectively in 2007. Annually, transferring of assets has extensively happened, and, therefore, it is expected
that the share of tax to the asset is higher than that of the present
time. [7]

The costs of tax revenues receipt in the economics of Iran

The research on the relation of tax collection cost to tax
revenues during 1991 to 2008 shows that about 2 percent of
direct receipts income was devoted to tax accumulation. This
relation with regard to the little share of tax in gross domestic
product in the economy of Iran is considerable. On the other
hand, with regard to the best situation, the share of tax in GDP5
has been only 8 percent where 2 percent of it has devoted to tax
accumulation. We can conclude that tax accumulation in Iran’s
economy is expensive to its income advantages. Government
should try to decrease the cost accumulation of tax. By using
table 2 and surveying of relation of tax revenues to current costs
government in the economy of Iran for various periods, we
can find out. [20]

The contribution of tax revenue to gross domestic product
in Iran in comparison with the rest of developing and developed
countries does not enjoy the suitable situation during detected
period. The other major point is the relation with income
distribution. Although tax is considered as the main tool in
organizing income, the receipt combination of tax in Iran shows
that tax system has not performed properly relative to possession
and income distribution. Because first, the amount of tax
revenue from gross domestic production is not quantitative to
the extent that it can influence country’s income distribution
extensively. Second, the lack of certain direction-making in tax
collection could not improve the trend of income distribution
qualitatively. Lowering the share of tax revenues of gross
domestic product shows the lack of enough usage of financial
capacity in the economics of Iran during this studied period, and
this shows the inefficiency of tax system in the economy of Iran
which should be noticed in economic evolution schema6 by
country’s economic responsibilities seriously. Survey of tax
revenue of government in annual budget and its contribution to
public budget indicates that from 2000 to 2007, the total
contribution of taxes to total sources of public budget of
government was 28.6%. The contribution of taxes to the source
of general bill in2008 has also estimated about 34/2 percent that
after changes in incomes budget of items and increase in the
volume of public budget from 79 thousand billion Toman bill to
93 thousand Toman of congress approved, this contribution is
estimated about 23.2%. This relation of taxes to public budget
source shows the short share of taxes to income sources of
government and it means that government must provide its own
costs in annual budgets through the oil revenue, the sales of
companies of government and the sales of involvement
documents. Surveying the income structure of government
during 1971-2007 shows that tax revenues has had a
considerable share in total incomes of government. Because of
the special condition of mono product of the economy of
country, the income of government in years before revolution
and even after it was earned through oil sales to the extent that in
1387 budget about 52/2 percent of oil sources was considered. It
has been predicted that in budget law2006, the total tax revenues
of government was equal to 178306/3 billion Rials in which
53929/6 billion Rials were in direct taxes and 97691/3 billion
Rials were direct. [4]

So the tax revenues of government in 2006 show an
increase (32/5) to last year. The rate of tax revenue has been
equal 197948billion RIAL in 2007 that it has increased to 2006
by 30 percent.in 2008, with regard to the increase in tax revenue
about 239741/4 billion RIAL, the contribution of tax to the
current costs to tax revenues has increased.7

The increase of tax revenues has been the reflecting of
financial performance of government in various economical
sections. Government can lean on tax revenue as a stability
financial providing source when economical structure of
government is set out that oscillation of oil revenues don't have
more effect on variables of massive economic in national
economy. The effect of these fluctuations in tax revenues will be
considerable in national economic. The amount of the
government in the economics of Iran during recent decays has
fluctuated because of universal oil price, revolution war
restructuring after war and growth in pieces. Especially
dependant on the financial sources of the government to the
incomes of raw oil exports in this period has a direct effect on
creating of economic structure of the government and extension
of the quantity and amount of the authority of government in
national economy.[12]

Oil price fluctuation during recent year and increase on oil
price finally resulted in the interference of government, although
the performance of 44 principal of constitutional law for
decreasing of the activities of the government in economy has
been codified and communicated, that the performance per pose
of this policies can be summarized as follows:
- The efficiency generation in production and consumption
economic efficiency 8
- The establishment of competitive space in production and
minimizing monopolies of government
- Minimizing of measure and volume of the authority of
government
- Creation of internal economic connection with universal
economy
- Survey of rule with people in the field of their increased
involvement in economy

The relation between tax revenues and gross domestic
product is one of the major indicators of evaluation of efficiency
tax revenue system of the country. Statistics show that the
contribution of tax to Iran's gross domestic products in the last
years 30 has been limited to 4 to 8 percent of gross domestic
product. In developed and industrial countries that do not
depend on oil revenue and substance material sales, this is
between 30 to 35 percent of their gross domestic product, while
in Iran, this oil revenue has 35 percent share in gross domestic

11. gross domestic product
8. At program of aids transformation of supply country general
incomes, again is cited capital development, create finance
order devices of industry management as favorite finance order
aids is considered by economic politicize and by rules act,
discipline, and do the response of country financial affairs based
on quantitative responses of finance general polities forth
program act.

9.economic efficiency.

10. basic theories the forth program of country’s economic
development.
Increase financial to gross domestic product-8 percent in 2009-
increase oil revenues- use of currency stock account for
improvement (plans) models- beginning to decrease sell for
share papers decrease of budget values of non-oil values(financials)
product. In such countries, government budgetary standards dominate that between 80 to 90 percent of the income of government must be provided through taxes. Their emphasis on mini state and less intervention in economy caused the increase of people involvement and private sectors of providing public costs and with extension of tax base to over 90 percent, people and economy activators participate in paying the tax. As a result, budget deficit, depending on selling national assets like oil and mines, getting loans from central bank and sales of loan document have little share in providing the costs of government, and taxes play the most important role in providing costs of government. [22]

**Fig. 1. The research on the extent of the tax with government’s current expenses during ages 2008-1989 (Numbers to billion RIAL)**

The method of investigation and model introduction and collection of information

For analysis statistics data in this investigation, the effective agents on inflation in Iran in 2008-1989 by Liberman studies has investigated and in this direction for more knowing factors and quantitative results parameters, logarithmic model has been used. Collecting of statistics has been accomplished by Iran statistics center-program and management organization. Limits of dimly research in this article (essay) relates in (1989-2008) that in models assessment, is used from period information, in the assessment of econometric software pack (EVIERS) and method at least usual square is used.

**Question and fundamental theory of investigation**

4-1. does increasing oil revenues effect on (tax revenues) revenues in Iran economy?

Major and final research model by econometric model is:

\[ TGDPND = \beta_1 + \beta_2 TGD + \beta_3 TIRGD + u_i \]

TOIRGD is share of tax on oil revenues, TGD is share of tax revenues to the government general expense in country economy that is as independence varieties at econometric model and TGDPNd tax revenue share to gross domestic product (to current price) which is considered as dependant variety model.

Results of econometric model are shown bellow

\[ TGDPD = 3.81 + 0.103 TGD - 0.0028 TIRGD \]

(4.01)  (3.75)  (-1.89)

\[ R^2 = 0.60 \quad DW = 1.89 \]

(The numbers inside parentheses is t information).

Quantitative results of econometric model are shown that increase financial tax revenue to oil revenue in the economics of Iran during period of research had decreased effect on tax share by gross domestic product to current price. This matter shows that oil revenues were not effective during of the period research in increasing tax revenues. The received results show that with increasing oil revenues in the economics of Iran the tax revenues have decreased. By decrease in oil revenues government for providing finance sources changed its finance policies.

**Unit root test**

We know that varieties of macro economies, often containing a random trend or in expression unit root test (that the mentioned trend delete by one time or more equation) attendance, such trend makes incredible estimation and statistical inferences with tradition econometric methods and lead us to false regression estimate. On the other hand, for observance of reliability pre-condition varieties in using common econometric methods, when we utilize first difference equation or more time series varieties, we will face trouble to loss worth information in relation to varieties surface. Therefore, it is heard that collective method is utilized. The economic purpose of collective is when two or more time series Variety have relation with each other based on theoretical basis so as to form a long-run equilibrium relationship. However, it is possible that these time series consist of random trend (non static) but follow each other during the time which difference between them is stable. So the purpose of collective is calling along-run equilibrium relationship, which economic system more is moving toward to the direction of it during the time. [23] For this purpose, we use augmented dickey-fuller (of) test. Results of this test are shown at table no03.

The results of unit root test for three variety-tax revenues share to gross domestic production, current price and the share of the tax revenues to oil revenues and also the share of tax revenues to government expenditure in the economics of Iran are shown in table NO2 suggest that whole varieties used in econometric models are stable.

**Abstract-conclusion and suggestions**

During the 30 years ago and even before the victory of Islamic revolution of Iran-currency incomes from the export and sale of oil with creation of different political and economic shock in international market, victory of Islamic revolution, appearing Iraq imposed war against Iran and the Persian Gulf war named oil war attack to Iraq and nuclear problem of Iran and similar these always have composted main prevail part of the incomes of the country. The share of Oil revenues has increased in budget trend during this years and national economy always protected the dependant to source incomes from oil export. From country general budget sources, more than 70% is allotted to current expense and almost 30% are allotted to

12. ordinary least squares (OLS)

13. when variety is non stable (that is having unit root), that is opposite to random trend in long time. Stationary have certain (non random) and pre-certain fluctuate it’s around.
improvement credits that its average was 28.6% during recent three decades while always in reality this shares cause to current expenses essence and also non-true parts of for seen incomes in years budget laws in the interests of current costs and against to improvement credits have changed and adjusted. With consideration to oil revenues share in general budget in average almost  60% general incomes financing from oil revenues in three past decade. In first year of performing the forth program of economical development (2005), the share of oil revenues in country budget become 56.6% percent and this share increased to 62.2% in 2006 this matter was in consideration to budget growth in all country in recent ages. It can be expressed that budget in 2006 to 2008 severely has depended on oil dollars. government should seriously struggle considering importance of oil revenues and affect these incomes on increasing product and economical growth and look to relationship of national economy upon natural sources especially, oil in order to prevalence deficits of mono-product economy and prevent of importing oil shocking system and fluctuations and also protection of wealth and national sources insist on tend of sustained development, in the parallel of economical targets in forth program of economical development and insist on perspective to country 20 years structural revises and look to performing the economical change program in ninth government for providing finance sources of country budget and they take step by facilitating the other incomes and sources to clean the instability and budget deficit and its financing. The country economical power (authority) in the modern section use of store rate account on investment and increasing special part activity in the national economy is in the direction of increasing domestic product. Therefore, government and parliament by insisting on the authority of fiscal policy must study the negative effect of oil revenues in national economy and with look of the protection of future generation sources in the direction of dependence on oil revenues and in order to progress economical revises and performing exactly and successfully the economical transformation program, in the modern condition that decreases oil price at international level is created. Government should explain new sources, and also in order to lead oil revenues, it must severely attempt not to waste economic sources. Unfortunately, in our country, taxes have not provided the expense of the government, even the current spending during the period of revision in Iran’s economy. It is the considerable point that tax revenues of government after incomes from oil sales, relatively, have had a considerable share in government’s entire incomes, considering the economic potential in the country, government should have double struggle in the direction of economic target based on law of the forth program development and also perspective to country 20 years in the parallel of the

correction financial laws and in the execution and changing finance in economic trans formation plan by complying with proper economic policies. The government must make policies that are based on the aim at increasing the relation of taxes to current expenses. Finally, it is suggested that government, seriously, consider the problem of tax on sales for dwelling. This way it can increase its own incomes, and on the other side, eradicate the problem of rent in the dwelling and earth market. It is hoped by performing the value added tax, which was enacted in early October 2008, to delay execution seriously until government can earn more incomes sources from tax revenues. This way can lessen the connection to oil sources in the year’s budget, and on the other hand, it can supply expenses from tax sources. It can be expressed lowering the share under 20% direct taxes to general budget is sign on increasing oil share from government incomes, and for increasing the share of tax they predict that tax base must be increased and value added tax systems must be performed to prevent tax escapes. Also, growth in privet part and strengthening capitalization a production in private parts is the main condition for developing direct tax. Considering that world’s oil price became less than 40$, in declining months in 2008, government should decrease current expenses, as soon as possible, for 2009. Finally, it can be expressed that efficiency and activity of tax systems, as one of the main devices in economic management, more than anything is dependent on executing proper programs and cultural efficiency and effective utilization of culture-making position of tax. [11] So the government, by creating tax culture, can perform income policies in economy easily.

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Table 1. Investigation the varieties of the economics of Iran during research era 1989-2008
(Numbers to billion RIAL)

<table>
<thead>
<tr>
<th>Year</th>
<th>Developmental Expenses (G2)</th>
<th>The Government current expenses (G1)</th>
<th>National Production (GDPr)</th>
<th>revenue s OIL (OIRG)</th>
<th>revenues Tax (T)</th>
<th>GDPN</th>
<th>The current national production</th>
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<tr>
<td>1989</td>
<td>931.0000</td>
<td>3385.000</td>
<td>191503.0</td>
<td>770.8000</td>
<td>1187.000</td>
<td>33650.16</td>
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<td>1990</td>
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<td>4284.000</td>
<td>218539.0</td>
<td>1118.700</td>
<td>1695.000</td>
<td>40605.54</td>
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<td>5584.000</td>
<td>245036.0</td>
<td>1038.700</td>
<td>2765.000</td>
<td>54957.81</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>3192.000</td>
<td>7783.000</td>
<td>254823.0</td>
<td>5141.300</td>
<td>3373.000</td>
<td>71077.77</td>
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<tr>
<td>1993</td>
<td>7252.000</td>
<td>13655.000</td>
<td>258601.0</td>
<td>14683.20</td>
<td>4061.000</td>
<td>88583.58</td>
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<td>1994</td>
<td>9583.000</td>
<td>20010.000</td>
<td>259876.0</td>
<td>21480.10</td>
<td>5491.000</td>
<td>120367.7</td>
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<td>13172.000</td>
<td>28789.000</td>
<td>267534.0</td>
<td>29431.00</td>
<td>7313.000</td>
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<td>37804.000</td>
<td>283807.0</td>
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<td>415787.000</td>
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<td>41060.00</td>
<td>151492.00</td>
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<td>2007</td>
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<td>421334.1000</td>
<td>690138.0</td>
<td>574848.40</td>
<td>191815.00</td>
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Figure 2. Investigation expenses and revenues and national production and extent government

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Table 3. Study augmented Engel-granger (EG) test for collective discretion (stable and non stable)

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