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THE ROLE OF FISCAL POLICY IN INCREASING LABOR ABSORPTIVE
CAPACITY FOR THE PALESTINIAN ECONOMY

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PHD THESIS

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Tezin Adı Filistin Ekonomisinde İstihdam Hacminin Artırılmasında
Maliye Politikasının Etkinliği.

ÖZET

Bu çalışma: Filistin yönetimi tarafından uyguladığı maliye politikasının istihdam hacminin artırılmasındaki etkinliğini ortaya kaymayi onaclnaktadır . Bu çalışma, Filistin istihdam hacmini belirlemek için (1968-2014) yılları arasında oldu. Bu süreyi (1968-1987),(1988-1995),(1996-2001) ve (2002-2014) dört döneme bolundu.

Calisma,istihdam hacminin düşük olduğunu gösterdi.yukarida belirtilen dönemlerdeki istihdam hacmi sırasıyla %20.7 ,%75.7 ,%58.7 ve %71 oldu.Bunun nedeni ise iş günü arzinin büyüme hizinin talep artışından daha fazla olduğundan dolayı oldu.Sonra,Filistin Kamu harcama politikasının istihdam hacminin üzerindeki rolunun analizi yap.

Idi.Bunu ,Filistin Kamu harcama politikasının eğilimi ve hedeflerini incleyerek hedefe ne kadar uygun olduğunun calismasi yapıldı.Çalışma, Filistin Yönetiminin kamu harcamaları politikasi,istihdam hacminin artırılması için uygun olduğunu ve yatırım önündeki birçok engel kaldırdığını gösterdi.

Kamu Sektörün muazzam istihdam sayisini ekleyerek,bu çalışma kamu sektörü,Filistin ekonomisinde artan işçi sayısının yüzde yirmibesini(%25)istihdam ettiğini gösterdi.Buna rağmen,çalışma, Filistin Yönetiminin,kamu harcama politikasının etkisi , gecici anlaşmalar ve işgalcinin uyguladığı kisitlamalardan dolayı,kisitli kaldı.



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Tezin İngilizce Adı	The Role of Fiscal Policy in Increasing Labor Absorptive Capacity for the Palestinin Economy		

SUMMARY

The aim of this study was to raise the level of the fiscal policy carried by the Palestinian Authority to increase the absorptive capacity of the Palestinian economy. The study began by identifying the capacity of the Palestinian economy during the period 1968-2014. The study explained that the absorptive capacity had decreased during the four periods mentioned above respectively 20.7%,75,7%,58,7,71% and that was because an increase in the labor force at a faster pace than the demand on it, which has caused a gap between the labor force and the labor force, with an average of 71.3 thousand, or 24.3%. The role of productive sectors in the absorptive capacity of labor was also studied. questionnaire was distributed to the major companies in Palestine to determine the role of the tax policy taken by the Authority during the period 1994-2014 to determine the role of these policies in increasing the absorptive capacity, which showed the low role of these policies

After that The role of the public expenditure policy in increasing the absorptive capacity was analyzed by examining the objectives and orientations of the Palestinian Authority's public expenditure policy and its ability to achieve the goal of increasing the absorptive capacity of the Palestinian economy.

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SYMBOLS AND ABBREVIATIONS

IMF :International Monetary Fund

GATT :General Agreement for Trade and Tariffs

GDP: Gross Domestic Product.

WTO : World Trade Organization

OECD: Organization for Economic,Cooperation and Development

FDI: Foreign Direct Investment.

VAT: Value Added Tax.

INTRODUCTION AND METHODOLOGY

Economic policy covers a group of policies where each of which works on quantities of significant quantum, such as fisical policy, fiscal policy, credit policy, exchange rates policy and commercial policy as well. Fisical policy takes most importance than other policies because it can cover to achieve basic objectives of national economy in the context of its many tools which is considered the most important instrument for economic development and overcome problems that affect negatively economic stability. In addition to distribution and specialization issues of fisical policy tools, there are stability effects of government spending and taxation to improve economic ability to absorb more jobs and reduction of unemployment.

The Palestinian economy is characterized as small distorted structure due to Israelis occupation since 1967 which is destroying the infrastructure and productivity bases of Palestinian economy, by adopting unfair destructive policies like imposing high unjustified taxes and hindering production licensing rules. Consequently, the Palestinian economy rendered unable to reduce unemployment rules as a result of which large number of labor force switched to Israeli job markets and Arab regions. Hence, the Palestinian economy is forced to depend on Israeli labor market which is an unfair market especially caused by military closures, aggravated by gulf war consequences where thousands of labors were laid off locally and in Arab states. This further aggravated unemployment crisis in Palestine with the starting of Intifada by September 2000 when Israeli labor market closed. In addition, occupation distribution effects of closures and ban of raw material imports affected investment opportunities and led to capital investment departure out of Palestine , which aggravated poverty and unemployment rates to an alarming level of 30%(poverty rates 60%) as declared by Palestinian central statistics board. This raises a basic necessity issue of absorbing local labor.

The entry of Palestinian national authority resulting from Oslo accords imposed great challenges to rebuild local economy through appropriate economic policies, especially fiscal policy to boost productivity in private and public sectors and unemployment issues as well.

Objectives of the Study

This study addresses the issues of labor force volume and absorption abilities of unemployment. Further, to identify the causes and methods of improvement by adopting fiscal policy theories and tools. This study also attempts to identify the appropriate authority financial policies and how far it can revive economic sectors and reduction of unemployment. Accordingly, this study attempts to answer the following questions :

- 1 – What is the structure and objectives of fiscal policy?
- 2 – What are the developmental stages of fiscal policy?
- 3 – What is the relationship that links fiscal policy to other policies?
- 4 – Investment encouragement laws of the Palestinian authority and expansion production base, which provides more job opportunities and the methods and means to achieve such objectives by using the fiscal policy tools.
- 5 – Did the fiscal policy pave the way for private sector to contribute more and more for local productivity and unemployment reduction?
- 6 – Does the adopted fiscal policy of the authority improves investment issues and increase local productivity?

Importance and Magnitude of the Study

The fiscal policy is the most important tool for governments to manage national economy in developing and developed nations to achieve its economic objectives. This study focuses on labor and employment problems which is the most important source of income and economic resources. What are the critical problems and how to solve them through appropriate fiscal policy methods.

Study Hypothesis

The researcher is using the basic assumption of the limitations in Palestinian economy in its limited labor absorption and productivity as a direct outcome of

limited local investments due to effects of long occupation burdens, taxation and systematic destruction of infrastructures which affected investments physical and non-physical environment negatively and consequently diminishing productivity. The researcher assumes the possibilities of increasing economic absorption abilities via boosting local and foreign investments by using fiscal policy tools and methods. For instance, the taxation incentives for private sector, more government spending on infrastructures and the appropriate legal frameworks for private sector which encourage its investments, boosts economic development and reduces unemployment.

Study Framework

Economic issues differ among nations according to its own economic systems and policies. Hence, the applied study focuses on Palestine. The study framework covers the period from 1968 - 2014.

Study Methodology

The researcher uses the descriptive and quantitative approaches for study analysis, the central statistics board, information and other relative studies. Further, review of Palestine taxation system and analysis of government spending from general budgets and accordingly, the researcher adopts the inductive method from all available published sources of financial policies in addition to analytical descriptive methods of government's ministry of finance and statistics board.

Previous Related Studies

Many institutions made studies on Palestinian economy abilities to absorb and reduce unemployment rates, such as the following studies:

1 – Palestinian economic policies institute, (analysis of Palestinian labor supply and demand) DrBasimMakhoul, 2000.

This study addressed demand gap phenomenon in local market and main reasons of its volume and characteristics. Moreover, the study focused on problem

volume definition and its reasons. It did not address solving the problem by using macroeconomic policies.

2 – Palestinian economic policies research institute study on absorption problem limitations by Dr.Basim Makhoul, 2001.

This study addressed absorption abilities of Palestinian economy and involved factors that affect such ability and analysis of production structuring role , productivity, capital density and wages which casts its effects on absorption ability, while this study did not focus on economic policies role.

3 – Palestinian economic policies research institute, (employment opportunities in West Bank and Gaza by Samia Al-Butmeh, 1996).

This study addressed labor problem in contingent employment programmes in contrast with similar projects in private sector and the cost of creating job opportunities with the private sector, although indirectly. But it did not address labor absorption ability in the longrun through integrated programs and economic policy tools.

4 – Labor studies centre, Ramallah , (Palestinian economy employment potential, obstacles and development opportunity. Majid Sbaih, 1992.

This study addressed Palestinian economic abilities factors focusing on Israeli tactics to weaken Palestine economy's employment abilities without any reference to the public sector and macroeconomic policies.

5 – Labor development centre, (Arab labor status in Israeli economy and change potentials.

This study addressed economic dependence on Israeli economy, the nature of labor in Israel and its effects and scopes of freedom possibilities of such dependency. This study came before the active presence of Palestinian authority.

6 – International labor bureau, (midterm employment strategy in Palestine, 2000-2004). Abdul-fattah abu shukur, 1999.

This study attempted to make a framework plan to identify midterm employment policies strategy. Trials of investment volumes were required for defined employment level and its costs covering the period from 2000 to 2004, and taking into account expected labor force growth and the role of macroeconomics and private sector to achieve such an aim.

7 - In a study of Abdul-fattah abu shukr (1997), the demand on Palestinian labor in Israel and Palestinian occupied territories.

This study attempted to focus on Palestinian labor in Israel by using published related Israeli statistics and reports. The researcher believes that skillful labor immigration to the gulf region states and Jordan led to the neglect of Palestinian economic development, in addition to occupation effects which further led to raise unemployment levels and worsening economy problems with increasing population.

8 – Al-Halafi(1996) “ Youth unemployment in the Arab world, study on political economics”

This study attempted to identify youth-unemployment status in political in political economics viewpoint and unemployment issue as a reality more than a phenomenon. The study assumed that unemployment factors is due to unsupported privatization operations in an organized structured framework, an academic education increase in number, the absence of integration among educational curricula, job market needs, the returnees from abroad, villager immigrants to cities due to agricultural deterioration and the rise of unemployed youth population locally and in the Arab world.

9 – Khalifa, 1997(demand on Palestinian labor in Israel and occupied Palestine).

This study attempted to analyze factors affecting such demand on labor to identify relevant factors and reduce its impacts and identify demand indicators by

measuring elasticity of replacements between capital and labor. This study attempt used Israeli published statistics(1967-1994) and used quantitative analysis, where the researcher thinks that demand on labor depends also on local gross domestic production(GDP) , real wages(WR), capital price(PC) and previous levels of labor demand(LD $t-1$). This led to the equation($\ln LD_{t-1} = c + b_1 \ln LD_{t-1} + b_2 \ln GDP + b_3 \ln Y$).

10- Antonio Fatás and Ilian Mihov(1998): The Effects of Fiscal Policy on Consumption and Employment: Theory and Evidence

The writers compares the dynamic impact of fiscal policy on macroeconomic variables implied by a large class of general equilibrium models with the empirical results from an identified vector auto regression. In the data they find that positive innovations in government spending are followed by strong and persistent increases in consumption and employment. The writers compare these findings to several variations of a standard real business cycle model and they find that the positive conditional correlation in the responses of employment and consumption cannot be matched by the model under plausible assumptions for the values of the calibration parameters.

CHAPTER ONE

CONCEPTUAL FRAMEWORK OF FISCAL POLICY AND THEORETICAL BACKGROUND OF LABOR ABSORPTIVE CAPACITY

There are two essential sources for all types of economic resources: nature and human. Nature is the source of natural resources while that man is the source of human resources. Human resources which include all people who could be admitted within the circle of economical exploitation, man in this concept is an economic resource and one of the elements of production for his effort mental, physical to exploit natural resources. (Youns, 1985,18).

The growth of human resources represent a growth of one of the most important elements of production, a component of the work which is considered as one of the most important elements that contribute to the economic development process, so we must work to not keep this element disabled, and must work to exploit and give preliminary to achieve this goal by raising the capacity to work in economy and continuously.

Absorptive capacity is known as the rate of employment growth (Makhoul, 2001,13); which means it is the ability of any economy to absorb the growth in the labor force (cogent). The absorptive capacity depends on the size and the nature of the economic activity; as the demand for labor is derived from the demand for goods and services which is produced by institutions and since the demand for labor is achieved by investment resulting in economic growth. Government can influence the absorptive capacity of the economy in many of its economic policies by influencing the investment environment surrounding producers. Which in turn affects their earnings and their production cost. Fiscal policy is one of the most prominent of these policies.

1.1. Definition and Components of Economic Policy

A set of procedures which is adopted by the state to facilitate the process of achieving the economical goals, and to make sure to fulfill them. If those goals represents priorities to be achieved then the economic policy is one of the important tools which its use and apply will achieve those goals according to the approved priorities with the best conditions, which will be under optimum utilization of available resources or the expected to be available (Jan,2004,19).

It's also known as all about making decisions to choose between different methods which is owned by the society to achieve particular economical and social goals; and to search for the best ways which lead to achieve those goals. Some people know it as a set of the governmental procedures that define the parameters of the economic environment which within they operate other economic units. Economic Policies are set of economical tools and goals and its interrelationships. State is responsible to set and apply those politics. (Badoi,1985,22)

The previous definition clarify that the Economic Policies are represented in the establishment of steps and procedures designed by the state to achieve specific economic and social goals. Therefore, this Economic Policies which the state uses must be capable to reach the maximum efficiency from the use of the available resources in order to achieve the most of goals/aims in other words, to use less volume of resources to achieve the greatest number of goals.

The Management of the Economic Policies

Leadership of economic policy is based on the constant search of ways to give the feasibility and effectiveness on the performance of the national economy; in order to respond to the aspirations and national trends plotted within the schemes and strategies for economic development and community. This approach relies on the following basic principles: (Samuelsom,2001,p 195)

The fusion of economic policy within development schemes which control strategies, programs and development projects in the medium term based on prospective studies and sectional and active participation of various parties and

economic operators, also to attach a great importance to payment approaches in the track of development.

Gradient in the implementation of conventions and structural development of the economic and fiscal policies in the line with numbers pre-production sectors and rehabilitated in accordance with the requirements of each stage.

Focus on gender dimension of economic policy, especially to support the competitiveness of the national economy and raise business surroundings in order to keep up with the demands of globalization in addition to the growing role of knowledge and modern technology in a dynamic global economy.

Flexibilization the economic action to ensure the economic variables adapted to the envelope as fast as desired according to pattern proactively provides accurate and appropriate treatment of the developments and situational as well as enhances the performance of the interveners economists.

Whenever economic policy, efficient and effective possible to achieve high growth rates but this goal depends on two things.

First: achieve financial of balance of the state where the coordination is between public revenue and public expenditure. The second thing is represented in the increase in volume of domestic saving to increase the volume of investments. It also seeks to expand economic policy in order to achieve a surplus production which will be used to export; here the economic policy must seek to adapt requirements of economic structures and expand it towards certain. In order to achieve self-sufficiency and toward export industries and thus work to reduce the unemployment rate, In this area it's prefer to use fiscal policy tools to achieve this goal, either through a discrimination policy and tax exemptions and so as to encourage field for another field, such as increased public spending and subsidies and production support.

1.2 Components of Economic Policy

Fiscal Policy and Monetary Policy

- a) *Fiscal policy*: Governments can affect several important effects on the national economy through fiscal policy which is approved. The most important tools of fiscal policy is: automatic changes in tax proceeds, changes in the level of savings, dividend policy in the corporate, government subsidies, unemployment compensation.
- b) *Monetary policy*: governments can affect the national economy by using the most important tool of monetary policies which are discount rate, interest rate, statutory reserve. (Valley, 2007, p 147)

The monetary and fiscal policies is considered as the fundamental support of the economy aimed to address any defect that may arise on the economy, which is trying to reach all economies and monetary policy is in the management of the money supply , while fiscal policy represents a demand management approach and both complement each other consistent with economic goals. There is a reciprocal relationship between these two policies as both affect and are affected by the other. Therefore, the proper study of the effects of each of them should take place within the coffins of effects of other polices in addition to that the objectives of both the monetary policy and fiscal policy interfere in many ways; both are tools for economic stability, stimulate the development, achieve appropriate rates of economic growth, increase investment and reduce unemployment (Abdel Hameed, 2005, p67)

In terms of the effect of both the monetary policy and fiscal policy on economy, we find many points of view; Monetarists believe that monetary policy is more effective in steering the economy from fiscal policy, either in the short or long term so we see them marginalized fiscal policy; according to their belief that money supply growth in a calculated rates and under necessary conditions and sufficient for the growth of income while the Keynesians magnify the role of fiscal policy in influencing economic activity, and it isn't less than the monetary policy in that. No matter what the difference in the points of view of the economic, the coordination between fiscal and monetary policy is necessary. This is because each of them has its influences on economic activity and both aim to achieve the economic stability of

output, prices, employment and balance of payments. But it must be noted that the intention here is not necessarily to have coordination in both fiscal and monetary policy twin in expansion and contraction, public policy may include an expansionary fiscal policy and contractionary monetary policy or vice versa.

1.2.1. Economic Policy Objectives

Economic policy includes the methods which are used by the individuals and groups of people in order to achieve economic objectives, particularly the problems faced by macroeconomic such as Interpretation levels of production and employment, prices, growth rates in the national economy. (Meyer, 2002, p 23)

One of the economic policy objectives is to Support certain economic stage of the stages which the national economy passes by. It is the method which is used by economic policy to achieve this goal reliance on tools of fiscal policy depending on the nature and circumstances of each stage; there is also another goal of economic policy which is a reduction of unemployment and also to take advantage of idle capacities and finally to increase production and raise the rate of growth. The economic policy seeks to achieve a kind of stability in the price level which is an essential requirement; because, high prices have bad effects on income distribution, foreign trade and employment.

1.2.2. The Importance of the Economic Policy for National Economy.

The importance of the economic policy is that it addresses the problems of society, such as, unemployment and inflation. As for the Causes of unemployment in developing countries, some of the economic policies associated with the development process leading to high rates of unemployment. On the other hand, Inflation is a high cost of living, the fact that the value of things more than their fair value, as well as increased cash on the goods. (Yousry, .2004, p 222)

Add to the reasons for inflation, incidents of drought and famine years, whether due to lack of rain or the occurrence of natural disasters such as floods, earthquakes and storms, which causes a shortage of crops and thus to increase and to increase the prices. The propagation of employees in the public sector, increasing

staff in the State lead to two things first: Increase the state expenses, the second: to attract large numbers of production fields to the field of employment, and in both images decreasing materials and rising prices. As well as the extravagance of the state in unnecessary consumption widgets lead to higher inflation. The percentage of the economic and monetary inflation appears on the results of the requirements of human growth and its expansion in general. (Reynolds, 1997, P423)

That inflation, high prices and lack of resources had alienated people from the government and eventually caused its downfall. Therefore, comprehensive and accurate programming is important to ensure the safety and development of the economy. In addition to that, the government should allow the composition of economic institutions and committees of people who experienced every kind of economy such as Agricultural, industrial, commercial exterior and interior, and banking and so forth; so that they are vital laws conform to the requirements of modernity. Inflation in the device of employees in the state is worse than inflation in the economy; it may even be one of its causes because inflation in the device makes the job producers consumers And lead to the control of the bureaucracy that inhibit the freedoms of people and then moving the country towards poverty and destitution and prevents people from freedom and production work (Reynolds, 1997.P218).

Regards to the impact of fiscal policy on employment which is the title of this research; it will be discussed in the third chapter.

1.3. Fiscal Policy

1.3.1. The Concept of Fiscal Policy and its Evolution

The term fiscal policy is derived primarily from the French word "Fisc" means the portfolio and cash or Treasury (Tariq, 1999,17). Fiscal policy was intended in its original meaning both the public finances and the state budget the use of this term has promoted widely academically by published a book, "Fiscal policy and business cycles," Professor Alain. H. HANSEN. The concept of fiscal policy Reflects objectives and aspirations of the community in which it operates, it has targeted the ancient society to satisfy the needs of public resources and funding from

the general budget and then economists focused their energies on the principles of the general budget and ensure the balance. But because the public needs to choose the desired fulfill requires officials to make decisions, sometimes may occur conflicting effects raises the problem of how to reconcile these conflicting goals and achieve their effectiveness in a desirable manner, and in the light of those combinations and balances consists basis and the concept of fiscal policy

Financial Thought abounding different definitions for the concept of fiscal policy here is some of them

An analytical study of the financial activity of the public sector, and what will follow this activity from the effects of the various sectors of the national economy. It includes quantified adapt of the size of public spending and public revenue, as well as qualitative aspects of this spending and the sources of these revenues, in order to bring certain effects in the economy and to avoid the effects of the other, (Youns,1985,23).

On the other hand, some people define it as Set of policies relating to public revenue. Public expenditure in order to achieve specific goals (Hussain, 1988, P 431)

It's also known as a set of goals and Directions and actions and activities adopted by the State to influence the national economy and society in order to maintain the stability and development of the public and address their problems and face all the changing circumstances.

Moreover, it's that part of the governmental policy which related to achieving the stat revenue by taxes and other methods that by deciding the level and the pattern of spending these revenues.

Through the above definitions, we can say that they all agree that the fiscal policy is a tool to influence the state in revenue activity in order to achieve the goals of economic, social and political, which seeks to be achieved; in other words fiscal policy is a method or a program of financial work which is followed by state through the use of revenue and public expenditure, as well as public loans to achieve certain

goals in the forefront is the Advancement of the national economy, accelerate development, promote economic stability, achieve social justice and giving equal opportunity for the public citizens and reducing the disparity between individuals in the revenues distribution and wealth.

From the above it can be said that the fiscal policy is a policy by which the government used programs of public expenditures and revenues and which are arranged in the general budget for a desirable effects and avoid undesirable effects on revenue, production and employment of any development and the stability of the national economy and address its problems and face all the changing circumstances.

Fiscal policy aims to achieve full employment of manpower, maintaining price stability and the elimination of inflation, improve economic growth and encourage investment, plus the reduction of non-productive investment, improve the investment but reducing non-productive investment, improve the individual revenue and re-distribution of revenue and wealth. Fiscal policy objectives vary depending on the economic and social philosophy espoused by the state, and the government can affect the path of the overall economy by changing the size of spending and revenue. In periods of recession, the economy suffers from recession and unemployment ; the government tracking expansionary fiscal policy by increasing public spending or tax cuts, or both in order to create a deficit in the budget. While in the inflation period, the government tracking contractionary fiscal policy by reducing the governmental spending or raise taxes or both in order to reduce the overall consumer spending and investment to create a surplus in the budget. State budget has taken functionally character and become no longer aiming to find a balance between both sides of spending and revenue, but achieving economic balance become its aims. In order to achieve this, the government has used tools and methods to adapt their positions (Odhah and Atallah, 1990, p 21)

Its importance comes from the importance of the tools which is used in the redistribution of national revenue, the allocation of the available economic resources and alleviation of internal and external imbalances of the national economy. The fiscal policy also became one of the determinates of the economic balance through its

impact on the overall economic structure by directing investments towards the desired fields and boost economic development (Alwadi, 2007, p126)

1.3.2. The Evolution of Fiscal Policy

We have witnessed a great development of financial science in concept and its objectives and its means following to the developments that came to communities and the evolution of the role of the state from the state which gardens to internal state. This evolution does not have limited impact on science only financial, but it has reflected on the concept of the financial system which took it from the neutral fiscal policy to politics intervening. Where fiscal policy is considered as a mirror of the state's role in all ages; when state absents as the organization authority of society, the role of fiscal policy become weak. When the state authority appeared as organization, its role has been limited under the influence of ideologies prevailing at the time was the role of fiscal policy is also limited.

It has remained so until the multiple economic and social changes have taken place around the role of the state and about the necessity of intervention in all areas of life. From here this influential role of fiscal policy in economic, political and social life appeared, and that the role of fiscal policy varies from state to state depending on the different nature of the economic and the social and political system in each State.

1.3.2.1. Fiscal Policy in the Traditional Thought (Guardian State)

A fisical policy built in the traditional thinking on a range of foundations which the pioneers of this thought David Ricardo, and John Stuart Mill, Alfred Marshall drew of the famous principles which includes investment equivalent and savings by the changes in the interest rate and at full operation. The famous Sai Law "every show creates a demand for it, which means that every increase in production creates an increase in revenue and thus increase in demand; the principle of the rule of economic freedom, and that the community's interest is the total interest of its members and between those foundations as follows. (Kafrawi,1997. P 152)

First base: individual motivation is the basis of fiscal policy; it achieves the public interest and the state role limited to security and order.

Second base: state neutrality and non-interference in economic life, and the sufficiency of providing security and justice and public utilities or as they were called “guard state.” That government activity does not affect the activity of the private sector, if their economic decisions were affected as a result of governmental spending or as a result of the collection of state public revenues, then this is considered as interference from the government, and this is the sovereignty of the financial and fiscal policy point of view is wrong, as Sai expressed this idea that the best ones are the least expense.

Third base: Arithmetic balance of the general state budget, where equally overhead and public revenues as the traditionalist thought that the budget balance can ensures the achievement fiscal neutrality of the state.

And from that, according to the principles and foundations of the traditional school that came in, tools and means of conventional fiscal policy as follows:

- 1) Public spending includes only spending on essential services to the state because the state in their opinion, bad and lavish manager.
- 2) Impose taxes to finance public spending, provided that has the least impact on the production and credit and consumption and distribution.
- 3) Loans are extraordinary method which the state in the narrow limited resort and assisted in its repayment by paid taxes proceeds, it's like these loans are choice to the future tax rather than the present one.
- 4) As for inflationary financing the state did not use at this stage of development.

Traditional fiscal policy has failed to address the sharp economic fluctuations which has resulted by the First World War, and clearly shows that adherence to this fiscal policy does not achieve the wanted economic goals. But it damages the economies of countries, for example, in times of economic boom cash revenue

increase, taxes proceed raises. And thus state revenues increasing, which prompts them to achieve the principle of balanced budget to increase public spending.

This is what increased exacerbates inflation and cash income, and make it rises again so government increase tax revenues back from spending to balance its budget. So inflation increases from this side and from the other side it gets the State out of the principle of fiscal neutrality. In the case of stagnation and recession, where less tax revenues and thus reduce state revenues and reduce spending and balance the budget.

Then it's in both cases worsen economic crises; As well as on the principle of neutrality in financial activity, even if the narrow borders which is represented in defense expenditures has proved it's wrong because it is proven that these expenditures has the economic effects on the changing structures of national production, and thus influence the strata of society and aspects of economic activity as a whole.

Traditionalists Economists have directed a fine aspect of their interests to study Public finance subject, influenced by the philosophy of economic freedom, which limit state intervention in economic life, and which that its role should be limited to the defense and to maintain security and justice first and foremost; it is as Adam Smith explained it, a night guard man. (George, 1997, 81)

Traditional financial theory has been a logical result reflects the philosophy of traditional economic school which is based on the law of Sai markets. And the meaning of the invisible hand of Adam Smith and the environment in which all elements of economic freedom and full competition prevails. Act Sai markets, which are usually formulated in the famous phrase "supply creates demand equal it" (Kandil, 1979.90). The essence of Sai law is the belief that the free economic system devoid of subjective factors which always guarantee That level of national income which Has the use of every production capacity, meaning that capitalist systems is moving automatically to a stable balance at fully operational resources to productive community level, and the phrase Sai Act confirms a direct causal relationship

between production and spending is explained by. Any increase in production (supply) It will create an equivalent increase in cash income, and when money was according to them nothing but a Broker Exchange, And therefore there is no justification to Individuals are keep it. Any increase in incomes in cash will be transformed into an equivalent increase in spending on goods and services, and hence every increase in production will automatically create an equivalent increase in spending for the purchase of this new production (Draz, 2008,page 40)

And in order to increase production levels and income and employment that requires increased production somewhat, the demand exists in the market and then create a new offer generated by the increased production demand and thus traditional confirms that if you leave the private sector freely in an environment where all the guarantees of economic freedom , it will seek to produce its needs and desires and to maximize the wealth and achieve its favor, and thus continue in production, and does not stop only at full employment level, where it becomes in this case all the available economic resources employee full main employers (Fawzi,40)

1.3.2.2. Fiscal Policy in Modern Thought Intervening State

When the economies of the world were mired in the deep and prolonged recession of the 1930s known as the Great Depression, British economist John Maynard Keynes, later Lord Keynes, declared that governments should increase spending and cut taxes to boost their economies. This was considered heretical since the prevailing view at that time was that a market economy would recover on its own, automatically, without government action. Keynes, in contrast, argued that an economy could languish indefinitely with high unemployment if aggregate demand is inadequate (Nelson,2006,2).

Keynes contended that monetary policy was powerless to boost the economy out of a depression because it depended on reducing interest rates, and in a depression interest rates were already close to zero. Increased government spending, on the other hand, would not only boost demand directly but would also set off a chain reaction of increased demand from workers and suppliers whose incomes had

been increased by the government's expenditure. Similarly, a tax cut would put more disposable income in the wallets of consumers, and that too would boost demand (Nelson,2006,3).. Keynes contended, then, that the appropriate fiscal policy during periods of high unemployment was to run a budget deficit. These ideas flew in the face of the conventional wisdom that budget deficits were always bad.

The governments of Britain and the U.S. did not embrace the policies advocated by Keynes and instead continued to try to balance their budgets until the outbreak of World War II. His ideas had an enormous impact, however, on the field of macroeconomics after the war and, to some extent, on actual fiscal policy. Keynesian fiscal policy, the management of government spending and taxation with the objective of maintaining full employment, became the centerpiece of macroeconomics both in academic research and in the public debate over national policy. The Employment Act of 1946 committed the federal government in the U.S. to use fiscal policy "to promote maximum employment, production, and purchasing power." Indeed, a course in macroeconomics until quite recently was typically devoted almost entirely to the ideas of Keynes(Nelson,2006,2)..

The global economic crisis in 1929 is considered as the boundary, which has proved the inefficiency of fiscal policy, which was followed by classical thought. And so modern thought appeared that was the most prominent patrons of the famous economist Keynes, who attacked in his book "The General Theory", "Say's law of markets"; because of the ignorance for the role of demand in determining the volume of production and income and the level of employment, and demonstrated the possibility of an economic balance at any level of operation. Also clarified the contradiction between the interests of the individual and the interests of society, as well as that the interests of society is not equated with the algebraic sum of the interests of members of the community; It also showed that the state is not less productive than private sector. As a result of this development which the human thought knew and What came along with it of the economic, political and social events, new ideas began to appear and spread like the spread of the democratic spirit, and further demand the state for services which means the increase of public

expenditures, as well as the emergence of the power of trade unions ... etc.. As a result of this development and what came with it of events which accompanied the expansion of the state activity events and its intervention in the economic activities became acceptable; it also became obligated to do economic and social services in addition to its basic functions. We clarify the most important features from the general financial point of view as follows:

1. Criticism the country's financial neutrality, state intervention in economic activity became required and necessary to achieve stability and to ensure the continuity of development.
2. Modern thought rejected the idea of balancing the state budget arithmetic, and methods of deficit financing or surplus were used according to the economic activity demand.

As the previous points show that the fiscal policy has contributed to the handling with the great depression and inflation which happened after the world wars. This policy succeeded when it was applied in economies of the developed countries.

Fiscal policy in capitalist countries (Economically Developed)

The goal of fiscal policy, in the capitalist countries, is represented in pursuit of economic stability and full employment where the private sector is primarily the function of production. So if a recession happens, for example, in the developed capitalist economy fiscal policy, is used to increase the level of demand and rise total spending to become even with the value of production (aggregate supply of goods and services); Which is achieved at the level of full employment of factors of production. Portal can raise the level of demand by fiscal policy is more than one way, perhaps the most important are the following: (Hashish, 1996. P 50)

1. Increasing government purchases of goods and services which means increased public spending.

2. Take the necessary steps to raise the level of private spending and encourage increased subsidies and payments manufacturing (Kalmnh and subsidies), and tax cuts.
3. Increased public and private spending together which means to increase government purchases of goods and services, and increase transfer payments or tax cuts.

Furthermore, increasing in demand sought by the capitalist economy in a recession to increase in the employment and in the production which leading to supply increased and thus the national economy is approaching slowly to the state of full employment.

In the opposite situation, any over significant increase in aggregate demand is not matched by a similar increase in real income; this would lead to a state of inflation in the community then the fiscal policy uses its methods to reduce the level of demand and the overall level of spending until it becomes even with the value of production.

The previous clarify that the role of fiscal policy in capitalist societies is important and effective role in many cases to achieve economic stability in the level of operating income, However, the mission is limited to budget and support private investment, fill any gap was a deflationary or inflationary may arise at the level of income as a result of the lack of size of privet investment, or the increase in total spending from adequate.

1.3.2.3. Fiscal Policy in Societies:

There is no doubt that fiscal policy, in socialist societies, differs from those of fiscal policy followed in capitalist societies due to the different bases targeted for production and distribution in each. The socialist societies take public ownership of the means of production basis for its economy and from national comprehensive planning approach to management. And the plans assume responsibility for alignment between physical resources and human resources and routed between the

various activities to achieve balanced growth. For this reason, we find that fiscal policy has two basic functions: distribution (the national income) and the control and supervision of the productive projects. According to the distribution function, it is the distribution of national income by fiscal policy between various branches of the national economy; degrees of redistribution are different from a socialist state to another, depending on the degree of growth, But it's mainly there in three directions, whether between community groups, and especially in the beginning stage of a socialist transformation to confirm the development of the public sector, or by channeled it between the national economy branches, especially focusing on the industry and particular heavy industry. It also takes into account the re-allocation of resources to achieve the development of underdeveloped areas and raise rates. Besides the distribution function, financial socialism does another function which isn't less important than this function which is the financial control and supervision of. This function is achieved in three basic trends (Hashish, 1996. P 50): The first is financial control within the same productive projects, and financial control between the various projects, while the second is in the state budget through the processes related to prepared and implemented in order to their role in achieving control over the economic units which is operated. Whereas the third: the use of credit and settlement system accepted accounting principles in the socialist economy.

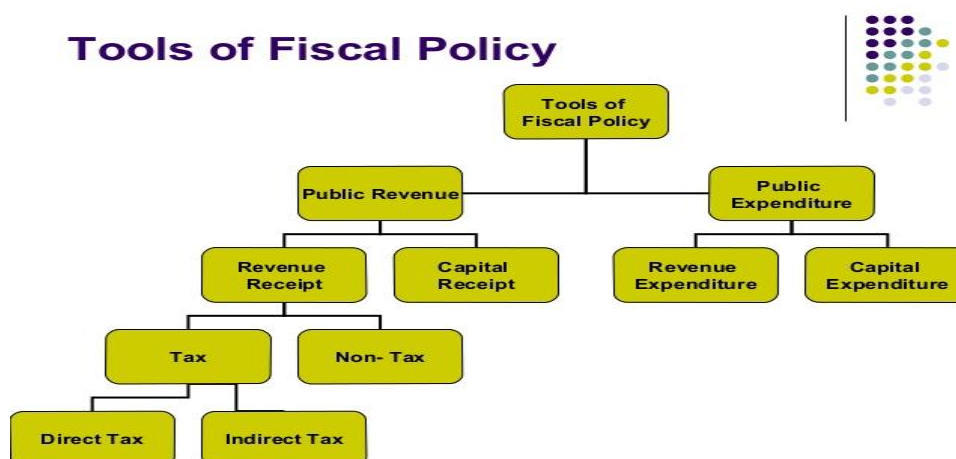
In capitalist countries, fiscal policy is the expression of antagonistic class contradictions; it is designed to preserve and increase capitalist property and to expand the sphere of exploitation of the working people. Under state-monopoly capitalism, fiscal policy is geared toward state intervention in the economy; it seeks to strengthen the economic and political power of the monopolies and to ensure that the monopolies enjoy high profits. The state can safeguard these profits by placing advantageous orders with the monopolies, by allowing accelerated depreciation, by rapidly increasing the tax burden of the working people and extending the financial benefits to monopolies, and by investing in sectors requiring substantial initial outlays but not promising sufficient profits. Examples include outlays by the state on infrastructure (railroads, highways, bridges, canals, communication lines, airports), on the development of vocational education, and on public health and scientific research. Examples

are also provided by direct subsidies to monopolies, by increased spending on the parasitic state apparatus, and by defense spending aimed at increasing the potential to wage imperialist wars. The fiscal policy of the capitalist state plays an important part in economic expansion abroad and in carrying out a policy of neocolonialism. Communist and workers' parties and the progressive labor unions in capitalist countries are struggling to secure a sharp reduction in defense and other nonproductive spending, to reduce the tax burden of the working people, and to increase spending on social programs. (<http://encyclopedia2.thefreedictionary.com/Fiscal+Policy>)

And whatever the role of fiscal policy in economies, capitalism or socialism, it remains as one of the economic policies. So it has found some kind of consistency between them and other policies, in particular monetary and credit policy in the State in order to support each other as much as possible.

1.3.3. The Fiscal Policy Tools

Figure 5 the tools of fiscal policy



The state reflects its role in the financial and economic activity through its annual budget. And general budget of the state provides an opportunity to manage an important aspect of the economy through fiscal policy, which seeks to achieve a set

of objectives in the forefront of it increasing the volume of use in the economy through its ability to raise the absorptive.

The general budget consists of the two sides, along with general revenues of the state which is represented in what the state gets from taxes, whether directly or indirectly. Furthermore, the expenditure side, which represents the total state expenditure current and capital, and represents these tools through which fiscal policy. And by that we know the effect of the use of the fiscal policy tools on the volume of usage; therefore, the absorptive capacity of the economy by tracking the economic impacts of these tools (Draz, 1997,22)

Expansion of public expenditure: is one of the most important tools in influencing aggregate demand in the national income and boost economic development and therefore, increasing the absorptive capacity of labor in the economy and this would be by its impact on both consumption and investment. The impact convey consumption, by the increase in demand, for funds consumption "buy consumer goods," and the resulting increase in production and thereby increase the national income. And the state effect on the investment by spending the establishment of productive essential projects which the national economy needed. Which the private sector is reluctant in using it to either the magnitude of the capital or to the Revenue decline; and the government spending contributes to exploiting idle resources through infrastructure projects, which stimulating business investment to do initiatives to take advantage of services such projects that facilitate the process of production, transportation, distribution and marketing (Alwadi, 2007,6)

The spending takes the form of transfer payments such as the social subsidies which granted to the poor, the infirm, the elderly and widows. And the government expansion in the establishment of social security systems, fair distribution of incomes and reducing social disparities Lead to the tendency of consumption and stimulate the economy. Payments also take the form of economic benefits to producers and the private sector, which encourages them to do investment and initiatives them to push the development process. Government follows different policy depending on their

positions, in times of recession government increase spending and in inflationary times government lower spending. (Wadi, 2007,17)

Revenue: the state gets revenue to cover its expenses and to achieve a set of objectives and to influence economic activity; revenue is divided into: Tax revenue and other non-tax. Tax revenues is the second part and the most important for the fiscal policy of the state; Taxes whether it was direct like income taxes or indirect

Consumption tax significance is not limited to being a tool for revenue but is used to control the economic activity and the impact on investors' decisions, as well as the impact on the operating. So the State resorting to give some tax exemptions for new production projects for a specified number of years or give some discounts on some aspects of the investment or discrimination in tax treatment is done on the tax rates on some activities that do not add anything to invest. Furthermore, imposes high rates of tax on imported consumer goods to protect the national industry and reduce import, And to encourage individuals to invest; therefore, the impact on employment in various sectors where investments increase the chance of employment of workers and thus reduce unemployment (Valley, 2007, 18)

While The non-tax revenue, includes e-mail, contacts, stamps, insurance, investment returns and dividends, bank interest and, and dividends transferred from the operating Labor companies, fees such as court fees and land registration and also includes licenses and fines .But tax revenue represents the largest percentage and, most importantly of government revenues, the proportion of these revenues can raise by improving the services provided to citizens.

- Public Debt: The religion is considered as economic contribution's tools of productive projects and advancing development in condition of not to misuse it. financing the deficit through public debt is considered as a useful policy which has several positives on the national economy as long as the economy works in conditions of recession, but it also has many negatives when it is misused spending for instance when a consumer enjoyed entertainment by people paid by designated future generations in the form of taxes and fees. It is more useful to the state to finance the deficit in a recession and provide a

large portion of the funds from the local means in periods of prosperity. Dispensing the foreign methods to fill the savings gap does not mean to exchange the means and gap of with the state's ability to repay, and this means that the loans aren't just a tool, but also an absorption excess purchasing power to fight inflation and achieve the stabilize prices.

1.3.4. Fiscal Policy Objectives and Fiscal Balance

Fiscal policy, like other policies several objectives it seeks to achieve them:

Fiscal balance: It means the best use of state resources, for example, loans are used only for productive purposes. The tax system is characterized by the qualities that make it fit the needs of the public treasury in terms of flexibility and abundance, and fitted at the same time the taxpayer in terms of distributive justice and dates of collection.

- Economic balance: the meaning of economic balance is to reach the optimum size of production, and therefore the government has to make a balance between the activity of the private sector and the public sector to reach the maximum possible production. And the balance is achieved between the private and the public sectors when it reaches the total benefits of private and the public enterprise together to the maximum extent feasible. Which means to exploit the potential of the community; any best to reach the optimum size of production, which means the exploitation of the human race, work on employment and access to the lowest rates of unemployment.
- Social balances: That is, the arrival of the community to the highest possible level of well-being for its members within the limits of its possibilities, and should not be standing at the end fiscal policy to increase production, but this must be accompanied with a fair goal to find ways to distribute the production on individuals.
- The general balance: a balance between total public expenditure expenses and individuals consumption, investment, in addition to the

expenses of the government. To achieve this goal the government uses several methods, including: taxes, and loans, subsidies and exemptions and to participate with individuals in the composition and other projects. (Abdul Muttalib, 2003. P 5)

1.3.5. Indirect Roles of Fiscal Policy

Fiscal policy Contribute to play a significant role in encouraging the exploitation of natural resources (Land, mines, waterfalls, oil and gas ...), and encourage enterprises and individuals to invest. Where through tax policy can encourage the exploitation of those resources, and through both the reduction of tax exemptions or staging, in addition, fiscal policy can use one of the tools of public spending through the provision of subsidies earmarked for investment in the field of natural resources and create new jobs, in addition to the use of policy loans to encourage investment in this area and distinctive benefits over long periods.

The role of fiscal policy is shown in increasing production through public spending as it helps it to convert economic resources between uses and different sites; this spending will be either by providing subsidies for private enterprise, or by doing public projects aimed to increase production (BLANCHARD and PEROTTI,2002,1329). On the opposite side spending policy may lead in certain goods and services to lower prices, which generates pressure on demand; There by increasing the demand for workers and reduce unemployment rates, also encouraging the growth of the physical capital should not overshadow at the expense of human capital or knowledge because it will tend to reduce the production instead of increasing it.

Full employment is considered as one of the basic demands of economic development and a key pillar of its success here and we mean full employment the employment of factors of production. Generally, there are two main hypotheses to be able to financial systems of government to maintain the overall level of production and employment which are: The first hypothesis assumes that the financial activities of government can encourage economic units to change the total cash spent on goods

and services. The second hypothesis assumes that, thanks to the impact on overall spending cash it can maintain production and employment from landing and maintain prices.

1.3.6. The Relationship Between Fiscal Policy and Operating and Impact of Macroeconomic Balance

Fiscal policy can be a powerful lever to move the economy because the effect of an increase in spending or a cut in taxes would be multiplied by stimulating additional demand for consumption goods by households. (Nelson, 2006, 2)

$$\text{Equilibrium } Y = [a - bT + I + G + (X - IM)] / (1 - b)$$

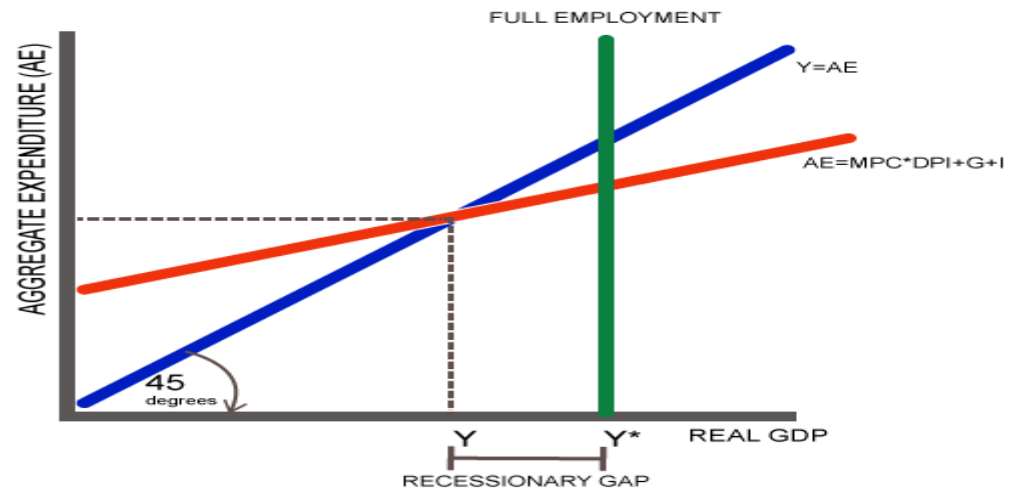
This equation tells us how the level of GDP will change in response to a change in any of the autonomous components of spending, those that do not depend on GDP, at least according to the assumptions of this model. We can see that a one dollar change in either a , I , G , or X will result in a change of $1/(1-b)$ dollars in GDP. Of course, this is just the spending multiplier again, but we see that it applies not just to government spending but also to any increase in spending by any sector. The tax cut multiplier is still $b/(1-b)$; keeping in mind that a tax cut is a negative increase in T . (Nelson, 2006, 12)

The first case: the emergence of a deficit or surplus in aggregate demand

- a. Shortfall in aggregate demand in fiscal policy of deficit financing (unemployment.) The problem is summed up in this case that aggregate demand is not commensurate with the size of the overall supply of goods and services. So that aggregate demand is balanced with the overall width at a level less than full employment that there is a shortfall in aggregate demand; as a result of that the savings scheme with fully operational over investment plus budget deficit, here the state is required to intervene to prevent the exacerbation of the economic problems and therefore economic instability using fiscal policy.

If the equilibrium level in the economy (Y) is less than full employment (Y^*), there will be a recessionary gap. The economy is producing less than the full employment level, resulting in high unemployment. (Nelson, 2006)

Figure 2 the equilibrium level in the economy (Y) less than full employment (Y^*)



(<http://www.romeconomics.com/beginners-guide-keynesian-model-part-2/>)

- Equilibrium GDP < potential GDP
 - That's Occurs when :
 - Low spending (consumers $C\downarrow$, investors $I\downarrow$)
 - Low government spending ($G\downarrow$)
 - Weak foreign demand ($X\downarrow$)
 - Price level - too high ($X\downarrow$, $IM\uparrow$)

In these situations, Keynesian economists believe that government intervention is necessary, as fiscal policy can be used to bring the economy back to the full employment level.

As for how it comes to fiscal policy treating this problem, by raising the level of aggregate demand to a level that achieves full employment; thus achieve out of the crisis and the ensuing recession, unemployment. This is done by using both: its tax policy and spending, either individually or blending the two together in different rates according to the nature and extent of the problem and the subject of treatment.

States can pursue through the spending policy (expansion in public expenditures) that raises the level of demand through the establishment of public investment projects, the construction of roads, schools and hospitals..... etc. Or through the expansion of government in managing the various social benefits such as unemployment benefits and old age. As a result, increasing personal income and personal spending not only by public spending but doubly by doubling the investment (Wajdi, 1988, 224) which means that this kind of support increases the ability of individuals to spending, which stimulates investment and increase employment.

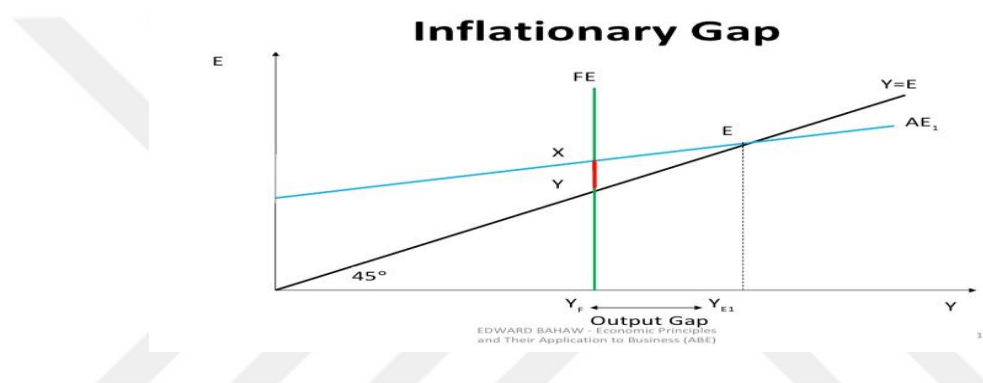
As general revenues used (reduction of tax revenue) in facing the recession through compensatory effect of taxes, where they can contribute to a reduction in taxes to increase consumption and increase investment. It can increase consumption by raising the entry- level –low income due to the high marginal propensity to consume of these categories; which means that the increase in these categories directs entry for consumption and it is possible to increase the incomes of individuals in these categories by reducing the raise for the tax applied to the first slide of income (Samir,2000. P 33)

With regard to investment tax politics can work on increased through taxes on profits, which encourages producers to invest and thus to increase production, increase employment and reduce unemployment. It must be mentioned that in the recent policy of increasing the size of the spending is more effective than tax cuts because the multiplier investment in the case of tax increased spending more than the size of the multiplier in the case of tax cuts.

- b. Increase the level of aggregate demand (inflation), fiscal policy of funding surplus: In this case the problem is limited to economic stability in the aggregate demand of aggregate supply that there is no surplus cash plus demand. Where that investment is greater than the savings plus the budget deficit so in this case and in the light of the circumstances of the weakness of the flexibility of the productive apparatus, it leads to inflation and rising prices. Consequently, the fiscal policy to reduce or restore the level of aggregate demand and withdraw cash demand any

excess absorption of purchasing power in excess Through the creation of a budget surplus; raising the rates of existing taxes or increase tax revenues introduction of new taxes on other types of goods. The policy is working to rationalize the spending of consumer demand by reducing public spending; it consists of fiscal policy used to reduce inflation from both sides, the first side is to increase taxes and the second aspect is to reduce the public expenditure.

Figure 6 Inflationary Gap



- Equilibrium GDP > potential GDP
 - Inflation
 - Inflationary gap
 - Equilibrium real GDP
 - Exceeds full-employment level of GDP
 - To reach full employment

when there is an inflationary gap, government can use contractionary fiscal policy to close the gap. This includes decreasing government expenditure or increasing taxes to lower aggregate expenditure back to the full employment level. (Economists like to describe this effect as ‘shifting the AE curve downwards.’)

Here we differentiate between direct taxes and indirect taxes; as a result of increased the direct taxes on income and especially the progressive ones, absorption side of the purchasing power of individuals to the extent commensurate with the size of the deductible portion of any income from the individual entering

which would have been spent on various goods and services and from the reduction of aggregate demand. Thus the decline in investment rates, which negatively affects employment, as well as increasing unemployment, especially in developing countries.

Indirect taxes can contribute in reducing consumption as the increase in this type of taxes resulting in a decrease in aggregate demand but the impact of indirect taxes in reducing aggregate demand depends on the types of goods that these taxes are imposed on them; the increase in indirect taxes only on goods that higher prices lead to lower demand, which depends on the elasticity of demand for various goods.

For example, if increased taxes on luxury goods, that will lead to a reduction in demand. This decrease in the amount depends on the degree of the price elasticity of demand for these commodities.

The process of reducing public expenditures is contributed to the inflation reduction to the fact that increased expenditures for the general revenues of the reasons for the existence of inflation. However, the reduction of some items of public expenditure will be difficult to achieve, such as health and education services and wages. Etc. This does not preclude some reduction in public expenditures, such as some types of government consumption or postpone the implementation of some investments for a short period of time. Due to the difficulty of reducing the overhead of realistically, their impact in the reduction of inflation is limited. There is the fiscal policy which aims to reduce the overall demand; reduction of inflation should focus on increasing taxes, especially direct taxes.

1.4. Theoretical Background of Labor Force and Absorptive Capacity

1.4.1. Definition

Employment

The international definition of employment adopted by the 13th ICLS is formulated in terms of the labour force framework, i.e. with respect to a short reference period. The definition distinguishes between paid employment (employees

including apprentices or trainees and members of the armed forces) and self-employment (employers, own-account workers including producers of goods for own final use, members of producers' co-operatives, and contributing family workers). It provides separate criteria for the measurement of these two types of employment. According to the definition, the "employed" comprise all persons above the age specified for measuring the economically active population (e.g. 15 years) who, during a specified short period of either one week or one day.

Unemployment

The concept of unemployment is considered one of the concepts that took a great importance in contemporary societies in terms of research and analysis. So the subject of unemployment has captured the attention of social researchers and economists as a topic imposes itself permanently and urgent on the international scene. Therefore, barely there is no specialized scientific journal related to the science of Economics and Sociology issued and yet exposed to unemployment subject by analysis and discussion.

Unemployment is defined as: a forced disruption (stop) -or optional in some cases - for a part of the labor force in a society; Despite the ability of the workforce, and their willingness to work and production (Al Wazani, and Rifai, 2006, p. 162)

While others defined as: the difference between the work on display size, and the size of the used in the community during a certain period of time at prevailing wages levels; and thus the volume of unemployment is represent by the size of the gap between each of the quantity supplied and required at a certain level of wages. (Hilmi, 2008, p. 53)

While we find that there are other who defended unemployment as: A situation where the community does not use the labor force which fully utilized or optimum, and then the actual output in this community will be less than potential output, leading to a low level of welfare of members of the community about what was supposed to reach. (Hilmi, 2008, p. 5)

According to this definition, there are two dimensions of unemployment, the first is not to make full use of the labor force and the second is the lack of optimal use of the labor force. Whereas the first dimension refers to the cases of blatant and partial unemployment; the first one is represented in the existence of people are capable, wanted and search for work but they don't work. Thus, the labor and production which they achieve is zero, and the second one is represented in the existence of people who work less than the normal rate, known in the community.

While the second dimension of the inefficient use of the labor, refers to the hidden unemployment, which can be dispensed with for a number of workers without affecting the total output in.

Palestinian Central Bureau of Statistics has identified unemployment as: All individuals who belong working age (51 years and above) and never work during the reference period in any type of business and they were during this period, ready to work, and they searched for it using some way, such as reading newspapers, registration at the offices of labor use, asking friends and relatives, or other methods. (Palestinian Central Bureau of Statistics, 2011)

Unemployed, according to the common definition adopted by the International Labour Organization (ILO) is That an individual who reached a certain age (usually 51 years) and be able to work, is willing and looking for and accepting to work at the prevailing wage level but does not find an opportunity to work. (Zaki, 1998.29)

According to the above definition observe that there are three criteria must be applied together so that the individual will considered unemployed which are:

First, the individual is able to work: and this includes people older than the age specified for measuring the economically active population and they don't do not work, either for a fee or freelance.

Second: that the individual is available to work: This includes individuals who wish to work and prepared for salaries or freelancers during the research period.

Third, the individual is searching for workers, which raises the standard to be an individual has taken serious steps to seek paid employment or freelance work.

And by enriching the previous definition, we can identify the cases that can't consider the individual as unemployment by the following:

1. Discouraged workers, and who in the case of actual unemployment, And want to work, but they did not obtained it, and despaired of the large number of times they tried to search for work therefore, So they gave up the search for work.
2. Individuals who work for less than full-time work, although they are able to work full-time but they don't.
3. Workers who have jobs, but during the process of counting unemployment they temporarily absent for some reason, such as illness, or other reasons.
4. Workers who has unstable additional job with low incomes, and who are working for themselves.
5. Children, patients, the elderly, and the elderly who were referred to retirement.
6. People who are unable to work and do not work like the students.
7. People owners of wealth, money, and who are able to work but are not looking for it.
8. Housewives who are not looking for work.

And it can be seen that not all who doesn't work is an unemployed, and in the same time not everyone looking for work is within the circle of unemployed.

The researched prefers the Palestinian Central Bureau of Statistics definition; that's because of the privacy of the Palestinian case, so There should be a base of

detailed and accurate information on the unemployed in terms of their numbers, places of residence, their professions, ages and education, gender, and The cause of disruption from work and the duration of unemployment. These data availability, accuracy, and timeliness are important, because its light is the unemployment rate is calculated on the level of the national economy.

The definition of unemployment Includes those who are unemployed in working age, and are able to work, wishing to work and the researchers for jobs at the same time. (Sapsford and Tzannatos, 1993: P 117). In economic terms Unemployment is a surplus in the supply of labor force compared with the size of the demand for them at a certain level of economic terms and conditions of work (Wages and salaries, or level of educational attainment, major, profession). (Bosworth et al., 1996: P 382).

The International Conference of Labour Statisticians define unemployment adopted based on three criteria, which have to be met simultaneously. According to this definition, the unemployed comprise all persons above the age specified for measuring the economically active population who during the reference period were: (a) "without work", i.e. were not in paid employment or self-employment as defined by the international definition of employment (b) "currently available for work", i.e. were available for paid employment or self-employment during the reference period; and (c) "seeking work", i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment. (Husmanns, with out yare, 13)

Unemployment occupies the subject of major importance; eliminating it and achieve full operation of the most important economic goals that countries are seeking to achieve. It is should mention that the unemployment phenomenon is a global phenomenon which does not belong to a society without the other, may be it is not possible or is not economically feasible to access to the full exploitation of labor stage (Sapsford and Tzannatos, 1993: P 117). Therefore, the actions aimed at combating unemployment aimed at reducing unemployment and easing the duration of unemployment, not the abolition of unemployment completely. It can address the

causes of unemployment in knowing, and here it is necessary to distinguish between three types of unemployment.

1. Frictional Unemployment

This type of unemployment arises as a result of individuals who left their jobs optionally in order to search for another job. This may be motivated by the search for better wages, working conditions in line with the tendencies and personnel readiness. (Spasford and Tzannatos, 1993: P 120). Friction Unemployment is considered as a short-term phenomenon; and resulted from the lack of information available to job seekers or job seekers. (BosworthEtals, 1996: P 30). The size and duration of unemployment friction depends on the speed factor for new work that is looking for. And this in turn depends on the degree of information about opportunities in the labor market (Boswarthetals, 1996: 31) and is characterized by frictional unemployment presence in all economies, whatever their level. However different nature, but the size varies from one economy to another depending on the variation of its members in terms of the endurance of the risk caused by leaving their search for work, another guarantee their incomes better, or working conditions are in line with their preferences and desires. (Spastord and Tzannatos, 1993: 130).

Frictional Unemployment treatment requires focus on the supply and demand sides. So that these policies are trying to improve working conditions and to encourage workers to accept the job opportunities available. Among these policies: Banking information centers around the vacancies and job seekers, education and training policies, and encourage job seekers to reach Job opportunities, by providing incentives for them instead of traveling or housing (Eltahawy,1996: P 73). Frictional unemployment spreads in the Palestinian territories among workers in the Israeli labor market, and deprived of legal protection, which makes it easier for the employer dismiss him\her without incurring any financial commitments, and this means the loss of worker for the number of working days spent in the search for a new job (Shabana and Barghouti, 1996, P 23).

2. Structural unemployment:

Structural unemployment arise as a result of the disruption of proportion between the demand for labor force and the structure or composition of the offer which in the labor market. In terms of qualifications or skills, or academic achievement, or technical qualification level and specialization type, The job vacancies available and not commensurate with the disciplines and competencies displayed (Spasford and Tzannatos, 1993, P 124). Structural unemployment arise as a result of structural change as a reflection of technological development which occurs primarily in economically advanced countries, because it is naturally witnessing continuous changes in the economic structure. This requires a new description in the qualifications of the workforce, and these qualifications may not be available in the labor force and therefore are laid off and become unemployed (Bosworthetals, 1996, P 432). Structural unemployment is one of the most difficult forms of unemployment due to the high cost of processing compared to other forms of unemployment (Bosworth, 1996, 441). Unemployment structural long-term phenomenon and requires treatment to focus on the supply and demand sides so that these policies are trying to improve the compatibility between supply and demand, among these policies Education and Training (Bosworth, 1996, P 443). And structural unemployment spreads in the Palestinian labor market among university graduates, colleges, institutes and medium-sized community. The jobs and vacancies are not commensurate with the disciplines and competencies offered by the Palestinian educational institutions outputs (Abu Hilaland others, 1998, P 43).

3. Cyclical unemployment:

This type of unemployment arises as a result of lack of demand for labor compared to what is on offer from the working hours. This happens as a result of the lack of overall investment and consumer demand, which leaves its impact on turnout productive projects to hire the work item. As the total demand of the determinants of the demand for labor, so The decline in the level of aggregate demand translates in the form of a reduction in the demand for labor and thus appear cyclical unemployment, and Cyclical unemployment is considered a long-term phenomenon

and is caused by the growth of labor supply at higher rates than demand growth (Eltahawy, 1995, P 210).

Cyclical unemployment treatment requires formulating policies affecting the demand side to work to stimulate producers to hire more workers. This falls under these policies wage subsidy policy. Cyclical unemployment spread among Palestinians working in productive economic sectors (such as agriculture, industry and construction). Procedures and policies of the Israeli occupation hindered the growth and development using many of the restrictions imposed on the production, marketing and export of Israeli and competition. Arbitrary tax policy that reduces the level and the rate of profit in these projects (Sabih, 1992, P 87). These policies have led to a weakening of economic activity and the lack of incentive to invest and expand production which led to a decline in domestic demand for labor in the Palestinian labor market and the lack of employment opportunities in it. The demand for employment growth rate in the Palestinian labor market remained much lagging behind the rate of growth in the labor force. What has led to an accumulation of surplus labor force, mostly forced to migrate in search of work and livelihoods (Kaplan, 2000, P 53).

There are other divisions and names of unemployment including: Hidden Unemployment; And arise from the presence of large numbers of workers is greater than the need to work. The total unemployment and underemployment, as well as blatant unemployment and be if there is a number of individuals who are able to work and wanting so and researchers for, but without any success. Finally compulsory unemployment, the case which a skilled worker and unskilled one hang without his will or his choice of work.

Unemployment in Palestine has a unique privacy, due to the weakness of the Palestinian economy to absorb labor and its dependence on the Israeli market and the Gulf states in the export of surplus labor. Unemployment is a major problem of economic problems resulting from the practices and procedures of the Israeli occupation under the current circumstances and political variables the Palestinian territories. As they have a bad living and social affects which leads to the disintegration of society and its destruction.

Despite all the attempts of the Palestinian Authority to reduce the unemployment crisis through public sector employment policies, the results of these policies did not come in the form that relied upon, and did not have such importance or desired feasibility, compared with the size and dimensions. Even the majority of us believe that these policies have led to new distortions, exacerbated the problems of the sector itself. Where this employment was for long explained reasons at the expense of efficiency and professionalism, ability and performance and prospects for the subsequent development of this sector factors.

The main determinants of the unemployment problem

- 1- Israeli determine: Where Israel plays a key role in the spread of the phenomenon of unemployment in the Palestinian economy through arbitrary actions which are adopted such closures, siege, dismemberment of a geographic area, blocking the movement of foreign trade and destruction etc.
- 2- Palestinian determine: The Palestinian economy is considered an economy in the course of construction, and lack of economic infrastructure being able to rely on itself and to work within the framework of integration with the Arab economy away from dependence on the Israeli economy; therefore, it does not have the capabilities and the development that makes it able to accommodate all of the Palestinian labor force, as well as the inability of the Palestinian Authority for the establishment of the operating fund for the unemployed as opposed to many aspects of extravagance and current spending.
- 3- International determine: It is the donor countries and the sponsors of the bilateral agreements in Palestine and Israel and their ability to put pressure on the Israelis in the implementation of these agreements, in addition to the decline in the process and mechanism of funding committed by donor countries.
- 4- The Arab determine: The absence of the Arab role as contributing to the unemployed through specific programs, despite the recent Arab decisions of the Summit to form a support for the Intifada, or to fund its victims of

the hand and the ability of Arab countries to adopt projects that could help reducing the phenomenon of unemployment. And absorb surplus labor in the Palestinian Arab markets on the other hand, the Arab countries in general, and the Gulf States and Saudi Arabia in particular, do not have a little something in this aspect.

Based on the previous explanations, it can be said that the Palestinian society lives in exceptional circumstances, namely the occupation and control of resources and closures, which led to overcome the unemployment rate to record levels under the economy in construction and the need to gather all the Palestinian and Arab efforts developed to get it out of this impasse.

1.4.2. The Size of the Gap Between the labor and the Absorptive Capacity of the Palestinian Economy

The size of operating the economy is determined by the level of demand for labor. Normally in any economy, there is working forces displays work force exchange for wages prevailing in the market; Corresponding to the other side of the producers who are asking the labor force, and determine its size according to their need.

But the economy may not be able to absorb all sectors of the entire workforce; Thus, the gap between the workforce and the absorptive capacity of the economy appears, therefore there is a part that finding a job and the other part that represents the demand gap remains unemployed. Because of the lack of job opportunity to work what has been termed in the economy, unemployment.

The relationship between labor force and fiscal policy : neoclassical and neokeynesian theories show the effects of a shock to government spending labor force and absorptive

Assume first that taxation is lump-sum, to eliminate inter temporal and intratemporal substitution effects of taxation. Essentially, in neoclassical models (such as Baxter and King (1993)), a shock to government consumption generates a negative wealth effect on the infinitely lived representative household (higher

government spending means higher taxation in present discounted value terms); as the household feels poorer, its labor supply increases and its consumption declines (leisure and consumption are both normal goods); as labor supply increases along a given labor demand so the absorptive capacity decline

The story is very different in New Keynesian models, where government spending causes an out shift in the demand for goods for instance because of the presence of nominal rigidities, or because of countercyclical markups (as in Raven, Schmitt-Grohé and Uribe (2006)) or else because of increasing returns to scale (as in Devereux, Head and Lapham (1996)). As the derived demand for labor also shifts out, the real wage can increase; and as a consequence, private consumption too can increase, so the absorptive capacity of labor increase

Fiscal policy affects aggregate demand, the distribution of wealth, and the economy's capacity to produce goods and services. In the short run, changes in spending or taxing can alter both the magnitude and the pattern of demand for goods and services. With time, this aggregate demand affects the allocation of resources and the productive capacity of an economy through its influence on the returns to factors of production, the development of human capital, the allocation of capital spending, and investment in technological innovations. Tax rates, through their effects on the net returns to labor, saving, and investment, also influence on absorptive capacity of labor

(Blanchard and Perotti, 2002) This paper characterizes the dynamic effects of shocks in government spending and taxes on U. S. activity in the postwar period. It does so by using a mixed structural VAR/event study approach. Identification is achieved by using institutional information about the tax and transfer systems to identify the automatic response of taxes and spending to activity, and, by implication, to infer fiscal shocks. The results consistently show positive government spending shocks as having a positive effect on output, and positive tax shocks as having a negative effect. One result has a distinctly nonstandard flavor: both increases in taxes and increases in government spending have a strong negative effect on investment spending

(Rendahl, 2012) This paper argues that the effectiveness of fiscal policy may increase markedly during periods of low nominal interest rates and high, persistent, unemployment. An increase in government spending boosts economic activity and reduces the unemployment rate both in the present and in the future. As a less disconcerting future spurs a rise in private consumption, unemployment falls even further and triggers an additional rise in private demand, and so on. In a stylized model, I show that the marginal impact of government spending on output is equal to the reciprocal of the elasticity of intertemporal substitution. In a more realistic framework, the effect is somewhat attenuated and displays significant nonlinearities with respect to the depth of the crisis as well as the size of the stimulus package. But in a severe recession with an unemployment rate of eight percent or above, the fiscal multiplier is equal to 1.5.

(Marco Battaglini, 2013) This paper presents a positive theory of fiscal policy and unemployment. The underlying economic model is one in which unemployment can arise but can be mitigated by tax cuts and public spending increases. Such policies are fiscally costly, but can be financed by issuing government debt. Policy decisions are made by a legislature consisting of representatives from different political districts. The theory provides a positive account of the simultaneous determination of fiscal policy and unemployment. The most important implication of the theory is that debt and unemployment levels should be positively correlated. Some evidence in support of this prediction is provided using data from a panel of developed countries.

(Shoag, Daniel, 2010) The effect of government spending on income and employment is a central unresolved question in macroeconomics. This paper employs a novel identification strategy to isolate exogenous and unexpected variation in state government spending. State governments manage large defined-benefit pension plans for which they bear the investment risk. Using a newly-collected dataset on the returns and portfolios of these plans, I show that the idiosyncratic component of their returns is a strong predictor of subsequent state government spending. Instrumenting with this 'windfall' component of returns, I find

that state government spending has a large positive effect on income and employment. Baseline estimates indicate that each dollar of spending raises in-state income by 2.12, and that 35,000 of spending generate one additional job. These effects are not due to in-state investment bias, are concentrated in the non-traded sector, and are larger during times of labor force ‘slack.’ Finally, I consider how these results compare with the predictions of a standard macroeconomic model and outline which features in the model are consistent with the empirical findings.

(RICARDO, 2009) We investigate the macroeconomic effects of fiscal policy using a Bayesian Structural Vector Auto regression approach. We build on a recursive identification scheme, but we: (i) include the feedback from government debt (ii); look at the impact on the composition of output; (iii) assess the effects on asset markets (via housing and stock prices); (iv) add the exchange rate; (v) assess potential interactions between fiscal and monetary policy; (vi) use quarterly data, particularly, fiscal data; and (vii) analyze empirical evidence from the U.S., the U.K., Germany, and Italy. The results show that government spending shocks, in general, have a small effect on GDP; lead to important “crowding-out” effects; have a varied impact on housing prices and generate a quick fall in stock prices; and lead to a depreciation of the real effective exchange rate. Government revenue shocks generate a small and positive effect on both housing prices and stock prices that later mean reverts; and lead to an appreciation of the real effective exchange rate. The empirical evidence also shows that it is important to explicitly consider the government debt dynamics in the model.

Blanchard and Perotti (2002) use information about the elasticity of fiscal variables to identify the automatic response of fiscal policy, and find that expansionary fiscal shocks increase output, have a positive effect on private consumption, and a negative impact on private investment. More recently, using sign restrictions on the impulse-response functions and identifying the unexpected variation in government spending by a positive response of expenditure for up to four quarters after the shock,

(Huixin ve others, 2014) This paper studies fiscal policy effects in developing countries with external debt and sovereign default risks. State-dependent distributions of fiscal limits are simulated based on macroeconomic uncertainty and fiscal policy specifications. The analysis shows that expected future revenue plays an important role in the low fiscal limits of developing countries, relative to those of developed countries. External debt carries additional risks since large devaluation of the real exchange rate can suddenly raise default probabilities. Consistent with majority views, fiscal consolidations are counterproductive in the short and medium runs. When an economy approaches its fiscal limits, government spending can be less expansionary than in a low-debt state. As more revenue is required to service debt in a high-debt state, higher tax rates raise the economic cost of increasing consumption, reducing the fiscal multiplier.

CHAPTER TWO

THE RELATIONSHIP BETWEEN FISCAL POLICY AND ABSORPTIVE CAPACITY IN THE PALESTINIAN ECONOMY THE PALESTINIAN ECONOMIC POLICIES

2.1 The General Structure Of Palestinian Economy

Palestinian economy suffers from many distortions and imbalances structural which caused by four decades of Israeli occupation of Palestinian territories; some of manifestation of these imbalances are meager contribution to the production of key sectors (agriculture and industry) in GDP, the sharp trade deficit, and heavy reliance on external sources to create jobs which made the performance of the Palestinian economy weak at all levels.

One of the most prominent manifestations of weakness the inability of the Palestinian economy to absorb the labor force; Thus creating a surplus of labor Palestinian labor market's inability to hire them, which contributed to the creation of the acute unemployment crisis, it is important to note here that with the outbreak of the Gulf War which have been laid off thousands of Palestinians workers in Arab countries. This exacerbated the crisis operating in Palestine with the return of those to join the Palestinian labor market. And then with the outbreak of Al-Aqsa Intifada in September 2000 and the closure of the Israeli labor market in front of Palestinian employment and the state of severe siege imposed on the Palestinian economic sectors, which is reflected in preventing the entry of many necessary for the continued operation of these sectors of raw materials, in addition to the destruction of many of the facilities. Furthermore the imposed an atmosphere of aggression and blockade on the investment climate of distortions led to the escape of a lot of capital broad. These conditions produced very high rates of poverty and unemployment exceeded 60% and 30%, respectively, as Palestinian Central Bureau of Statistics data show; in addition to the on-payment of dues of workers, especially those working without permits within the Green Line.

In the absence of the ability of the Palestinian economy to absorb surplus labor, these policies have led to increased rates of unemployment in the Palestinian economy. The problem of unemployment is clearly appeared since 1995, after the advent of the Palestinian National Authority, where increased the unit closures which is imposed by Israel on the Palestinian territories. As unemployment have increased from 7% in 1993 rates to 23% in 2014 (Palestinian Central Bureau of Statistics, Labor Force Survey).

However occurrence of Al-Aqsa Intifada in the fourth quarter of 2000, unemployment rates have increased significantly to about 31.3% in 2002 (Palestinian Central Bureau of Statistics, Labor Force Survey) With the decline limited confrontations in the Palestinian territories and calm the up rising relatively low barriers limiting unemployment has fallen in 2007 to 21.5 In 2011 the unemployment rate stood at 20.9%. While in 2012 unemployment rose to reach 23% and in 2013 rose to 23.4% unemployment rates have highled to an increase in the number of unemployed people who are looking for alternative employment opportunities and thus the existence of the structure in the distribution of labor in the Palestinian territories imbalances.

All of these conditions and political unstable situation experienced by the Palestinian economy and high levels of unemployment which the Palestinian territories suffers from made the Palestinian Authority to pursue policies that increase employment opportunities for its role in Palestine and most prominent of these policies is fiscal policy.

Since Palestine is an occupied country subject to agreements with the Israeli occupation, Paris Economic Protocol has ruled Palestinian economic policy and monetary arrangements, which peace negotiations led to signed between Israel and the Palestinian Liberation Organization in April 1994 that identified the monetary arrangements during the transitional period, namely: (Abdullah, 2010,15)

- 1- The establishment of the Palestinian Monetary Authority to carry out the functions of the Central Bank Except the most important function, the

national currency issuance in the current period and therefore earned the Monetary Authority, the possibility of activating the role of monetary policy for the management of Palestinian economic policy by controlling the money supply and interest rate.

- 2- Shekel will be one of the legal currencies in circulation in Palestine which is used as a way to exchange and settlement of payments. It also will discuss the possibility of issuing cash and national and any other monetary arrangements through the Joint Economic Committee.
- 3- Monetary Authority will be responsible for determining the liquidity ratios for banks and various currencies except the Israeli shekel, which must retain the Monetary Authority on the liquidity ratio roughly equal (1, -1) for the ratio prevailing in Israel.

The Paris Protocol Decide that Israel has the right to receive on behalf of the Palestinian Authority taxes and customs duties and value added tax imposed on Palestinian imports from Israel or through Israel. The addition of these revenues to the Palestinian Authority was irregular at all since the second intifada in 2000. The Protocol also allows Israel to collect taxes and other deductions from Palestinians working in Israel income, if all of the above shows how economic policies dependency and confiscated by the Israeli occupation. (Makhoul, 2007, 23)

2.1.1 Fiscal Policies of the Palestinian Authority

Financial policies with regard to the Palestinian public debt: It can be said that despite the government's efforts to reduce the size of the public debt and its burden of efforts in line with its commitment to reducing the debt ceiling as a percentage of GDP and, in the absence of the ability of the Palestinian economy to provide the basic needs of the community and meet the requirements of the development of the self sources PNA resorted to look for external sources such as aid to support the Palestinian economy and achieve economic goals, but the lack of commitment by donor countries to fulfill their commitments to financial aid in full,

made it necessary to go about the local and external borrowing to fill this gap, and the financing of various projects which led to the rapid pace of growth in public debt over the years. And rising public debt based until the end of 2005 increased by 1780.2 million compared to 2004, an increase of 12.5% compared with growth of about 30.7% in 2004. Total rise of existing public debt to about 1602.19 million dollars. (PMA, 2005).

Moreover, the total public debt rose in the years 2007 to 2011 reached at the beginning of the year 2010 (1813) million dollars and in the second quarter of 2011 it reached (2170.6) And because of the wide gap between current spending and local revenues as well as due to the adoption of greater part of revenue to exporters, unreliable and clearing transfers from Israel and international aid, and has resulted in the accumulation of the deficit between revenue and expenditure, even after taking the international aid into account, to the accumulation of relatively large public debt is to amount to more than US \$ 2 billion. (PMA, 2011)

In 2013, the total government debt declined to 4.3% compared to the previous year, to reach 2,376.2 \$ million, constituting a rate of 19.9% of GDP. Compared with 24.2% in 2012, in 2014 the decline of public debt where it fell to 1616 million dollars. The government local debts were about 10.6% of GDP on 2013, compared to external government debt which was 9.3%. Palestinian citizen's share of this debt amounted to \$ 569.9 on 2014 to \$ 613.5 compared with the previous year. The public debt is considered in Palestine relatively low compared to the rates in some neighboring countries.

In spite of the low ratio of public debt to GDP in Palestine compared to neighboring countries, but there are many risks that may affect the local economy, if it is not remedied. Financial resources available to a few limited government, in addition to the risk of exchange rate fluctuations, and the government's inability of ten to fulfill their obligations towards both the private sector, or the banking sector, or even employees. The general government debt is directed mostly to consumption rather than investment and therefore the material proceeds from this spending are low and short-term; Especially since the government borrowing mostly to pay

salaries and wages of workers in the public sector as well as other types of expenses such as manufacturing expenses and interest payments, which indicates the weakness of the fiscal policy of the government in terms of viability. (PMA, 2011)

2.1.2 Tax Policy

Economic effects of taxes vary on the size of usage depending on whether we look at each tax alone or to the whole tax structure, where the government can impose many types of taxes, That cannot-no matter how its commitment- save off from the society which may entail from the undesirable effects on the volume of use in the private sector (Fawzi, 1971). It is known that size of the usage in the economy is closely associated with the size of the total spending on consumption and investment; as a result the tax which reduces the overall investment and consumer spending is working to reduce the volume of use if the impact of spending the proceeds of this tax is excluded by the government (Fawzi, 1971). This can be illustrated through the analysis of the two communities of the two types of taxes: direct taxes and indirect taxes.

And you can see the direct impact of taxes on the volume of usage based on income level, which was the focus of front loaded (Draz, 1997,18). Taxes on individuals in the lower income groups are working to absorb part of the spending allocated to consumer buying power and thus works to reduce private spending on goods and services that have traditionally been consumed (Draz, 1999,25). It has been proven that the tax policy which works to maintain a high level of buying power is a prerequisite to stimulate private investment, thereby increasing the size of the use. This requires a reduction of as much as possible of the tax burden on individuals in the lower income groups, who are characterized by their marginal propensity rising to consume (Fawzi, 1971,8). Direct taxes that fall on individuals in the lower income groups to reduce the cash wages and working, forcing unions to demand higher wages, and if the cash wages rose, it reduces the size of usage as a result of two things: The first is that higher wages reduce the size of use because of the negative relationship between the level of wages and the size of use, (Shamiya and Al Khatib, 1997,29) and the second thing is that the higher wages drive producer

stouse the machines and replace the work element whenever possible due to increasing costs as a result of the rise in wages. As for direct taxes, which are front loaded to individuals in the up per income brackets, the tax does not work to reduce their consumption to the extent that it reduced the size of their own savings. Which in turn may lead (assuming the stability of the money supply) to raise interest rates, and therefore the size of the investment will be reduced, and consequently reduced the volume of use,(Fawzi, 1971,9). On the other hand, it is evident that the productive projects profits accrue mostly to individuals in the higher income groups, and highrates of profit is what stimulate sprivate investment and working to expand. Thereby increase the volume of use,and clear that Income taxes to decrease for these profits may work to reduce the size of the investment, and impeding the expansion; consequently the employment growth rate will be reduced (Shamiya and Khatib.1997,11)

That was on the demand side of work, but if the supply side of labor was viewed, the impact of direct taxes on the desire to work depends on the elasticity of demand for income where the balance of the individual usually between the benefit that brings it (Elasticity of Demand for Income) As a result of receiving a unit of income and the price of this unit is estimated hardship and effort and sacrifice which is held in this way.. In other words, it balances the marginal utility of income Is abalance between the marginal benefit of income, (Marginal disutility of effort) and the hardship effort marginal (Marginal utility of income) (Ehrenberg and Smith, 1994,23); if the request for individual income in flexible (if they wish to get the same income what ever the effort to get), the tax that lead to lose their incomes will drive them to redouble their efforts so that in come up to its old level. And the refore their willing to work will increase (Youns, 1985,14). But if the request of individuals was flexible income, if they can overtake what deduct the tax from their income, either because they have a surplus, or because they can live with what remains of their income, even in the standard of living lower than they used to, the tax does not increase their willingness to work (Yunus, 1985,14).

From the above it is clear that direct taxes are working to absorb part of the purchasing power of individuals, leading to a decline in consumer spending. And with the decline in consumer spending, the demand for labor declines, where the demand is derived from the demand for goods and services. In order for tax policy to be working to raise the volume of usage in the economy must maintain a high level of consumer spending and by allowing for discounts in the income which is subject to tax, in addition to relying on resources derived from the progressive income tax, which take into account the size of the income and living costs and thus increase the demand for labor (Kusa, 1990,17).

It also shows that direct taxes are working to reduce the volume of use in the economy and the reason for this is an obstacle to private investment through reduced profits earned from it. This in turn reduces the growth in private investment, bringing the production and decline demand for labor, as direct taxation is also working to reduce the savings of individuals with deducted part of their income, which may lead (assuming the stability of the money supply) to a high interest rate, and therefore the size of the investment will be reduced, and decline production and demand for labor.

In this case, the tax policy that works to encourage investment to grant tax exemptions for productive projects, thus contributing to the increase in profit margins for producers, which encourages them to increase their production and investments. This will be reflected positively on the volume of usage as a result of the creation of more employment opportunities in the productive projects (Kosa, 1990,19) tax policy also can encourage private savings by grant exemptions of income which increases your savings among individuals size, And there fore more resources available for investment, since private investment is funded naturally by savings business and family sector (Draz and Hijazi, 1998,27).

As for indirect taxes, which include taxes and fees on certain types of goods or all types of goods, at one stage from the production time to until it sold to the final consumer, include sales taxes, purchase taxes, and customs and taxes (Fawzi, 1971,19). It is well known that the taxes on goods raise their prices in general (Yunus, 1985,16), and if the prices went up, the size of the purchasing power in the

hands of individuals will be reduced. And therefore consumption is reduced, and this drives producers to reduce their production and reduced demand for labor. But the rise in the prices of goods due to taxation based on the transfer of the tax burden, the general principle provided by the neoclassical theory in this matter is that the head count tax on goods is divided between consumers and producers by the elasticity of supply to demand elasticity. In other words, a function of the relationship between the forces of supply and demand on the substance of the tax, as well as the surrounding production conditions, and the degree of industry competition (Qaisi, 1998,33).

As follows the most important factors and considerations that determine the transfer of the tax burden and its impact on the supply and demand for the commodity taxable will be covered.

The lower the elasticity of demand for a commodity, in other words, the less affected by the consumption price changes, whenever the tax large affects in raising the price of the item, which leads to a drop in demand for this item larger than if the elasticity of demand for this commodity high (Qaisi, 1998,34)

This means the imposition of taxes on low flexibility commodity goods leads to lower demand for them rather than if these goods are flexible high demand, and consequently the demand for labor is more affected by the decrease elasticity of demand for taxable goods.

If the request is inflexible, the price rises in the same amount of tax so the demand for the commodity, which is subject to tax, will decrease more than in the previous two cases, without any effect on the quantity produced (Qaisi 1998, 34).

The offer considered flexible if the change in the price leads to a significant change in the quantity produced. The elasticity of supply depends greatly on the degree to which increases the expense of production and display units for the additional expense of the previous display production, increase of marginal production expense degree (Shamiya and Khatib, 1999,29). If the offer flexible transfer of the tax burden to the consumer will be possible more than if the offer is

inflexible. This is because the production in the first case can be easily adapted to the new conditions while in the second case that is not possible. In other words, the greater the lower the flexible display item taxable, the quantity produced decreases. And therefore the demand for labor decreases greater than the first case (Shamiya and Khatib, 1997, 31). If the offer is inflexible, the product shall bear the entire tax burden, and demand for labor reduced more than in the previous two cases (Shamiya and Khatib, 1997, 31) if the offer is not final flexibility, the price rises in the same amount of tax, but the produced quantity then depending on the degree of elasticity of demand.

2.1.3 The Economic Circumstances Surrounding the Production

If Increase the production of a commodity leads to a lack of unit costs, the production of this item is subject to the law of decreasing expenses or increasing yields Law. If the tax imposed on this kind of goods, the price rises more than the amount of tax; because of the high price and the producer is forced to reduce the amount of offer. The producer will boomerang his products to where the expense of the unit is higher than it was when the production was the largest. (Davoodi, 2000, 13)

If the production of the item was of subject to the law of increasing expenses (or the law of diminishing turns) In the sense that whenever the item production increased, unit cost increased; the tax imposed in this case leads to a rise in the price less than the amount of the tax; because of, the producer will drop his products to where the expense of the unit produced goods that are subject to the law of fixed expenses, which do not affect the increase in the unit cost of production, the price change here to be equivalent to the amount of the tax (Davoodi, 2000, 14).

2.1.4 The Degree of Competition in the Industry

The above analysis assumes the availability status of full competition, but many goods are produced under conditions of monopoly element of one kind or

another and there are two cases of monopoly which are: Full monopoly and monopolistic competition (Draz and Hijazi, 1998, 18), and in this case producer does not specify the price that would bring him\her the biggest profit in the sold unit. But always tries to determine the price that would bring him\her greater total profit as possible; this means that it must take into account the amount that is required of the product at the of various prices and expense in addition to the production of various quantities of the item.

In light of these considerations, monopolist may find that he can transfer the tax burden, whole or in part, to the consumer; he also may find it more appropriate to bear the amount of the entire tax which will lead to increased production costs are considerably less quantity supplied and reduced demand for labor (Shamiya and Khatib, 1998, 33). In the case of monopolistic competition, which is usually characterized by low number of producers and asymmetry products, it can be said overall that the product in monopolistic competition on the transfer of the tax burden on consumers depends largely on what you expect from the behavior of other producers ability. Which drives producers to keep the price of the item stable after the imposition of the tax, and he\she bears the full Burden product, production decreases and the demand for labor decreases (Draz and Hijazi, 1998, 22)

The above shows that the tax imposed on the commodity reduces the amount which is consumed and produced. If the taxable goods produced under purely competitive conditions, the reduction of production means the exclusion of marginal producers for production circuit. And thus reduce the size of use and low demand for labor (Draz and Hijazi, 1998, 23). But if the taxable goods produced under conditions of monopoly element of one kind or another, the decline in production does not lead to the exclusion of any of them. But it leads to the creation unemployed capacity of production where the Burden is on the industry is in the form of lower profits or real losses, which reduces the incentive to invest and thereby less demand for labor (Draz, 1998, 15)

So the government should reduce commodity taxes if there was a decline in economic activity, because of its effect of increasing individual demand for goods and services, And the consequent optimism in business circles, and the increased

demand for investment goods, which in turn works to increase the size to use in the economy (Shamiya and Khatib, 1997,36)

In this regard, some of third world countries' experiments indicate that it has sought to increase the size of usage by encouraging investment, which results in a steady economic growth, coupled with a high level of use; this growth can be achieved by removing barriers to private sector investment, which was the most important high direct and indirect tax rates, and had a negative impact on private investment in the private sector. This has led to the expansion of the use disabled, these countries have worked to provide tax incentives that lead to an increase in the volume of investment. These incentives are achieved by reducing reliance on income taxes, capital, and increased reliance on consumption-based taxes. This policy is working to encourage private savings and lead to an increase in the volume of investment and expansion in the volume of use.

2.1.5 Public Expenditure Policy

Public expenditure policy is an essential part of the total demand function, and the state can by controlling the size of the public expenditures add a significant influence on the level of use (Fawzi, 1971, 16). It is known that the volume of usage in the economy is closely associated with the overall size of spending on investment and consumption; consequently, any increase in public expenditures increase consumer spending and investment which leads to increased size of use. The impact of public expenditures depends on the volume of use on the division of public expenditures according to its main aspects (Fawzi, 1971, 17).

This can be illustrated through the analysis is of two communities of public expenditures, which are the consumer expenditure and the investment expenditure. Consumer spending includes government spending on education, health, social insurance, unemployment benefits, and most of the items this sample go to increase the ability of the layers that are located in the lower income groups. This type of expenditure can increases the consumption of individuals, where the Government provides the actual service which leads to reduction in the price of these services,

thus widening the circle of consumption (Qaisi, 1998, 22). This expansion of consumption may stimulate producers to expand the size of their investment if they expected an expansion of the state's spending; this type of expenditure increase the adequacy of individuals and their ability to work, as well as their incomes, and increasing their ability to consumption, savings, and the consequent increase in the volume of use (Draz and Hijazi, 1998, 17).

Consumer spending also includes what state pays of wages and salaries to its employees working in the public sector; therefore, consumer spending is working to increase usage in the economy through the workers who work for various stated departments. General consumer spending, which is oriented to salaries and wages leads to an increase in the possession of individuals from entering directed to both the consumer and investment spending. That means the consumer expenditure on salaries and wages works to create new demand; thus, the effective size of the aggregate demand and consequently, the volume of employment increases including the increased volume of use in the economy (Fawzi, 1971, 18). But consumer spending, which is directed to the payment of unemployment and social insurance may reduce the cost of unemployment for workers and reduce work incentives (Draz and Hijazi, 1998, 18).

The second type of public expenditures is capital expenditures which includes productive projects, and the establishment infrastructure of energy projects: water, and roads, in addition to what state pays in the form of subsidies for investment, (Fawzi, 1971, 18). Most of the items of this sample are working to creating the right climate for private sector investment; which stimulates investment to expand, and therefore increase the volume of labor recruitment (Fawzi, 1971, 19). Direct Public projects work, which carried out by the states and included some productive projects to expand public investment, as a result the demand for factors of production, including labor component increases. So the investment spending directed to the direct public projects leads to an increase in the size of the economy of Use (Fawzi, 1971, 20).

From the above, it is clear that the government expenses have a prominent role in increasing the volume of usage in the economy which is achieved through increased consumption and investment; thereby increasing aggregate demand, but

that there is considerable dispute about the impact of public spending on consumption and investment among a large group of economists. The views on the impact of public expenditures varies on aggregate demand and then the size of the use to say that the impact of public spending, whether financed through debt or through taxes is a neutral impact on the economy, as it argues counterpart Ricardo (Blejer and Cheasty, 1993, P173). The Keynesian theory, which assumes through the multiplier that the increase in government spending reflects itself further on the total expenditure by the multiplier and the raising of the total expenditure will lead to a rising in the volume of the labor recruitment (Raja, 1973, 35). While the modern economic schools sees that the increase is mentioned by Keynes is not in the same value of the multiplier but less, do what is known as the effect of crowding out of the private sector (Crowding out effect). This trend was not limited to economic theory, but also extended to the economic policies (Raja, 1973, 36). These schools believe that the financing of public spending will drag the private sector and compete it in the supply of money which can be explained through the funding of public expenditure analysis methods where public spending is funded through two channels: the taxes and customs duties, and internal and external borrowing (Blejer and Cheasty, 1993, 16).

The taxes is considered as one of the most important means of financing the public spending; increased public spending require an increase in tax rates (assuming other fact or such as the stability of the entire tax energy exploitation). At that point, this increase is either taken from the net rates of profits collected by the private sector, or from wages and salaries (Blejer and Cheasty, 1993, 16). Here the transfer of the tax burden is depended on, if the transfer of the tax burden by raising prices, it will lower the purchasing power of salaries and wages. If wages and salaries increased, size will decrease to use; because of the negative relationship between wages and the size of the economy in use. (Blejer and Cheasty, 1993, 17.) But if producers bear the tax burden by reducing their profits, the amount of money available for investment will be reduced, and this in turn reduces the growth in investment and reduces the volume of labor recruitment in the economy. (Davoodi, 2000, 25)

The second way in which the financing of public spending are the internal and external borrowing, what matters here is the internal borrowing; because, external borrowing will not compete with local private sector of funds offered in the local market, where the burden of financing spending is in this case the credit or State. As for the interior loans, the economic impact has followed the economic situation of the country, and the size of the credit supply, and the source of borrowed funds, so that the state may fund public spending through borrowing from individuals, or from commercial banks (Raja, 1973, 12).

With regard to borrowing from individuals, individuals fund public loans from their own savings for investment. It is well known that private investment depends primarily financed by the savings of the household sector and the business sector, and thus the public spending financed by borrowing from individuals will reduce private savings that finance private investment, which hinders the expansion of investment, and thus reduced the volume of use (Yonus, 1985, 18).

As for borrowing from commercial banks, the effects of financing public spending of individuals differs from the effects of borrowing from commercial banks. Where banks can create additional purchasing power, if it had extra serves, it can provide additional loans over several times from those reserves without having to reduce their loans to private enterprise. Therefore, the rate of interest does not rise, and investment is not affected as well as volume of the use of the economy. If commercial banks do not have extra reserves, the finance of government expenditures will be on borrowing other loans from commercial banks that are given to private projects. The interest rates consequently rise in, because there is a surplus in the demand for loans over the supply of them, volume of investment does not rise, and thus reduced the volume of usage in the economy.

The above shows that finance public expenditures lead to lower private investment and thereby use volume decreases due to the effect of crowding out the private sector for funds offered in the market; some studies have supported this conclusion. A study was conducted in the United States showed that the reduction in the size of the US government expenditure from 36.7% of GDP to 23% of which lead to a reduction in the unemployment rate of 2.9% (Abu Shakar, 1994,28)

2.2 Sectoral Structure of The Palestinian Economy

The Palestinian economy is characterized by privacy which distinguish it from the rest of the economies of the Arab countries. Since the Nakba in 1948, and the loss of the productivity base, what was left of its components suffered from a new political situation in the West Bank via attached it to the Jordan system, and in the Gaza Strip via the Egyptian trusteeship, the economy of both the West and Gaza strip was imposed to adapt to new situations.

The impact of the Israeli occupation of the West Bank and Gaza Strip in June 1967, The Palestinian economy suffered in both a new coercive conditions which caused loss the ability to grow and develop, away from the terms of the occupation and its ruled in all economic resources and productive and non-productive sectors, through policies and military orders prevented the development and the growth of the economic structure which in consistent with those policies and through deepening its dependence on the Israeli economy, to ensure the continuation of this coherence dependency in all conditions in which allows the Israeli enemy continuing that relationship.

The signing of Oslo Principles Declaration which create data and principles to a beginning of a new stage of development in the life of the Palestinian people in general, and in the West Bank and Gaza, especially. Which does not only affect the political side, but also affect the social and economic aspects are interrelated organically between all these aspects. The establishment of the Palestinian Authority in May of 1994 was the main direct expression of the nature of this new phase and the overlapping political, economic and social dimensions as the major unified and comprehensive title. The PLO leadership or authority had never dealt with comprehensiveness, expansion, complexity and interdependence; because, of tyranny or priority role or the political side in the previous stage all other roles or aspects. The receipt of the Palestinian Authority for its tasks on limited geographically parts of the Palestinian territories, did not exceed until today 18% of the total area of the occupied territories. In addition to receive the powers and responsibilities of the new community, in the economic, social, health and educational fields and other fields. ,

which impose the deal with the new reality and the new responsibilities, according to the channels and the mechanisms and the terms of the Oslo and subsequent agreements with concepts, paces, tools and methods which are a large extent different from those concepts and tools that ruled the deal between all parties to the Palestinian National Alliance in the framework of the PLO in the previous stage on the power. And since converges to a large extent with the Israeli conditions as set out in the Oslo Accords and the Paris Protocol and other agreements and the subsequent understandings.

During the past years, the Palestinian economy has suffered from structural distortions and economic dependence that During the past years, the Palestinian economy has suffered from structural distortions and economic dependence that the sequential Israeli governments worked to devote throughout the period of occupation. Where Israel has worked to tighten its control over the Palestinian economy through plunder economic resources, and the destruction of its infrastructure and its productive base, in addition to cut economic ties with the outside world (Mousselmani et al, 1999,22) that has led to inflict the Palestinian economy relations based on vulnerability and dependence on the Israeli economy. The Palestinian economy has turned into a consumer market for Israeli goods, and a source of labor which is a relatively the low cost hands to work in Israeli projects (Mousselmani et al., 1999, p. 15). Among the most prominent manifestations of dependency of the Palestinian economy to the Israeli economy, adopted it as the primary source of income, and adopted it almost completely with regard to international trade; occupied land imported more than 90% of its imports from Israel in 1990, and have been issued more than 70% of total exports in the same year, (Abdel Razek 1991, p22). The reason of that is due to the weakness of the Palestinian local production base due to Israeli policies worked to throttle its expansion and its development through deliberate neglect for economic infrastructure in the Palestinian territories and follow the Israeli authorities tax policy arbitrary and discouraging the growth of the Palestinian private sector (Sabih, 1992,22).

In contrast, the Israeli occupation authorities encouraged the Palestinian to industries that cater to the needs of the Israeli economy, as an industry of building materials that meet the needs of the construction sector of the Israeli settlement expansion (Mousselmani and others, 1989,17). They also provided various facilities of complementary industries, or what is called sub-contracting industries which works for the benefit of Israeli companies and agents in exchange for a certain commission, such as clothing and textile industry, where the Palestinian factories do in favor of the Israeli agent, and then re-marketed in the West Bank and Gaza Strip markets, and Israel, or exported it abroad, taking advantage of the cheap cost of Palestinian labor (Abdel-Razek, 1991,45)

The sectors that meet the needs of the Palestinian population and the development of the Palestinian economy (especially agriculture and industry) has decreased in size under Israeli occupation because of the Israeli competition and the absence of administrative and marketing facilities. In addition to the restrictions imposed on it in terms of, production, marketing, and export, where the share of agriculture sector dropped from GDP from 36.4% in 1968 to 22.6% from 1987. And the industrial sector's share of 9.7% of GDP dropped in 1968 to 7.7% of it in 1999 (the Israeli annual statistics Book , issue 40.1987). And thus the importance of the productive sectors decreased as well as its ability to operate and the adequacy of the needs of citizens, as the Palestinian economy characterized during the occupation, by the absence of political and economic stability.

The absence of Israeli political and economic stability in addition to the Israeli oriented actions towards Palestinian territories led to the Palestinian investor to lose confidence what led to the migration of the Palestinian capital to the outside world; and was the result of that a failure and a decline in the economic and productive activity in the Palestinian territories, in addition to devote the consumer nature of the Palestinian economy, creating a surplus of labor exceeds the capacity and capability of operating and employment actually available. Which led to force wide numbers of the Palestinian labor to migrate in search of work outside the occupied territories, particularly in Israel, (Antoine, 1981). Since the opening of the

Israeli labor market for Palestinian workers ,the number of Palestinian workers in the Israeli labor market increasing from 20.6 thousand workers in 1970 to about 109 thousand workers in 1987. Which means an absolute increase of 88.4 thousand workers, this at a time when the total workers rose in the West Bank and Gaza Strip from 173.3 thousand workers in 1970 to 277.8 thousand in 1987; an absolute overall increase reached 104.4 thousand people, of whom more than 88 thousand, representing an absolute increase in the number of Palestinian workers in Israel (Israeli Statistical Year Book 1989 Issue 40).) And thus it is noted that the bulk of the increase in the number of workers, in the West Bank and Gaza Strip between 1970 and 1987 that have been absorbed in the Israeli economy, and this refers to the weakness and the limited absorptive capacity of the Palestinian economy and the excessive dependency on the Israeli labor market in the discharge of the surplus of the Palestinian labor force.

The following will be reviewed the reality of the various economic sectors.

2.2.1 The Agricultural Sector

The agricultural sector one of most sectors of the economy suffering as a result of the policies practiced by the Israeli occupation authorities, which led to the successive collapses in this sector and negatively affected the ability to operate and use; the first problems faced by this sector was the confiscation of land by successive Israeli governments for the benefit of the settlement. Some sources indicate that the confiscated land area during the period from 1967 to 1989 amounted to 3,449,396 acres. Which is equivalent to 59% of the total area of the occupied Palestinian territories in 1967, amounting to 5.863 million acres(Halabi, 1990). Confiscation of land has been accompanied in favor of the settlement with the control of water sources and control policy in the quantities and trends in distribution and impose many restrictions on the utilization and the use by the Palestinians. Since 1982, drinking water projects referred to the Israeli water company (Almikorot) and prevented Palestinians from digging new artesian wells or the expansion of the old wells and maintenance them without a permission from the military government authorities (Sabih, 1992,23). On the other hand, the Israeli authorities imposed many

administrative restrictions on agricultural marketing in foreign markets, this has been the trend for the export of these products -walta overflowing annually from the Palestinian market need - to the Israeli market, , but the Israeli authorities have hampered the access of these products to their markets in order to prevent the competition Palestinian agricultural products to Israeli counterpart, and the protection of Israeli products that are justified by reasons of security (Mousselmaniand others, 1999,18)

Furthermore, Israel has provided agricultural Facilities to the entrance of its products which are backed up by the Israeli government to the West Bank and the Gaza Strip markets that has led The loss of Palestinian agricultural products that have a similar ability to compete (Sabih, 1992,25). This continuous reduction of available material resources of land and water have resulted because of the Israeli confiscation and control in addition to the obstacles which Israel put in the way of the Palestinian agricultural production and marketing, and led to a reduction of the expansion of investment and agricultural production, and as a result to weakening the productive capacity of the agricultural sector and its ability to create jobs Opportunities. And due to Israeli policies reduced areas of agricultural land, and Fall back the relative importance of the agricultural sector in the formation of the Palestinian GDP, where the contribution decreased from 36.1% in 1968 to 22.6% of the Palestinian GDP in 1987 (Contribution of the agricultural sector in the GDP statistics after 1994 with a table) (Israeli Statistical Year Book 1989 Issue 40). The contribution of the agricultural sector has declined after the advent of power to 11% as the settlement began outbreak in the Palestinian territories and thus control the agricultural land in favor of the Israeli occupation, in addition, the attention to the agricultural sector by the Palestinian Authority did not reach the minimum. With the launch of the second Intifada in 2000, the decline in the agricultural sector's contribution to GDP has continued where the contribution of the agricultural sector arrived to 7.5% because of the closure and siege imposed on the West Bank and Gaza Strip. In 2012 percentage fell to 4.5% and in 2013 it dropped to 3.5%; it is noticeable from these results that the contribution of the agricultural sector has been declining despite the importance of the agricultural sector. And thus interest in land

reduced, which is the center of the conflict that are fighting with the Israeli occupation; where Acreage dropped from 2.3 million acres of down in 1966 to 1.9 million acres in 1989 (Ameri, 1974,46) and then fell to less than 1.5 million acres in 2014

As for the contribution of the agricultural sector in the operation of labor, its operational capacity has dropped where the relative importance of workers in agriculture decreased from 38.7% in 1970 to 22.8% of the total users in the Palestinian economy in 1987 (Israeli annual statistics Book, of 1989, issue 40); with the arriving of authority this rate began to decline as the percentage contribution of the agricultural sector in the operation reached 12.7% in 1995 And continued to decline until the beginning of Al-Aqsa Intifada, where the Palestinian workers prevent from entering Israel so workers went towards working in their land and rate of operation began to rise until 2006. After the situation in the West Bank and the Gaza Strip calm and the low intensity of the confrontations and stop the martyrdom operations, Israel opened its doors to Palestinian workers which reflected on the contribution of agriculture sector in the operating. Also, the losses incurred by the Palestinian farmer without getting any support from the Palestinian Authority led the workers to leave their jobs in the agricultural sector to other sectors or work inside Israel. The continued decline in the contribution of the agricultural sector until it reached about 11% in 2014 . (Palestinian Central Bureau of Statistics)

The most important problems and obstacles facing the development of the agricultural sector:

1. Land confiscation, closures, the blockade, incision of bypass roads, dredging, obstruction of marketing, and direct assault by the Zionist enemy. Along with the seizure of the enemy force on water resources, the destruction of agricultural infrastructure of wells, and the eyes of research stations and agricultural roads.
2. Lack of development planning for the agricultural sector, non-agricultural development of laws and regulations, and in this context, we emphasize the need to discuss and approve the "agricultural project of law" in order to

identify and establish a Palestinian agricultural strategy which commensurate with the importance of the agricultural sector.

3. The weakness of the role of agricultural lending institutions, and banks in providing support and facilities for poor farmers, who are exposed to the worst exploitation methods when they have to borrow money at the expense of their crops, traders and parasites, for lack of access to soft loans from local banks.
4. Failure of agricultural marketing sector, and the weakness of its infrastructure, which includes non-availability of good transportation network, especially for roads from villages to cities; besides, the lack of modern equipment for the post-harvest such units grading and packing and packaging, and the powerful of the owners of this equipment who are also a major control exporter in determining the production rates for the small farmers and the absence of marketing device which can be the farmer of follow-up and get information. Not to mention, the complexities of border crossings and security measures and administrative deliberate enemy, and in this context, we emphasize the need for the establishment of the Supreme Council of the Palestinian agricultural marketing and activation of unions, associations and trade unions working in the agricultural sector.
5. There is a social economic nature problems associated with the fragmentation of property which leads to poor production and productivity, and even sometimes neglect due to lack of revenue and the low yield of Agriculture. Many small farmers left their work in villages in search of work or other alternative opportunities, in addition to that the Farmers weakness and superstructures that non-governmental organizations deal with the poor farmers, the ineffectiveness of the research programs of the character in the formal issues away from the essence of the peasants issues related to land and productive process.
6. One-side development of the infrastructure for the benefit of irrigated agriculture owned in part to some of the major landowners and stakeholders in Authority, compared to the almost total neglect of the territory of rain-fed agriculture.

7. The absence of agricultural development policy immediate, and future, and the rule of confusion and random in this important sector, as well as the absence of serious detailed studies to the issue of water and all associated with it or department in a comprehensive and scientific way.
8. The absence of the role of government or public sector investment in agriculture, and the absence of any serious form of cooperative work among the farmers which we must work onto activate through studied programs, and call for increased agricultural sector's share of the authority's budget and of the donor assistance. And provide soft loans to farmers, and put efforts to coordinate with the agencies and the Arab agricultural institutions and research centers to prepare agricultural style plans and cooperation in marketing policies and the exchange of information.

2.2.2 Industrial Sector

The battle of the industrial development in third world countries or underdeveloped countries in general is considered one of most important battles in the face of underdevelopment and poverty; the condition of renaissance project which is owned for the corner of the science, the progress, technology, the culture of the enlightenment, reason and modernity as a basis for that encounter. The battle in the industry field, is a battle in the field of progress and civilization and science, as the development of industry forms the backbone or the essence of the development process, for the manufacture of a leading role in this process.

But it seems that rely on donor countries, and external sources in spending and the expansion of the internal market, and the accompanying manifestations landing decline and instability, during the past years, deepen the intensity of the need for external sources of funding on the one hand. On the other hand, led to the neglect of the development of the productive sectors in the West Bank and Gaza, despite the promises, or the illusions talk about transforming West Bank and Gaza to the other Singapore in the region. Despite the increasing number of industrial institutions, the growth rates remained low in the industrial sector compared to the service sector,

which has been associated with, and relied on an important part of the industrial sector.

Most countries in the world counts in the past and in the present time on the industrial sector to achieve economic development, and achieve high growth rates in GDP, in addition to its ability to create jobs for the growing number entering the labor market perhaps *the most basic features of the industrial sector in Palestine is*

The industry has been unable to raise its contribution of the GDP significantly since 1994 to 2014; whereas the percentage of industry's contribution to GDP in 1994 was 22%. With the entry of the Palestinian Authority and the state of calm that prevailed in the Palestinian territories, but that did not lead to the development of the industrial sector on the contrary, the industrial sector's contribution to GDP began to decline. Where the attention turns to the construction sector and the service sector on the industrial sector and agricultural sector account; this rate reached its lowest point in 2000, reaching 8% after the start of the intifada. And the cases of closure that prevailed the Palestinian territories and prevent the Palestinian industrial products of the transition between the cities or abroad, where Israel has worked to shut down Palestinian cities and seal the border between the West Bank and the Gaza Strip and the West Bank and abroad, and obstruct access of Palestinian's goods to the outside and thus the industrial sector deterioration. This rate developed in 2003 to about 14.9% knowing that the GDP for this year, according to the report by the Palestinian Central of Statistics (NBS) is 3,968.0 million. It is noted that the rise in the contribution of the industrial sector in GDP in 2003 compared to previous years is not due to a fundamental improvement in the industry's share of GDP, but the main reason for this is the decline in GDP for that year, as the added value of industry during the years of the Intifada did not exceed, at its best, \$ 476 million, compared with \$ 698 million in 2000. It's noted that all these indicators are contrary to the expectations which indicates that the contribution of the industrial sector in GDP will reach about 21% by the end of 2000 (The Ministry of Industry, Industry losses report). The contribution of the industrial sector continued to GDP to decline to around 10% in 2014; the reason for this decline to many external and internal factors,

including the continued the restrictions of Paris protocol and the Israeli complexities in the face of Palestinian industry, as well as, the tendency of the Palestinian capital to achieve a quick profit through service projects in trade, construction, real estate and tourism etc. It is a natural phenomenon under controlled economic relations to the interests of the bureaucratic Alcolmpradora coalition accompanies these relationships with the spread of the parasite dimension in the Palestinian economy. Also, the wars that Gaza Strip have suffered in 2008 and in 2012 and 2014 led to the aggravation of the problem of the Palestinian economy, where Israel has worked through these wars to destroy the Palestinian factories; furthermore, the majority of support in the Gaza Strip turn towards the reconstruction of what was destroyed during the recent wars.

Perhaps one of the main reasons that led to deterioration the reality of the industrial sector is the result of the Israeli policies which aimed to curbing it and impeding its growth, where it has used so many procedures that have prevented the development of this sector.

The most prominent of these procedures:

1. Chained the Palestinian industrial sector by multi-prohibitive tax, such as income tax on corporate profits, VAT, production tax, in addition to the imposition of the customs fees on the Palestinian industry imports of and intermediate goods and productivity; this was at a time when the Israeli industry has received financial and marketing support and facilities by the Israeli government in order to weaken the Palestinian industry's ability to compete with Israeli counterpart in the local Palestinian market (Amery, 1974,65)
2. Blocking industrial licenses from the Palestinian investor, and impeding the import of machinery and equipment which is necessary for the operation of industrial projects that is similar to Israeli counterpart as food and pharmaceutical industries, and in return encouraged Palestinian industries that meet the needs of Israeli. Associated with the Israeli market and the Israeli industry, like the industry of materials building that serve the purposes of the Israeli

construction industry and serve to build settlements process (Antoine, 1989, 12). They also provided various complementary facilities industries, or so-called sub-contracting industries, which works for the benefit of Israeli companies and agents against specific commission, such as garment, textile, and leather by the Palestinian factories for the benefit of the Israeli agent and then re-marketed in the Israeli market and the Palestinian market, or exported abroad (Antoine, 1989, 12).

3. The occupation authorities neglected the infrastructure that serves the production process, as projects of transport, communications, sewage systems and electricity, it is well known that the level of the infrastructure of the economy develops affect the level of investment either positively or negatively. Since the economic infrastructure contribute to the promotion of investment, thanks to financial incentives created by the savings in the form of foreign production; while its underdeveloped counterpart an obstacle and brake on investment, as in the case of Palestine (Shabana, and Barghouthi, 1999,18)
4. Israeli authorities have allowed for industrial products, which are characterized by a competitive price, a highest quality thanks to the support and the facilities of government, in addition to the technological superiority to enter the West Bank and Gaza Strip markets. In contrast, the industrial products which are Israeli competitive counterpart have been prevented from entering the Israeli market (Amery, 1974,68)

These actions have led to the collapse of many industrial units and exit it of the Palestinian market; because of its inability to fight in competition fierce struggle and unequal competition with the Israeli industries which has various support and facilities of government And characterized by the highest quality thanks to the technological superiority (Samara, 1991,19); thus stumbled Palestinian industrial sector growth and become infected with marginal sectors of economic recession and

stagnation and remained relative importance in Palestinian GDP is limited and substandard.

2.2.3 Construction Sector

The Palestinian construction sector witnessed a remarkable development during the period from 1968 which is reflected the high contribution to the Palestinian GDP, where its share has risen from 3.2% of the Palestinian GDP in 1968 to 19.7% In the year 1987 (Israeli Annual Statistics Book, 1989). It should be noted here that the rise in the relative importance of the construction sector in GDP is not due to increased investment in the construction and housing business, but also to the continuing collapse in the agriculture sector. The lack of improvement in the contribution of the industry because of the Israeli restrictions on agricultural and industrial production and marketing and Israeli fierce competition for Palestinian industrial and agricultural products (Sabih, 1992,26)

The construction sector has achieved this development in the relative importance of the composition of GDP in light of the difficulties imposed by Israel on this sector, such as the prevention of building permits policy, and the confiscation of land for the benefit of the settlement (Sabih, 1992,26) what distinguishes the construction sector in this period is the high share of the private sector in the local fixed capital formation, where this percentage increased over 80% during the period 79-1987 (Samara, 1991,22). This refers to the weakness of the share of public investment in this sector as a reflection of Israeli economic policy in the occupied Palestinian territories that have neglected deliberately the Palestinian infrastructure investment (Samara, 1991,23)

This sector has seriously affected since the Intifada began in 2000 wherethis sector was representing about 10% of the GDP and the number of workers in this sector is about 57 thousand workers (in mid-1999); according to statistics of the Central Organization for Statistics and this shows the important role in providing employment opportunities to support the local economy as it represents (about 31.5%) of the total new jobs generated in the private sector. As a result of the current

situation of the closures and the non-arrival of raw materials as gravel, cement, etc relied upon this sector in continuity. Which led to the suspension of the activity of this sector in a large increase in the proportion of the unemployed and the stoppage of a large number of investors and their inability to fulfill their obligations towards banks in addition to the bad economic situation of individuals. That led to cancel many private construction projects or at least postponed it Until the clarity of vision for the future of the current political, and the contribution of the construction sector in the GDP is still low, reaching 11% in 2014.

And due to the significant expansion in investment in construction in the West Bank and the Gaza Strip, the contribution of the construction sector has witnessed a remarkable development in the operation of Palestinian labor. Where workers in the construction sector increased from 8.5% in 1970 to 11% of the total number of workers in the Palestinian economy in the year 1987 (the Israeli Annual Statistics Book, 1989)

With the advent of the Palestinian Authority after the signing Oslo agreement, the percentage contribution of the construction sector in employment began to increase where this percentage accounted for about 19% rapidly this percentage began to decline until it reached 13% in 2014.

2.2.4 Services Sector

The practices and policies of the Israeli occupation in the occupied Palestinian territories led to the marginalization of the material production sectors, especially the agriculture and the industry sectors what resulted to an increase in the relative importance of the services sector in the Palestinian economy. As a result of these policies that Palestinian capital escape abroad and the rest focused in the small investment in the branches of services, such as trade, tourism and banking, which avoids the Palestinian capital of the dangers of a clash and conflict competitive with the Israeli counterpart (Samara, 1991,26)

This has led to an increase in the relative importance of the services sector in the Palestinian economy and shows clearly the high contribution of the service sector

in the GDP of the West Bank and Gaza Strip. Where the share of the service sector amounted to 49.2% of the Palestinian GDP in 1987 (Annual Israeli statistics Book, the number of 40, 1989); after the Oslo agreement the contribution of the service sector in GDP swung as reached in 2014 about 20%.

2.3 The Reality of Employment in Palestine

Labor market studies and surveys of the workforce and unemployment is considered as one of the important tools needed for decision-making on the development of economic and social. As labor force plays a key role in the economic process, it is a point of production inputs on the one hand, and represent a source of income on the other hand. The market and labor studies is one of the most important economic indicators that reflect the overall performance of the economy.

The labor force surveys of employment and unemployment statistics is considered as an important tool in monitoring the reality of the labor market, policies in operation and absorption, creation of job opportunities, raise the performance and productivity, monitoring the government's performance level and developments as occurring on a labor force of both the social and the economic sides. In addition to the look to the future on the short, medium and long-term through forecasts, and identify future's needs, and the general trend in the light of the current indicators of the reality of the job market.

This chapter aims to clarify the reality of operating and use in its different sectors of the Palestinian economy through the study of the basic indicators of the labor market in the West Bank and the Gaza Strip by using labor force statistics derived from population censuses and labor force surveys to find out the absorptive capacity of the Palestinian economy at the macro and sectorial level size.

Palestinian labor market characterized by high growth rates of labor supply faster than demand growth pace. Which drives more Palestinian workers to look for jobs outside the Palestinian labor market, especially in the Israeli labor market, or join the jobless, and increase the gap between labor supply and demand steadily in both the West Bank and Gaza Strip. Which indicates that the ability of the

Palestinian economy to absorb the Palestinian labor force decline with the passage of time and increasing dependence on the Israeli labor market (Kaplan, 2000,19). Palestinian areas is also characterized by high population growth rates and youthfulness population structure and low manpower rate of the total population in the West Bank and the Gaza Strip. , Which heralds the arrival of large numbers to join the labor force in the foreseeable future, that will make the unemployment increase with the passage of time (Makhoul, 2000,28). Unemployment is closely linked to the Israeli policy toward the West Bank and Gaza Strip presented by the policy of siege and closure, which limits the flow of Palestinian workers into the Israeli labor market (Khalefa, 1999).

2.3.1 The Historical Development of the Labor Supply in the Palestinian Economy

The labor supply is known as the desired number of working hours in the display on the market for use during a specific period of time, and at a specific level of wages (Bostwarth, 1996,23); The labor supply depends on the total overall population, their composition and age, and the rate of participation in the labor force, and the extent of the trade-off between the vacuum hours and hours of work for individuals.

Determinants of supply work

The Determinants that affect the offered quantity of work to include:

1. The size of the labor force: Either who work or those who are looking for work, where the individual is considered as one of the labor force if he\she is willing to work whether a he\she works or seriously looking for a job.
2. The wages per unit of work: Whether this unit is an hour or a day or a piece or anything else.
3. Population: Normally, the increase in population leads to increase the supply of labor force.
4. The labor force participation rate.

5. Age composition of the population: Whenever society was young, the less labor supply and vice versa.
6. The Person income from sources other than labor.
7. The person look to work from the intellectual, ideological, social, or what defines his\her wishes, to work (Saps ford, 1981)
8. Supply work in long run and short run

And usually the distinguish between labor supply in the short term and long term, depending on the determinants of labor supply in each.

Labor supply depends in the short term on the factors that determine the amount of available working hours. labor supply depends in the short term on the prevailing wage in the labor market level, and the individual evaluation of the benefit earned from work or not to work, (Leisure time), and other sources of income in addition to labor income (Bostwarth, 1996).

The wage represent the exploitation the element of work in the production process. According to economic theory, the labor supply increases with the Labor wage increases. However, this relationship may turn into an inverse relationship after a certain point of the level of wages. The change in wages affect the labor supply due to two effects: Income effect and substitution effect. Workers offer their working hours based on their preferences for working hours and breaks, so that the price of an hour convenience wage working hours. Rising wages may push workers to increase their hours of work offered by shedding one part of the time out of their break time to improve their incomes and thus their living conditions. But the relationship may become counter productive after a certain point of the level of wages and here is the effect of substitution, where you pay higher wages to workers to reduce their hours of labor supply. Thereby increasing preference for leisure, because higher wages off set the shortage of working hours, and thus maintain the same level of income, and this phenomenon is known as the curved labor supply. , (Back ward bending supply curve). (Enernberg and Smith, 1994, P173)

In the long-term labor supply depends on the size of the population and age structure; The rise or decline in the size of the population in any society is reflected in the form of an increase or decrease in the amount of work available. Populations are the primary source, which determines the size of the supply labor force; Population size is associated with the demographic changes. The most important natural population growth whenever this rate of growth has increased the width of the work in the community (Bostwarth, 1996). The age structure plays an important role in determining the amount of the labor supply; If the percentage of individuals rises in the age structure of the population when safe work ages, it is expected to increase labor supply more than if the age structure of these populations and small proportion of older people who are unable to rise to the action ,(Bostwarth, 1996, B1982)

After knowing the factors which the labor supply depends on, the historical evolution of labor supply in the West Bank and the Gaza Strip will be determined by examining the changes in the size of the population and labor force .

The size of the population in any country is considered as the main source of the labor force in the country. The size of the population is linked to demographic changes, where the natural population growth and age structure the most important of them. Usually, individuals are divided in term of their age into two categories: The first category is the labor force, which is known , according to the Palestinian Central Bureau of Statistics as all individuals in the West Bank and Gaza Strip who have completed 15 years. The second category is all individuals under the age of 15 years and therefore are out of labor force.

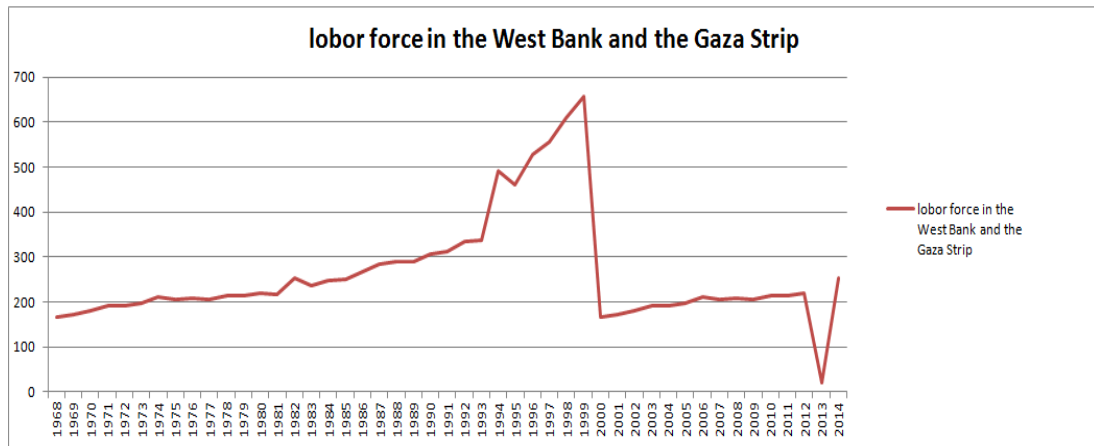
Statistics released by the Palestinian Central Bureau of Statistics to the continued increase in the number of West Bank and Gaza Strip, where the number of West Bank and Gaza Strip population increased from 2.535 million people in 1996 to 3.363 million people in 2001. It is noted from that the Palestinian territories witnessed a remarkable growth in the number of population during this period, ranging the growth rate during this period of population between 4.16% to 6.8%. In general, rate of population growth in the Palestinian territories is high compared to

global growth, which reached 1.6 in the period from 1990- 1995. (United Nation, 1996, P123).

In 2004, the number of Palestinian territory's population was about 3.9 million people, of whom 63% live in the West Bank and 37% live in the Gaza Strip. The refugees who live in the Palestinian territories are about 48% of the total population. Increasing the proportion of refugees from the Gaza Strip to reach about 68% compared to the West Bank, which amounted to 36%. The Palestinians who live in the Palestinian territories the proportion of 38.7% of the total number of Palestinians and approximately 9.6 million people. Women accounted for 49.4% versus 50.6% for males; the population community in Palestine features as a young society where widen the base and narrowing the summit.

According to Palestinian Central Bureau of Statistics estimates, the number of the Palestinian population in the West Bank and the Gaza Strip in 2014, around 10.5 million people, a relative increase of 2% for the year 2013. Where the it was noted high rate of population growth in the Gaza Strip 3% from those in the West Bank 2.67%, where the rate of 61.7% in the West Bank and 38.3% in the Gaza Strip and the population is divided by region in 2014, as distributed by gender by 50.78% males and 49.22% females.

Figure 7 Labor force in the West Bank and the Gaza Strip From 1968-2014



The figure were from the researcher own effort

These populations were distributed 4.41 million people for those aged less than 15 years and the proportion of 42%, where 38.4% of them in the West Bank and 43.7% in Gaza and such data confirm that the population of the Gaza Strip more youthfulness of the population of the West Bank. This percentage is considered a high major problems facing the labor market in Palestine. As the largest percentage of the population has not yet enter the labor market, and that a large number of new generations will enter the working age and looking for a chance which puts additional pressure on the labor market and exacerbate the problem of unemployment in the coming period.

Based on the Year book of Labor Force Survey for 2014, individuals who aged 15 years and over (within the working age) are distributed according to their relationship to the members of the labor force within the labor force numbering 1.2731 million people during the fourth quarter of 2014, of whom about 818 200 people in the West Bank and about 454 900 people in the Gaza Strip. Participation in the labor force in the West Bank as the percentage reached 46.4% versus 44.9% in the Gaza Strip; It is clear that the gap between male and female is still great to participate in the labor force, reaching 71.6% for males and 19.4% for females in Palestine.

2.3.2 Trends the labor Force in Palestine

After labor force in Palestine was identified we will discuss the workforce. Where manpower is divided into two categories the first is the Workforce, which is defined according to the Palestinian Central Bureau of Statistics as all individuals who belong to working age (labor force) and apply to them the concept of employment or unemployment. The second category is people outside the labor force. Which is defined according to the Palestinian Central Bureau of Statistics as all individuals who belong to working age (labor force), but they are not working nor looking for work, not even ready to work.

Will be tracing the evolution of Manpower since 1967 and until 2014, where it will be divided into five periods are 1968-1987, 1987-1995, 1996-2000 0.2001 to 2014.

After the 1948 war and the establishment of the State of Israel, Israel took control of large parts of Palestine and what remains is the West Bank and Gaza Strip where the West Bank followed to Jordan's rule and the Gaza Strip, followed by the Egyptian guardianship. After the defeat of the 1967 war between Israel and Arab countries, Israel took control of entire Palestinian territories and Gaza Strip. Since this year began to provide statistics on the Palestinian economy, where he carries out these statistics is the Israeli occupation controls the entire Palestinian land.

The figure 4 indicates to the Palestinian labor force size was characterized by volatility during the period from 1968 to 1987, 1987 - as its size has increasingly changed in the period 1968-1974 , rising from 146 600 people in 1968 to 212.5 thousand people in 1974; then the size of Manpower fell to 206.6 thousand people in 1977. Then the steady increase is observed in the size of labor force in the period 1977 to 1987, where the size of labor force increased from 206 thousand people in 1977 to 283.6 thousand people in 1987. The Fluctuations in the size of labor force in the Palestinian territories due to the inherent migration during this period, in addition to that this migration has characterized by fluctuate and volatility (Khalifa, 1996).

But inspite of this volatility to the size of the Manpower has achieved a remarkable growth during this period of 4.6% annually; where the annual growth of the labor force in the period of (1968-1987) of 4.6% and the annual increase in the labor force rate of 8.665 thousand person yearly.

The period 1987-1995 witnessed the beginning of this period, the outbreak of the first intifada, which lasted until the return of the Palestinian Authority in 1994. This period has seen many forms of economic blockade and curfew imposed by the Israeli occupation authorities in an attempt to stop the Intifada. The most significant results of this policy: the loss of many Palestinian workers to their jobs in Israel, in addition to the loss of many Palestinian workers to their jobs in the West Bank and Gaza Strip; because of the curfew, which was imposed on Palestinian towns and villages for long periods, as well as the strikes that were carried out by Palestinian factions in order to put pressure on the Israeli government as a form of struggle.

Figure 8 indicates to the Palestinian labor force size which has significantly evolved, rising from 293.9 thousand people in 1987 to 462 thousand people in 1995. Annual growth in the labor force during the period amounted to 10.2 per year from 1987 to 1995, and the annual increase in absolute numbers averaged 24.41 thousand people annually

This period witnessed the entry of the Palestinian Authority to the Palestinian territories and characterized by the emergence of the Palestinian public sector and the prevalence semi-stability in the political and economic climate in the Palestinian territories. It also characterized by increased severity of the Israeli closure and the sharp fluctuation in the number of workers in Israel, and the most prominent feature of this phase is the growing role of the public sector in employment.

The percentage of the labor force reached 41% of the volume of manpower in the year 2000 (the Palestinian Central Bureau of Statistics, Labor Force Survey, 2000). This means that out of every 100 people of working age there are 41 person have the desire to work (may be working or may not working). Looking at the percentage of Manpower to the total (crude participation rate) noted that this

proportion up to 20.8 of the total population in West Bank and Gaza Strip. Which is low compared to other Arab countries; Where in Syria reached Manpower relative to the total population in 1995, 29% in Libya, 27% in Jordan 35% in Egypt, 42% in Kuwait, 28% in Syria, 31% in Lebanon (General Secretariat of the League of Arab States and others, 1996)

The reason behind this drop in crude participation rate is the high proportion of those who are outside the labor factor; since 87.7% of the female outside the labor force, while the 30.5% of the males are outside the labor force in 2000 (Palestinian Central Bureau of Statistics, Labor Force Survey, 2000). And the sharp decline in female participation to the role of customs and traditions that drive females to work as housewives. The number of seats enrolled in high school, universities and educational institutions are also reasons for the low participation in the labor force. Where the percentage of those who are outside the labor force 87.4% of the total age group (15-24 years). The number of students of this age group who enrolled in school seats 92 thousand students during the school year 1996 (Mousselmani and others, 1999, 23).

As for the development of the size of labor force during the period of 1996-2001, the Palestinian labor force size has steadily evolved during this period, where the size of Manpower increased from 528 thousand people in 1996 to 802 thousand people in 2001. The annual growth rate has reached in the labor force of 8.6% annually during the same relevant period, as the annual increase in absolute numbers averaged 45.66 thousand people.

The Palestinian economy faced its worst after the outbreak of the Al-Aqsa Intifada in 2000 where he entered into a deep crisis continued throughout the past four years. The crisis intensified with the emergence of violent political conflict, especially in the Gaza Strip in the period between 2005 – 2007. Which resulted in the case of the political divide between the two wings of the homeland in the West Bank and Gaza Strip. And that was one of the most important consequences of the Israeli blockade imposed on the Gaza Strip completely, and severe restrictions on freedom of movement of people and goods and services. All of these events in the Palestinian

territories affected the size of the Manpower, reaching 667 thousand worker in 2000 participation rate of 41.6 in the workforce. Then the size of Manpower rose where Manpower in 2014 amounted to 1.320.800 by 47.6 size of labor force.

Now, after the identification of the historical development of labor supply and review of the development of the size of Manpower; the study will be focus the next section to identify the historical development of the demand for labor in the Palestinian economy to get to know the absorptive capacity of the Palestinian economy and the percentage increase in the absorption of the Palestinian labor force.

2.3.3 Employment In Palestinian Economy

At a time when labor force reflect the size of the labor supply, the number of people on top of their work reflects the size of the demand for them. The demand for labor is not a goal in itself for the employer, but he\she use it in order to take advantage of their services for the production of goods and services. This means that the demand for labor is derived from the demand for goods and services. The recent data for the survey work indicates that the number of workers in the West Bank and Gaza Strip reached 936 thousand workers. Workers are distributed between about 80% males and 20% females, which is almost the same distributions in the West Bank. These figures reflect the general nature of the business opportunities available in the Palestinian market which is a masculine character. And that the strength of competition for males is stronger than for females. Workers distribution process Helps according to certain criteria to know the structural changes that occur in the labor market and contributing to the economic policies and plans aimed at solving business problems and draw the most important problem of unemployment.

2.3.4 The Historical Development of the Employment in Palestinian Economy at the Macro level

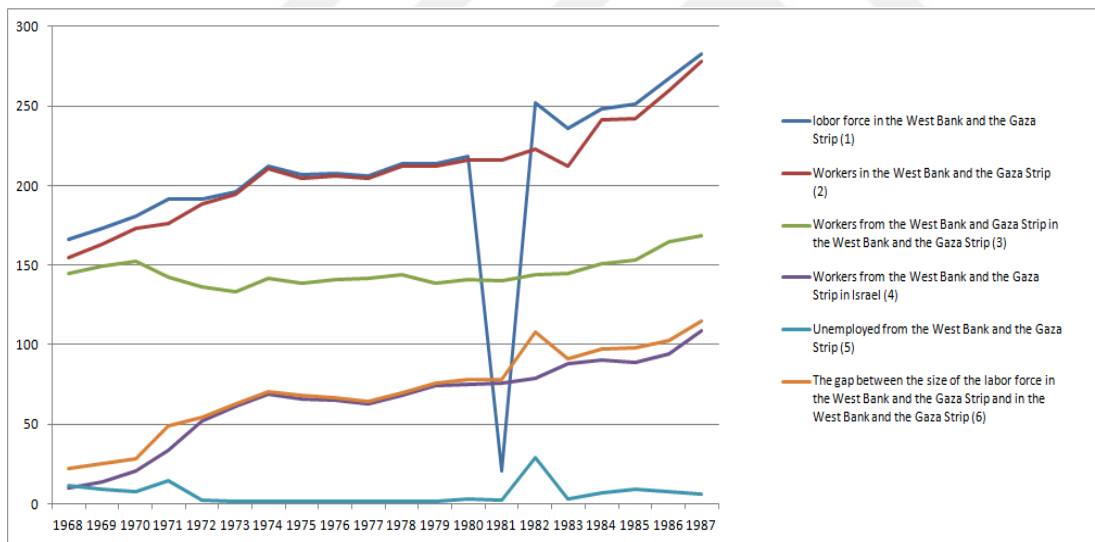
The size of the Palestinian economy usage at the macro level refers to the number of Palestinian workers in the Palestinian labor market during a certain period of time. So that does not include those who work in the Israeli labor market, and the motive behind the focus on the number of Palestinian workers in the labor market is

to identify the ability of the Palestinian economy on the operation and its capacity to work.

The development of the usage will be followed of the year 1968 until the year 2014, and by monitoring the changes in the size, and knowledge of the absolute increase in the number of employees who were able to get jobs in the Palestinian labor market and comparing the size of the absolute increase in the labor force during the same period to reach determining the carrying capacity of the Palestinian economy at the macro level during the designated period.

The historical development of the use of the Palestinian economy will be divided into four periods 1967-1987 and 1987-1995 and 1996-1999 and 2000-2014.

Figure 9 Distribution of the workforce and the Palestinian workers in the West Bank and Gaza Strip. 1968 - 1987



The figure were from the researcher own effort

The period from 1968-1987 witnessed the occurrence of the West Bank and the Gaza Strip under Israeli occupation, which worked on the integration of the Palestinian economy and inflict its Israeli counterpart, which led to the collapse of the productive base of the Palestinian economy, and limited the ability of the Palestinian economy to provide jobs opportunities for the Palestinian working forces. Thus, it has been exporting the surplus of manpower to the Israeli labor market.

Where Israel has worked to accommodate skilled Palestinian labor that they need it to build its economy.

Table 1. Distribution of the workforce and the Palestinian workers in the West Bank and Gaza Strip. 1968 - 1987
(in thousands)

year	labor force in the West Bank and the Gaza Strip (1)	Workers in the West Bank and the Gaza Strip (2)	Workers from the West Bank and Gaza Strip in the West Bank and the Gaza Strip (3)	Workers from the West Bank and the Gaza Strip in Israel (4)	Unemployed from the West Bank and the Gaza Strip (5)	The gap between the size of the labor force in the West Bank and the Gaza Strip (6)
1968	166.6	154.7	144.6	10.1	11.3	22
1969	172.8	163.2	149.7	13.5	9.6	25.2
1970	180.8	173.3	152.7	20.6	7.5	28.1
1971	191.5	176.5	142.7	33.8	15	48.8
1972	191.2	188.8	136.4	52.4	2.4	54.8
1973	196.3	194.5	133.2	61.3	1.8	63.1
1974	212.5	210.6	141.5	68.7	1.9	70.6
1975	206.6	204.7	138.4	66.3	1.9	68.2
1976	207.6	205.8	140.9	64.9	1.8	66.7
1977	206.1	204.5	141.5	63	1.6	64.6
1978	213.6	211.9	143.7	68.2	1.7	69.9

1979	213.9	212.4	138.3	74.1	1.5	75.6
1980	218.5	215.7	140.6	75.1	2.8	77.9
1981	211.1	215.9	140.1	75.8	2.2	78
1982	252.2	222.9	143.8	79.1	29.3	108.4
1983	236	212.5	144.7	87.8	3.5	91.3
1984	248	241.3	151	90.3	6.7	97
1985	251.2	242.1	152.9	89.2	9.1	98.3
1986	267.3	259.4	164.9	94.5	7.9	102.4
1987	283	277.8	168.9	108.9	6.1	115

Source: Palestinian Central Bureau of Statistics, 2015. Labor force Statistics, 1994-2013. Ramallah-Palestine.

In this period the number of Palestinian workers working in the Palestinian labor market rose from 144.6 thousand workers in 1968 to 168.9 thousand workers in 1987. And thus, the size of the absolute increase in the number of Palestinian workers had reached 24.3. If we learned that the absolute increase in the size of the Manpower totaled 117.3 thousand persons in the same period, the Palestinian economy would absorb approximately 20.7% of the size of the increase in the labor force during the same period. This means that out of every hundred people entered the labor market found during this period nearly 20 people have jobs within the local labor market of the West Bank and Gaza Strip. This shows the extent of the Palestinian economy's inability to comprehend. This deficit made us easy to summit the Israeli occupation of the Palestinian labor exploits in building its economy. Also, push the shortfall to the migration of many young Palestinians abroad that they have lost the Palestinian nationality later and denied from entering their homeland.

Table 2. Distribution of the workforce and the Palestinian workers in the West Bank and Gaza Strip. 1988 – 1996 (in thousands)

year	labor force in the West Bank and the Gaza Strip (1)	Workers in the West Bank and the Gaza Strip (2)	Workers from the West Bank and Gaza Strip in the West Bank and the Gaza Strip (3)	Workers from the West Bank and the Gaza Strip in Israel (4)	Unemployed from the West Bank and the Gaza Strip (5)	The gap between the size of the labor force in the West Bank and the Gaza Strip and in the West Bank and the Gaza Strip (6)
1988	289.3	236.9	172.5	109.4	52.4	116.8
1989	290.3	279.5	174.6	104.9	10.8	115.7
1990	307.7	296.5	188.8	107.7	11.2	118.9
1991	312.1	287.4	189.7	97.7	24.7	122.4
1992	333.4	319.3	203.7	115.6	14.1	129.7
1993	338.5	316.1	232.1	84	22.4	106.4
1994	491	330.14	355.7	74.44	60.86	131.2
1995	462	402.7	338.9	63.8	59.3	121.4
1996	528	411.3	353.8	57.5	116.7	174.2

Source: Palestinian Central Bureau of Statistics, 2015. Labor force Statistics, 1994-2013. Ramallah-Palestine.

The table above Indicates that the number of Palestinians working in the Palestinian labor market has increased from 168.9 thousand workers in 1987 to 338.9 thousand workers in 1995. Thus, the size of the absolute increase in the number of Palestinian workers in the labor market has reached 184.9 thousand workers during the period 1987-1995.

If we know that the size of the absolute increase in the size of the labor force has reached 244.1 thousand people, the Palestinian economy have been absorbed 75.7% of the size of the absolute increase in the labor force during the same period. This means that out of every hundred people entered the labor market during the period 1987-1995 was found nearly 75 people jobs within the Palestinian labor market. The reason for the high absorptive capacity of the Palestinian economy for the period of 1995-1987 to that Israeli statistics are released these figures. Israeli Census Bureau considers that the unemployed person is the one who has not applied to the office work of the Israeli Labor and register as unemployed, and this did not happen by Palestinian workers. So the absorptive capacity of the Palestinian economy seems relatively high during this period, it is worth to mentioning that many of the Studies have pointed to question the validity of the Israeli statistics (Makhoul, 2000,18)

It is observed during this period that the number of workers inside the Palestinian territories has increased from 168 900 workers in 1987 to 338 000 workers in 1995; The main reason for this is the signing of the Oslo agreement between the Palestinian Authority and Israel in 1993. Where the Palestinian Authority began to establish its agencies and provide many job opportunities that was occupied by residents Palestinian workers of the West Bank and Gaza Strip or by Palestinians who came from abroad with the Palestinian Authority. In terms of employment inside Israel, it is noted that the number of workers in Israel has dropped from 108 700 workers in 1987 to 36 800 workers in 1995.

Table 3. Distribution of the Palestinian labor force and workers in West Bank and Gaza Strip from 1996 to 2014 (in thousands)

year	Workforce in the West Bank and the Gaza Strip (1)	Workers in the West Bank and the Gaza Strip (2)	Workers from the West Bank and Gaza Strip in the West Bank and the Gaza Strip (3)	Workers from the West Bank and the Gaza Strip in Israel (4)	Unemployed from the West Bank and the Gaza Strip (5)	The gap size between the workforce in the West Bank and the Gaza Strip and the workers in the West Bank and the Gaza Strip (6)
1996	528	412	353	58	117	175
1997	555	442	366	76	117	189
1998	610	522	407	115	88	203
1999	658	580	446	134	78	212
2000	166.6	154.7	144.6	10.1	11.3	22
2001	172.8	163.2	149.7	13.5	9.6	25.2
2002	180.8	173.3	152.7	20.6	7.5	28.1
2003	191.5	176.5	142.7	33.8	15	48.8
2004	191.2	188.8	136.4	52.4	2.4	54.8
2005	196.3	194.5	133.2	61.3	1.8	63.1

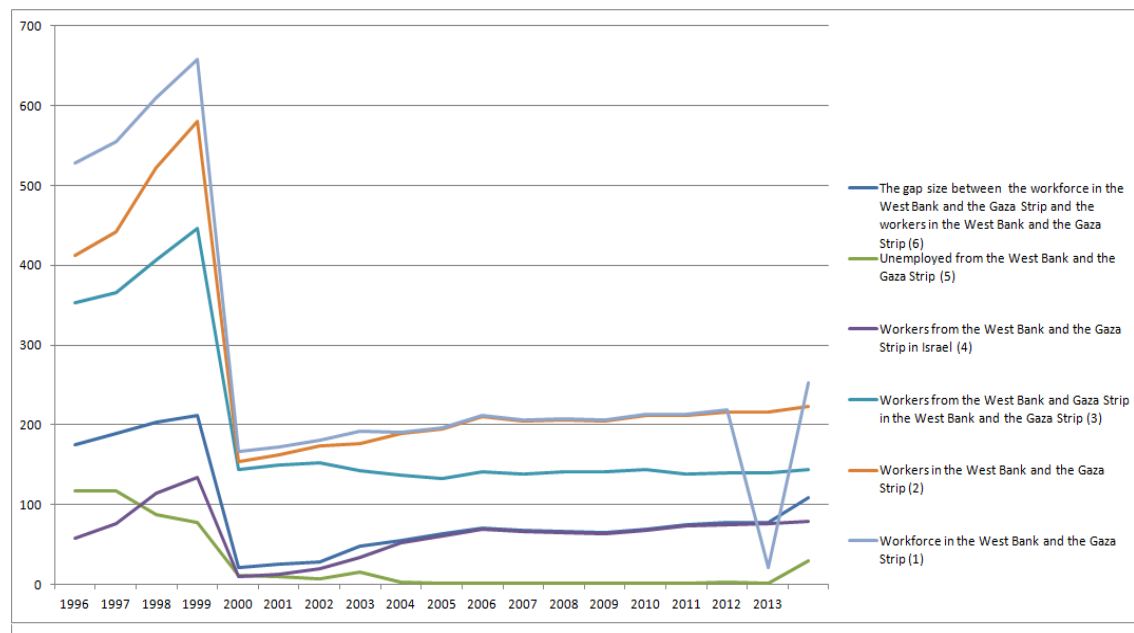
2006	212.5	210.6	141.5	68.7	1.9	70.6
2007	206.6	204.7	138.4	66.3	1.9	68.2
2008	207.6	205.8	140.9	64.9	1.8	66.7
2009	206.1	204.5	141.5	63	1.6	64.6
2010	213.6	211.9	143.7	68.2	1.7	69.9
2011	213.9	212.4	138.3	74.1	1.5	75.6
2012	218.5	215.7	140.6	75.1	2.8	77.9
2013	21.1	215.9	140.1	75.8	2.2	78
2014	252.2	222.9	143.8	79.1	29.3	108.4

Source: Palestinian Central Bureau of Statistics, 2015. Labor force Statistics, 1994-2013. Ramallah-Palestine.

In this period, which have witnessed a development in the public sector where the processing of PA institutions and its security apparatus began. the data in this period indicate to the number of Palestinians working in the Palestinian labor market which has increased from 353 thousand workers in 1996 to 458 thousand workers in 1999. Thus, the size of the absolute increase during this period amounted to 130 thousand workers and if its known the absolute increase in the size of the labor force has reached 130 thousand persons; The Palestinian economy have absorbed 71% of the size of the increase in the labor force during the same period. Where the absorptive capacity of the Palestinian economy increased by employ 353 thousand workers in 1996 to 446000 workers in 1999. This means that out of every hundred people entered the Palestinian labor market Was found nearly 71 people jobs within the Palestinian labor market during the period of 1996-1999. A period in which the Palestinian economy lived the best conditions in terms of the existence of political

stability to some extent. This stability increased the encouraging of foreign and Arab and Palestinian investors to expand their investments in or opening of new projects, which increased the capacity of the Palestinian economy absorption.

Figure 6 . Distribution of the Palestinian labor force and workers in West Bank and Gaza Strip from 1996 to 2014



The figure were from the researcher own effort

With the outbreak of the al-Aqsa intifada the ability of the Palestinian economy began to absorb labor in decline. The number of employees fell within the West Bank and the Gaza Strip 463.9 thousand workers in 2000, a rate of 81% of the employees working inside the West Bank and Gaza Strip. In 2002, the number of employees fell within the West Bank and Gaza Strip to 409.5 thousand workers by 90% but this increase in the percentage of use were not the result of increasing the capacity of the Palestinian economy to absorb labor, but because of the low number of workers in Israel. In 2014 the number of workers in the West Bank and the Gaza Strip 927.7 thousand workers. Thus, the size of the absolute increase in the number of workers inside the Palestinian territories 463.8 thousand workers during the period 2000-2014. Conversely, the number of Palestinian entered the labor market has increased from 667 thousand workers in 2000 to 1,320,8 thousand workers in 2014.

and therefore, the absolute increase in the size of the workforce 653.8. The Palestinian economy have absorbed 71% of the size of the increase in the labor force during the same period where absorptive capacity of the Palestinian economy increased to employ 463.3 thousand workers in 2000 to 927.7 thousand workers in 2014. This means that out of every hundred people entered the Palestinian labor market nearly 71 people found jobs within the Palestinian labor market during the 1996-1999 period.

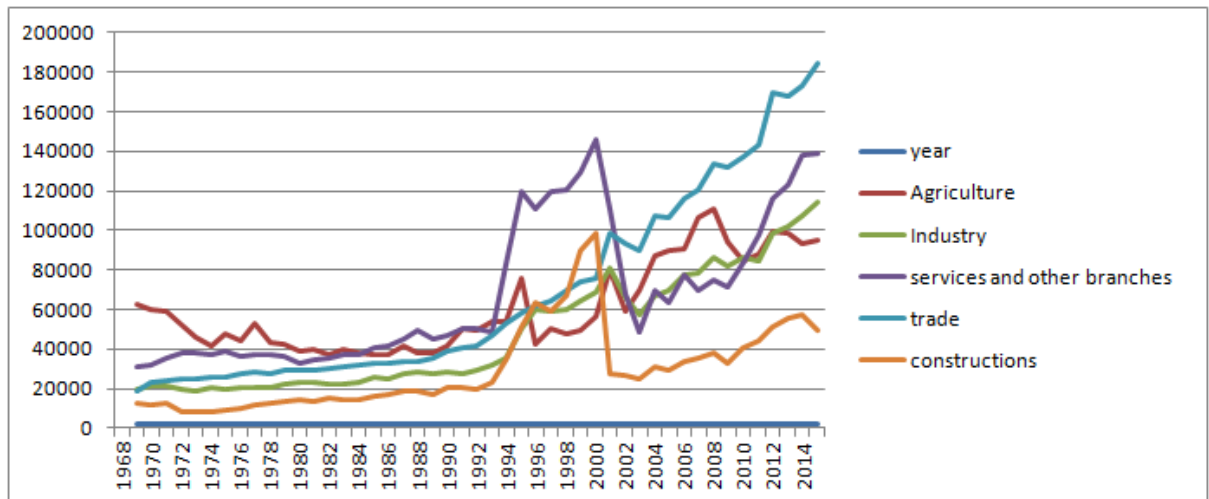
Now, after determining the absorptive capacity of the Palestinian economy, the absorptive capacity of various economic sectors will determine.

2.3.5 The Historical Development of the Employment of the Sectoral Level

This part of the study aims to determine the carrying capacity of the various Palestinian economic sectors. The historical development of the use will be followed of the sectoral level of the year 1968 – 2014 by monitoring the changes in the volume of employment in each sector, and know workers who were able to get jobs in each sector separately, in addition to compare the size of the absolute increase in the total number of Palestinian workers in the labor market during the same period, to reach determining the carrying capacity of each sector during certain period.

The period of 1968-2014 will be divided into four periods are 1968-1987, 1987-1995, 1996-1999, 2000-2014. Economic sectors will be divided according to the classification of the Palestinian Central Bureau of Statistics, which classified it into five sectors.

Figure 10 Distribution of the Palestinian labor force and workers in sector in West Bank and Gaza Strip from 1996 to 2014

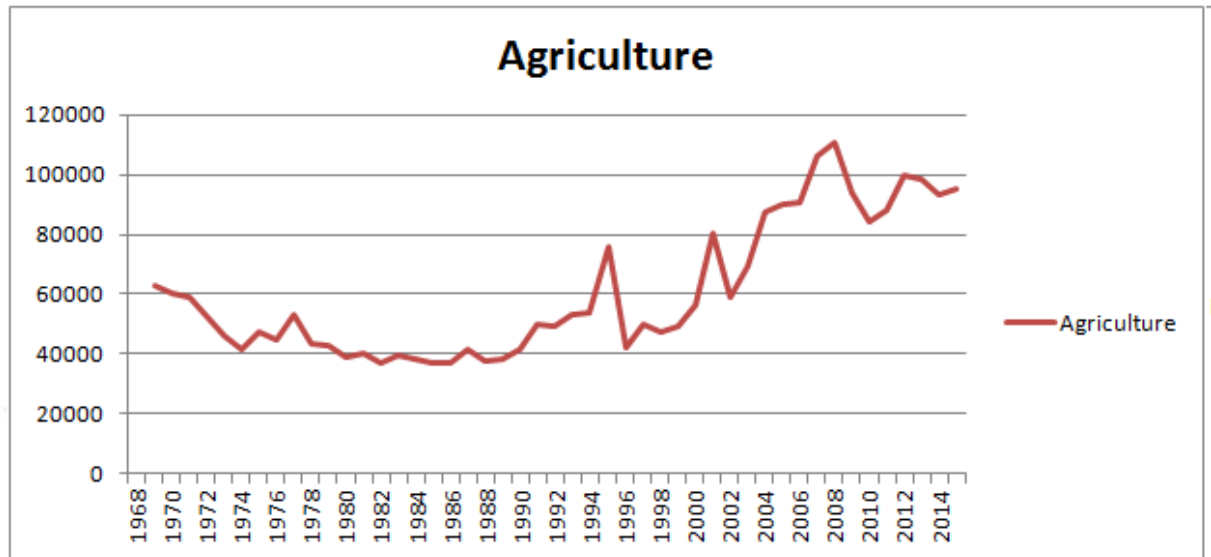


The figure were from the researcher own effort

2.3.5.1 The Agricultural Sector

The agricultural sector has played a key role in the formation of the Palestinian GDP over long periods of time it was the vital sector which contributed to the provision of food for the Palestinian people. And absorb a large part of the workers, but the decline hit this sector, where the number of workers in the agricultural sector fell from 62.9 thousand workers in 1968 to 38.4 in 1987, workers in 1987. Where a lot of agricultural workers turning to work in Israel; Palestinian Central Bureau of Statistics data indicate that the number of workers in Israel rose during this period from 10.1 thousand workers in 1968 to 108.9 thousand workers in 1987. Investment and attention shifted from agriculture to other economic sectors, such as industry, trade and services as a result of the low yield of agriculture, and therefore, the agricultural sector did not provide any additional jobs during this period.

Figure 8 Distribution of the Palestinian labor force and workers in Agriculture sector in West Bank and Gaza Strip from 1996 to 2014



The figure were from the researcher own effort

Agriculture in Palestine is considered the last refuge of the Palestinian workers; when it's unable to find employment opportunities in other sectors or Israel resort to work at their land. After the ignition of the first intifada in 1987 and tighten the siege on the Palestinian territories and prevent Palestinian workers from working in Israel, the number of Palestinian workers who work in the Palestinian agricultural sector has increased from 38.4 thousand workers in 1987 to 75.7 thousand workers in 1994. With the beginning of the stability of the political situation in the Palestinian territories and the calm conditions and the return of many Palestinian workers to their work places in Israel, the number of the Palestinian workers fell down to 42 300 workers in 1995. Thus, the size of the absolute increase in the number of workers in the agricultural sector has reached 3.4 thousand workers during this period. If we learned that the size of the increase in the number of Palestinian workers in the labor market has increased by 170 thousand workers during the period 1987-1995. In 1995, the agriculture sector has absorbed a rate of 2% of the size of the increase in employment in the Palestinian labor market, and this rate is very low indicating the weakness of the agricultural sector's ability to absorb the increase in the labor force in Palestine.

Resulted in the presence of the Palestinian Authority in the West Bank and Gaza to the rule of a new political and economic climate. This has affected the vital sectors that serve the Palestinian people, because of the efforts made by the Palestinian Authority institutions, which remains to overcome the negative effects of the Israeli occupation. Since the Palestinian Authority inherited Palestinian society which lacks the infrastructure and lack of essential services to national and governmental institutions. Therefore, the Palestinian Authority has built institutions which capable of managing all sectors and serve the Palestinian community and that are able to develop policies and development programs and development effectively. As well as the ability to develop legislation and laws to regulate the Palestinian society and the development of economic systems and the development of an effective methodology for Development. In addition, the Palestinian Authority has shown interest in human resources and sought to build the human potential of high efficiency that can contribute to the Palestinian Authority institutions management.

The Palestinian National Authority has realized the importance of the agriculture sector as the main economic activity in the Palestinian countryside; being one of the most important sectors producing goods in the Palestinian economy, and in light of that the Palestinian Authority sought to build agricultural organization at the national level in the framework of an independent authority to be able to identify priorities and directions agricultural policy objectives and the development of legal and legislative standards. Pursuit of an effective integration between the agricultural planning and other aspects of economic environmental and social associated with agriculture. All this attention has led to the impact on the number of workers in the agricultural sector, where the number of employees increased from 42.3 thousand workers in 1995 to 56.2 thousand workers and so the size of the absolute increase in the number of workers in the agricultural sector exceeded 13,900 workers.

If we knew that size of the increase in employment in the Palestinian labor market has reached 130 thousand workers during the period from 1996 to 1999, the agricultural sector may be absorbed 4.5% of the size of the increase in the number of Palestinian workers during this period. These results indicate weak and limited

agricultural sector to absorb the growth in employment, and that it does not constitute a great importance in the creation of employment opportunities within the Palestinian economy.

From 2000-2014 witnessed the outbreak of the Al-Aqsa Intifada, where the Palestinian agricultural sector exposure for many of the devastating Israeli attacks, including the uprooting of fruit trees, leveling of agricultural crops on a large scale, the destruction of water wells and irrigation systems, the destruction of greenhouses, targeting animal pens, poultry farms, beehives, impeding the work of the fishermen, and the closure of the border crossings, which negatively impact on the marketing of agricultural products. In addition to the confiscation of thousands of acres of agricultural land for the construction of the barrier and buffer zones Or claw by pass roads for settlers, or the expansion of settlements and the establishment of new outposts; these reasons led to a decrease in the agricultural sector's contribution to GDP. Accommodate this sector working for the hands of 80,500 workers in 2000 also fell by 14% of the total workers in Palestine to 58 700 workers in 2001, 12% of the total workers in Palestine. And continued volatility in the number of workers in the agricultural sector until it reached in 2014 95400, the rate of 10%.

During this period, the number of workers in Palestine increased from 571 400 to 913 200 in 2000, an increase of 341 800; in contrast, the number of workers in the agricultural sector increased by 14,600, and therefore, the agricultural sector absorbed 4.2% of the total increase in the number of employees during the period of 2000-2014.

2.3.5.2 Industrial Sector

Since the occupation of the West Bank and the Gaza Strip, the Israeli occupation authorities have worked in various ways to inflict the Palestinian economy in the West Bank and Gaza, to the Israeli economy for two goals: The first is political and the other one is economic by making it a profitable and followed economy to the Israeli economy through a range of military and administrative procedures which led to the destruction of the Palestinian economy structure in

general and the Palestinian industry in particular. Which fell and lagged weakened its ability to keep pace with industrial developments in neighboring countries, and these procedures are:

1. Directing human resources and Palestinian natural resources to serve the Israel economy; which work to keep it away from contributing to Palestinian economic growth whether by rape of water, land and Judaize or by forcing workers to work in Israel or establishing subcontracting with Israeli companies?
2. Absolute monopoly of the Palestinian markets by dumping it by the Israeli high competitiveness goods and follow the open bridge policy in order to empty the West Bank's markets and Gaza Strip of Palestinian goods.
3. Close all banks that were operating in the West Bank and Gaza before the 1967 war which led to the denial of the Palestinian economy from the banking system which contributes to the accumulation of capital and replace it with an Israeli banking system that works on the Israeli capital service within the West Bank and Gaza Strip, and facilitate trade movement commensurate with the interests of the capital of the Zionist.
4. Work on taxing high fees and convert it to cover all the expenses of the occupation and transfer the surplus to the treasury of the Israeli government (value-added tax and income tax).
5. Prevent horizontal expansion of Palestinian Industries through large rationing in the issuance of licenses for the establishment of new factories or expand existing ones, especially large enterprises that rely on the exploitation of local economic resources.
6. Work to block foreign investment in the West Bank and the Gaza Strip; so it won't to be an obstacle to the capital of the Zionist in the exploitation of cheap labor and not a competitor for Israeli products.

All of these arbitrary actions practiced by the Israeli occupation in order to weaken the industrial sector affected the contribution of the industrial sector in employment in Palestine. Palestinian Central Bureau of Statistics data show that the

number of Palestinian workers who work in the Palestinian industrial sector has increased from 19.7 thousand workers in 1968 to 28.5 thousand workers in 1987. Thus, the size of the absolute increase in the number of workers in the industrial sector have reached 8.8 thousand workers during the period of 1968-1987. If we know that the size of the increase in employment in Palestinian labor market has reached 24.3 thousand workers during the period from 1968 to 1987, the industrial sector may be absorbed 36.2% of the size of the increase in the number of Palestinian workers during this period.

After the start of the first intifada in 1987, which is considered a turning point in the Palestinian states and the gains which has been achieved, especially at the economic level of popular protection which pushed the Israel occupation authorities to take many of the arbitrary and repressive actions in order to abort those gains, which were represented as follows:

- The imposition of high taxes on owners of factories and factories raided by Tax and customs men.
- Paralysis the economic movement by imposing curfews on towns and villages for long periods.
- Obstruct the movement of transportation between cities.
- Cut electricity and water off Palestinian towns and villages.
- Prevent the supply of the West Bank and Gaza Strip with fuel.
- Prevent the entry of funds from abroad (specify only 200 JD per person).
- Frequent and continuous closure of Palestinian towns and villages and declared it as closed military zones.

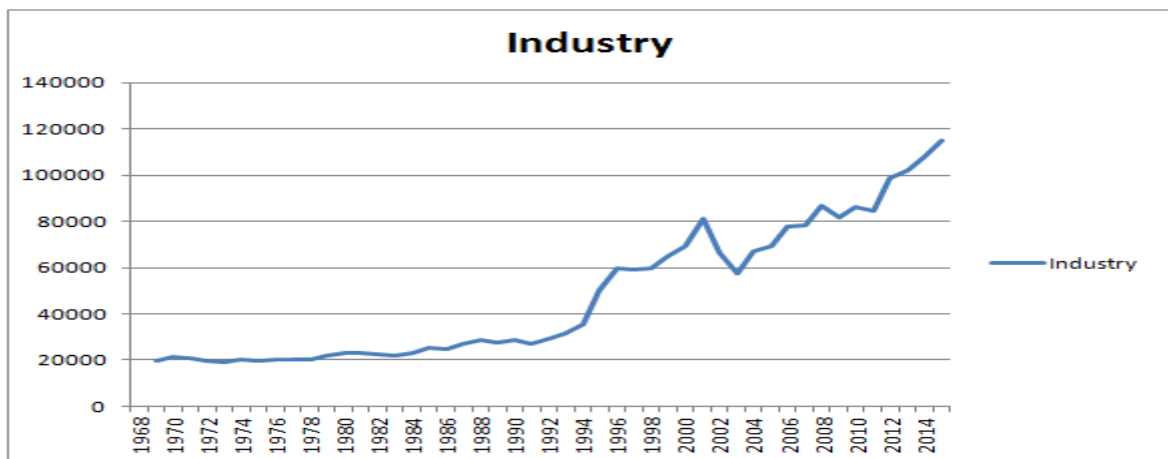
Table 4 Distribution of the Palestinian labor force and workers in Industry sector in West Bank and Gaza Strip from 1996 to 2014

All of these reasons have led to the deterioration and of the industrial sector and the decline its contribution to in the employment of Palestinians workers. Where figure 10 Indicates that the number of Palestinian workers who work in the Palestinian industrial sector has increased from 28.5 thousand workers in 1987 to 59.3 thousand workers in 1996. Thus, the size of the absolute increase in the number

of workers in the industrial sector has reached 30.8 thousand during the period from 1987 to 1995. If we learned that the size of the increase in employment in Palestinian labor market has reached 184.7 thousand workers during the period from 1987 to 1995, the industrial sector may be absorbed 16.6% of the size of the increase in the number of Palestinian workers during this period.

Instability that prevailed in the Palestinian territories during this period and a loss of confidence in the peace process has led to continuing deterioration in the industrial sector and the weakness of its effectiveness in the Palestinian economy. Figure 10 indicates that the number of Palestinian workers who work in the Palestinian industrial sector has increased from 59.3 thousand workers in 1996 to 69.1 thousand workers in 2001; thus, the absolute size of the increase has reached 9.8 thousand workers during the period. If we know that the absolute size of the increase in employment in Palestinian labor market has reached 93 thousand workers during this period, the industrial sector have absorbed 10% of the size of the increase in the number of Palestinian workers during this period.

Figure 9 Distribution of the Palestinian labor force and workers in industry sector in West Bank and Gaza Strip from 1996 to 2014



The figure were from the researcher own effort

With the outbreak of the intifada in 2000, the special operation in the industry indicators began to decline in relative terms of the number of employees decreased from 81,000 workers in 2000 to 57,500 in 2002 and at a rate of about 21.7% decrease

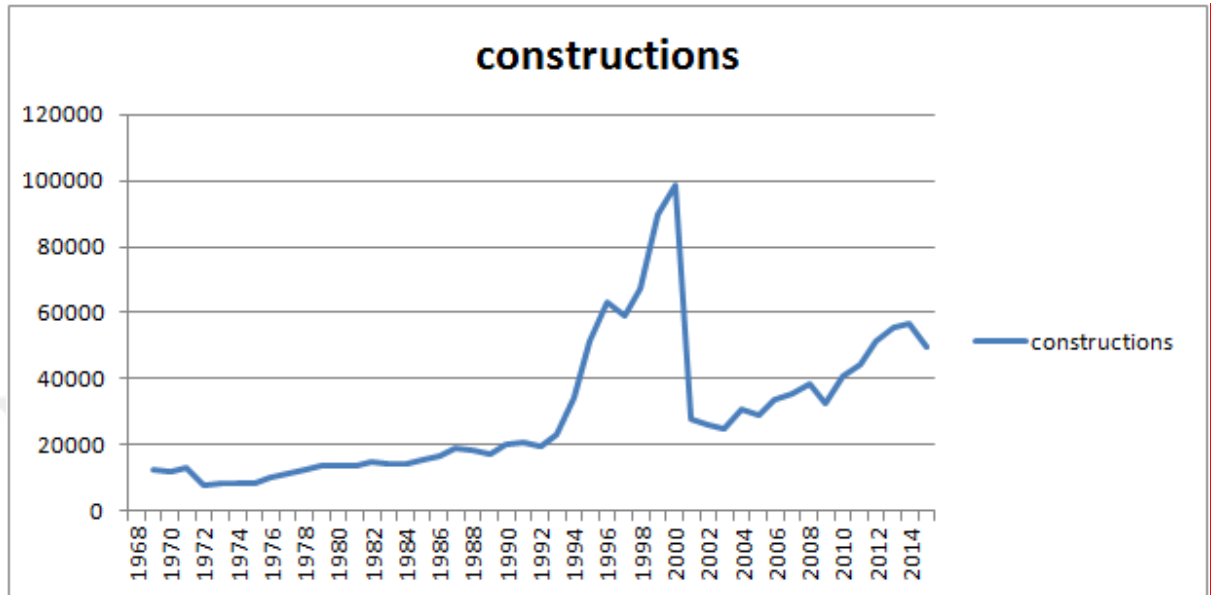
compared to the year 2000. Where the contribution of the industrial sector in the operation amounted to 12.5 that the industrial sector was in the worst conditions of in parallel with the decline in operating. The number of operating institutions in the industrial sector has also declined to approximately 13693 institutions during the year 2003 dropped by 7.8% compared to the year 1999. It is worth mentioning that the decline in employment rates in the industrial sector has been growing with the rise in unemployment in the Palestinian territories. In 2014 the number of workers in the industrial sector reached 114 700; during this period, the number of workers in Palestine increased from 571 400 to 913 200 in 2000, an increase of 341 800. In contrast, the number of workers in the industrial sector increased by 33700 and therefore the agricultural sector absorbed 9.8% of the total increase in the number of employees during the period 2000-2014.

2.3.5.3 Construction Sector

Figure 10 indicates that the number of Palestinian workers who work in the Palestinian construction sector has increased from 12.6 thousand workers in 1968 to 18.5 thousand workers in 1987. Thus, the size of the absolute increase in the number of workers in the construction sector have reached 5.9 thousand workers during the period from 1968 to 1987. If we know that the size of the increase in employment in the Palestinian labor market has reached 24.3 thousand workers, during the period from 1968 to 1987, then the construction sector may be absorbed 24.2% of the size of the increase in the number of Palestinians working in this period.

Figure 10 indicates that the number of Palestinian workers who work in the Palestinian construction sector has increased from 18.5 thousand workers in 1987 to 59.7 thousand workers in 1995. Thus, the size of the absolute increase in the number of Palestinian workers in the construction sector has reached 40.8 thousand workers during the period from 1987 to 1995. If we knew that the size of the absolute increase in employment in the Palestinian labor market has reached 184.9 thousand workers during the period from 1987 to 1995, the construction sector had absorbed 22% of the size of the increase in the number of Palestinian workers during this period.

Figure 10 Distribution of the Palestinian labor force and workers in construction sector in West Bank and Gaza Strip from 1996 to 2014



The figure were from the researcher own effort

The graph above indicates that the number of Palestinian workers who work in the Palestinian construction sector has increased from 59.3 thousand workers in 1996 to 69.1 thousand workers in 1999. Thus, the absolute size of the increase has reached 10.2 thousand workers during the period from 1996 to 1999 and if they knew that absolute size of the increase has reached 93 thousand workers during this period, the construction sector may be absorbed approximately 10% of the size of the increase in the number of Palestinian workers through this period.

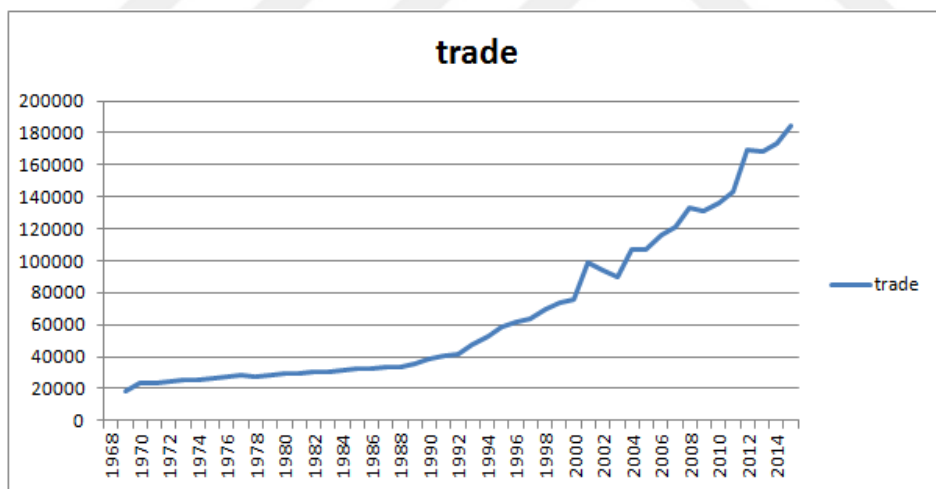
Figure 10 indicates that the number of Palestinian workers in the construction sector after the outbreak of the intifada in 2000 has reached 111,000 this number reached 48500 in 2002; this continued volatility in the number of workers dramatically during this period of up to 139 300 2014. Thus, the size of the absolute increase in the number of employed 28,300 workers during the period 2000-2014. If it is known that the absolute size of the increase in the number of employees in the 341 800 Palestinian labor markets, then construction

sector has absorbed approximately 8.2% of the size of the increase in the number of Palestinian workers during this period.

2.3.5.4 Trade, Restaurants and Hotels Sector

Figure 11 indicates that the number of Palestinian workers who work in the trade sector. Restaurants and hotels have increased from 18.7 thousand workers in 1968 to 33.2 thousand workers in 1987. Thus, the size of the absolute increase in the number of workers in trade, restaurants and hotels sector have reached 14 500 workers during the period 1968-1987; If we knew that absolute increase employment in the Palestinian labor market has reached 24.3 thousand workers during the period from 1968 to 1987, trade, restaurants and hotels sector have absorbed 59.6% of the size of the increase in the number of Palestinian workers during this period.

Figure 11 Distribution of the Palestinian labor force and workers in Trade, restaurants and hotels sector in West Bank and Gaza Strip from 1968 to 2014



The figure were from the researcher own effort

The graph above indicates that the number of workers who work in the trade, restaurants and hotels sector has increased from 33.2 thousand workers in 1987 to 64.2 thousand workers in 1996; and thus the size of the absolute increase in the number of workers in trade, restaurants and hotels sector has reached 31 thousand during the period 1987-1995. If we knew that size of the increase in the number of

Palestinian workers in the labor market has reached 184.9 thousand workers during the period from 1987 to 1995, then trade, restaurants and hotels sector absorbed 16.7% of the size of the increase in the number of Palestinian workers during this period.

Palestinian Central Bureau of Statistics data indicate that the number of Palestinian workers who work in the trade, restaurants and hotels sector has increased from 64.2 thousand workers in 1996 to 101.2 thousand worker. And thus the sizes of the absolute increase in the number of workers in trade, restaurants and hotels sector have reached 37 thousand workers during this period. If we knew that absolute size of the increase has reached 161 thousand workers during this period, trade, restaurants and hotels sector have absorbed 23% of the size of the increase in the number of Palestinian workers during this period.

Palestinian Central Bureau of Statistics data indicate that the number of Palestinian workers who work in the trade, restaurants and hotels sector has increased from 98 900 in 2000 to 184 400 workers in 2014. Thus, the size of the absolute increase in the number of workers in trade, restaurants and hotels sector have reached 85 500 workers during this period. If we knew that the size of the increase in absolute number of workers in Palestine during this period amounted to 341 800 workers, trade, restaurants and hotels sector have absorbed 25% of the size of the increase in the number of Palestinian workers during this period.

2.3.5.5 The Service Sector and the Other Branches

Figure 12 Distribution of the Palestinian labor force and workers in service and other branches, restaurants and hotels sector in West Bank and Gaza Strip from 1968 to 2014

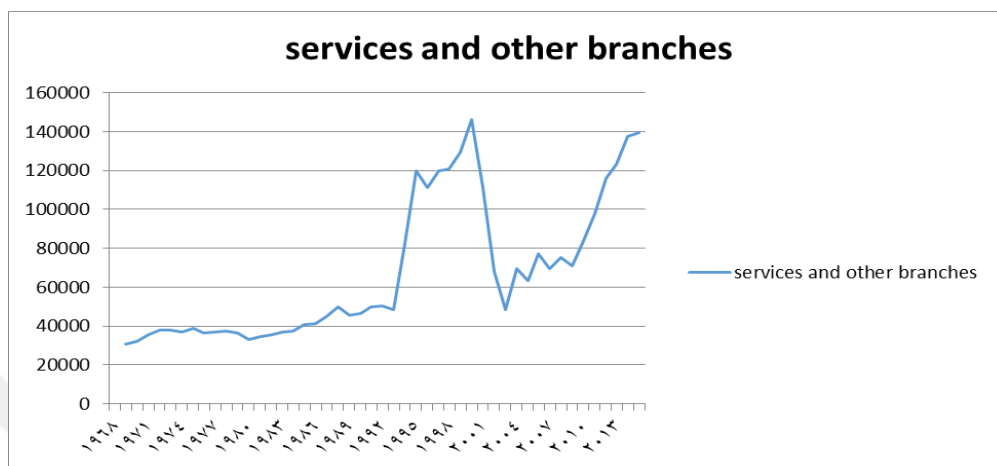


Figure (12) indicates that the number of Palestinian workers who work in the service sector has increased from 30.7 thousand workers in 1968 to 49.8 thousand workers in 1987. Thus, the size of the absolute increase in the number of workers in the service sector has reached 19.1 thousand workers during the period 1968-1987. If we knew that size of the increase in employment in the Palestinian labor market has reached 24.6 thousand workers during the period from 1968 to 1987, the service sector have absorbed 77% of the size of the annual increase in the number of Palestinian workers in this period.

The Central Bureau of Statistics data indicate that the number of Palestinian workers who work in the Palestinian services sector has increased from 49.8 thousand workers in 1987 to 120 thousand workers in 1996. Thus, size of the absolute increase amounted to 70.2 during this period, and if it is known that the size of the absolute increase in employment in the Palestinian labor market has reached 184.9 thousand workers during this period; therefore, the services sector have absorbed 38% of the size of the increase in the number of Palestinian workers during this period.

Palestinian Central Bureau of Statistics data indicated that the number of Palestinian workers who work in the service sector has increased from 120 thousand workers in 1996 to 207.6 thousand workers. Thus, the size of the absolute increase in the number of workers in the service sector has reached 87.7 thousand workers during this period and if we knew that the size of the absolute increase in employment in the Palestinian labor market has reached 161 thousand workers during this period, the services sector may be absorbed 54.4% of the size of the absolute increase in the number of Palestinian workers in the labor market during this period.

Palestinian Central Bureau of Statistics data indicate that the number of Palestinian workers who work in the service sector has increased from 172 000 workers in 2000 to 330 000 workers in 2014. Thus, the size of the absolute increase in the number of workers in the service sector has reached 158 000 workers during this period. And if it was known that the size of the absolute increase in the number of workers in Palestine during this period amounted to 341 800 workers, the services sector would be absorbed 46.2% of the size of the increase in the number of Palestinian workers during this period.

CHAPTER THREE

THE ROLE OF FISCAL POLICY IN INCREASING THE ABSORPTIVE CAPACITY OF THE PALESTINIAN ECONOMY

3.1 The Size of the Gap Between the Palestinian Labor force and Absorptive Capacity of the Palestinian Economy

The size of the gap between the labor force and absorptive capacity indicator of the economy's ability to absorb the growth in the labor force. This gap will be Counted as the difference between the palestinian labor force and the number of workers in the local labor market of the West Bank and the Gaza strip, so the size of the gap does not represent the actual number of unemployed; because, some of them may work outside the palestinian labor market, especially those who work in Israel. The motive behind the focus on the number of workers in the local labor market of the West Bank and Gaza Strip and in the counting of this gap is to identify the ability of the Palestinian economy to absorb the Palestinian labor force.

The evolution of the demand for labor in the Palestinian territories Will be followed of the 1968-2014 year gap, and by monitoring the changes in the size and rate of the Palestinian labor force during this period. And will be divided into the evolution of the demand for labor gap to four periods as follows: 1968-1987, 1987-1995, 1996-2000, 2001- 2014

- The period of 1968-1987

Table (4) the labor force in the West Bank and Gaza 1968-1987

Year	labor force (1)	Workers in the West Bank and the Gaza Strip (2)	Workers from the West Bank and the Gaza in west bank and Gaza Strip (3)	Workers in Israel (4)	Unemployment (5)	The gap between the size of the labor force (6)
1968	166.6	154.7	144.6	10.1	11.3	22
1969	172.8	163.2	149.7	13.5	9.6	25.2
1970	180.8	173.3	152.7	20.6	7.5	28.1
1971	191.5	176.5	142.7	33.8	15	48.8
1972	191.2	188.8	136.4	52.4	2.4	54.8
1973	196.3	194.5	133.2	61.3	1.8	63.1
1974	212.5	210.6	141.5	68.7	1.9	70.6
1975	206.6	204.7	138.4	66.3	1.9	68.2
1976	207.6	205.8	140.9	64.9	1.8	66.7
1977	206.1	204.5	141.5	63	1.6	64.6
1978	213.6	211.9	143.7	68.2	1.7	69.9
1979	213.9	212.4	138.3	74.1	1.5	75.6
1980	218.5	215.7	140.6	75.1	2.8	77.9
1981	211	215.9	140.1	75.8	2.2	78
1982	252.2	222.9	143.8	79.1	29.3	108.4
1983	236	212.5	144.7	87.8	3.5	91.3
1984	248	241.3	151	90.3	6.7	97

1985	251.2	242.1	152.9	89.2	9.1	98.3
1986	267.3	259.4	164.9	94.5	7.9	102.4
1987	283	277.8	168.9	108.9	6.1	115

Source: (1), (2), (4), (5) ICBS, SAI, No. 45, 1994, P. P 710 – 711.

Table (4) indicates that the gap demand for labor in the West Bank and Gaza Strip increasing with the passage of time, as the average size of the gap 71.3 thousand people during the period from 1968 to 1987 is equivalent to 33% of the average of the workforce size of in the same period. The average of annual increase in the demand for 4.65 thousand people work gap annually, which means that the demand for labor in the Palestinian territories gap has grown an annual growth rate of 4% annually, and the results suggest that the ability of the Palestinian economy to absorb the labor force is very limited. And depends on the Israeli labor market in the discharge of the surplus of the Palestinian labor force, as the average number of Palestinian workers who work in Israel 63.755 thousand workers during the same period.

This period has also seen a significant increase in the number of workers in Israel, where the number of workers increased from 10.1 thousand workers in 1968 to 108.9 thousand workers in 1987. Where Israel has worked since its existence to integrate the Palestinian economy with the Israeli economy and to use Palestinian workers to work inside the occupied land to cover the shortage of labor in Israel. They believe that providing job opportunities for the Palestinian young men will distract them from their case and make them forget the land that occupation raped it.

- The period of 1987-1995

Table (5) the labor force in the West Bank and Gaza 1987-1996

year	labor force (1)	Workers in the West Bank and the Gaza Strip (2)	Workers from the West Bank and the Gaza work in west Bank and Gaza(3)	Workers Israel (4)	Unemployed (5)	The gap between the size of the labor force (6)
1987	283.9	277.8	168.9	108.9	6.1	115
1988	289.3	236.9	172.5	109.4	52.4	116.8
1989	290.3	279.5	174.6	104.9	10.8	115.7
1990	307.7	296.5	188.8	107.7	11.2	118.9
1991	312.1	287.4	189.7	97.7	24.7	122.4
1992	333.4	319.3	203.7	115.6	14.1	129.7
1993	338.5	316.1	232.1	84	22.4	106.4
1994	491	330.14	355.7	74.44	60.86	131.2
1995	462	402.7	338.9	63.8	59.3	121.4
1996	528	411.3	353.8	57.5	116.7	174.2

Source: Palestinian Central Bureau of Statistics, 2015. Labor force Statistics, 1987-1996. Ramallah-Palestine.

The data contained in table (5) indicates that the demand for labor in the West Bank and Gaza Strip gap has increased from 115 thousand people to 174.2 thousand during the period from 1987 to 1996, where the annual growth rate of 5% annually during this period, as the average size of the gap during this period amounted to 125.17 thousand individual, which is equivalent to 24.3% of the average workforce size. This also indicates that the ability of the Palestinian economy on the operating decline and increasing dependence on the Israeli labor market as the average number

of Palestinian workers who work in the Israeli labor market 92.4 thousand workers annually during the same period.

- The period of 1996-1999

Table (6) the labor force in the West Bank and Gaza 1996-2014

year	The gap size (6)	Unemployed (5)	Workers from the West Bank and the Gaza Strip in Israel (4)	Workers in the West Bank and the Gaza Strip (3)	Workers in the West Bank and the Gaza (2)	labor force (1)
1996	175	117	58	353	412	528
1997	189	117	76	366	442	555
1998	203	88	115	407	522	610
1999	212	78	134	446	580	658
2000	22	11.3	10.1	144.6	154.7	166.6
2001	25.2	9.6	13.5	149.7	163.2	172.8
2002	28.1	7.5	20.6	152.7	173.3	180.8
2003	48.8	15	33.8	142.7	176.5	191.5
2004	54.8	2.4	52.4	136.4	188.8	191.2
2005	63.1	1.8	61.3	133.2	194.5	196.3
2006	70.6	1.9	68.7	141.5	210.6	212.5
2007	68.2	1.9	66.3	138.4	204.7	206.6
2008	66.7	1.8	64.9	140.9	205.8	207.6
2009	64.6	1.6	63	141.5	204.5	206.1
2010	69.9	1.7	68.2	143.7	211.9	213.6

2011	75.6	1.5	74.1	138.3	212.4	213.9
2012	77.9	2.8	75.1	140.6	215.7	218.5
2013	78	2.2	75.8	140.1	215.9	211
2014	108.4	29.3	79.1	143.8	222.9	252.2

Source: Palestinian Central Bureau of Statistics, 2015. Labor force Statistics, 1994-2014. Ramallah-Palestine.

This period witnessed a remarkable development in the size of the gap between the demand of manpower and absorptive capacity of the Palestinian economy, rising from 174.2 thousand people in 1996 to reach 212 thousand people in 1999. They formed approximately 33% of the size of the labor force in the same year, which considered a e too high rate. Where 1999 witnessed strong economic growth, but this growth was not due to the increase of the capacity of the Palestinian economy to absorb labor, or the development of sectors but rather due to the increase in the number of workers in Israel, where the number of employees has increased in Israel from 117 thousand workers in 1996 to 134 thousand workers 1999. Operating in Israel accounted for 23% of the workers in the West Bank and the Gaza Strip; these results indicate the extent of the weakness of the local Palestinian labor to provide employment opportunities for the forces of the Palestinian labor market, which shows the extent of reliance on the Israeli labor market.

This period witnessed political developments demonstrated the extent of adoption of Palestinian workers on Israel, where 1996 witnessed since it began, Israel's assassination of the martyr Yahya Ayyash, nicknamed the engineer and the holy revenge carried out by the Palestinian factions which followed it. In the fourth quarter of this year, began what is known of the events of the tunnel when the occupation authorities start digging tunnels beneath the al-Aqsa mosque thereby exacerbating the situation in the West Bank and Gaza Strip and increased restricted closures. Israel imposed strict forms of siege and closure between Palestinian cities and each other, and between Palestinian cities and Israel, where the total closure days

in this year amounted to 99 days (the Palestinian Ministry of Labor, May 2000, P 22).

Internal blockade between Palestinian cities has led to the prevention of thousands of Palestinian workers from the countryside to reach their places of work in the cities and prevent thousands of others from accessing from the city to another within the West Bank and the Gaza Strip, the blockade has led to a produce adverse reactions on the movement of local and foreign investments. Where private investment of 986 million dollars in 1995 fell to \$ 929 million in 1996 (the Palestinian Central Bureau of Statistics, National Accounts, 1997). This is due to the lack of raw materials because of the seizure and prevent their entry to the Palestinian territories by the Israeli occupation authorities, which led to stopped production for most of the projects, and as a result a lot of workers who work in these projects have been demobilized (Khalifa, 1999, P 73).

- The period in 2000-2014

The start of Al-Aqsa Intifada late 2000 form, and the accompanying closures and siege by the Israeli occupation forces, a pivotal turning point leading to the transmission of the status of the Palestinian arena of political stability relative, that prevailed after the arrival of the Palestinian Authority in 1994, to a state of political and economic stability, and as a result all of economic and social indicators fell down. Although all the productive sectors of economic and social indicators affected by this action, but it can be seen that the most prominent function of this decline indicators is the distortions in the Palestinian labor market, in addition to high unemployment and poverty levels, and reduce the freedom of movement of people and goods between the Palestinian Authority areas. Israel has been closed to the labor market in front of tens of thousands of Palestinian workers, as all economic activities in the Palestinian lands affected by this action.

With the outbreak of Al-Aqsa Intifada, the size of the workforce increased from 667 thousand workers in 2000 to 1.3208 million workers in 2014. In other words, the absolute increase in the size of the workforce 653.8 thousand workers,

and the number of workers who are treated in the West Bank and Gaza Strip increased from 463.9 thousand workers in 2000 by 321.9 thousand workers working inside the West Bank and 142 thousand workers in Gaza Strip. In 2014, the Palestinian economy absorbed 827.7 of the size of the workforce. Thus, the Palestinian economy during the period 2000-2014 absorbed 363.8 thousand workers representing 55.6% of the size of the increase in the size of the increase in the labor force. In other words, when increasing the number of employees to 100 employees, the absorptive capacity of the Palestinian economy 55 workers. This rate is very low indicating weak absorptive capacity of the Palestinian economy. This weakness pays Palestinian workers to turn to work inside Israel and the settlements, and this shows how the dependence of the Israeli labor market. Here it is necessary to reduce dependence on the Israeli labor market and work on the development of the contribution of the national economy and increase its ability to absorb the Palestinian workforce. To achieve this it is necessary to enter the Palestinian Authority with what own of tools to stimulate the Palestinian economy and the development of the productive base that provides jobs working for the forces of the Palestinian. In the absence of the national currency, the fiscal policy remains the main tool available for macroeconomic management in Palestine, and fiscal policy should pave the way for the private sector to be able to increase its participation in the development of the national economy. Especially in light of the difficult conditions and obstacles set by Israel to Palestinian workers to enter Israel, and therefore the fiscal policy will have a significant impact in stimulating the private sector and increase its contribution to accommodate the natural growth of the Palestinian labor force. The study for the next two chapters will be focused in the analysis of fiscal policy of the Palestinian Authority, in both sides: tax and spending and its role in increasing the capacity of the Palestinian economy.

3.2 The Role of Fiscal Policy in Increasing the Absorptive Capacity of the Palestinian Economy

The state interfere in economic activity and impact on economic variables and therefore directly impact on the absorptive capacity of the labor used in fiscal policy. For reference, the concept of fiscal policy, mainly regard to the procedures and the decisions that is used by the financial authorities to renew the financial activity of the State; in addition to the tools that enable them to interfere in economic activity and determine the potential impact on all economic variables. It is clear from the above that fiscal policy means the government's use of taxes and public spending in order to achieve economic stability and social justice and the provision of job opportunities for its citizens. There are two tools of fiscal policy are: public Revenues and public spending, and these tools are used as follows:

- (A) Tax increase or decrease.
- (B) Increase or decrease public spending.

3.2.1 The Role of the Expenditure Policy in Increasing the Absorptive Capacity of the Palestinian Economy

This part aims to identify the most important public expenditures of the Palestinian National Authority's policy milestones during the period from 1996-2015; this will be done by knowing the aims and dimensions of public expenditures of the Palestinian National Authority's policy, as well as to monitor and analyze changes in the size and components of public expenditure, Determine the relative weights of each item of the Palestinian public expenditures to derive trends of public expenditure policy in the West Bank and Gaza Strip and its impact on the volume of usage in the Palestinian economy, and this chapter will come on the study of three sections:

1. Public expenditures Palestinian National Authority policy.
2. The appropriateness of Public expenditures policy to achieve the goal of increasing the absorptive capacity of the Palestinian economy.
3. The impact of Public expenditures policy in increasing the volume of use in the Palestinian economy.

3.2.1.1 Public Expenditures Palestinian National Authority Policy

With the signing of the Declaration of Palestinian – Israeli principles on the thirteenth of September / 1994 and subsequent agreements emanating from it, especially the Cairo Agreement on the fourteenth of May / 1994, and the additional transport agreement of powers and responsibilities in the twenty-eighth of September / 1995, which resulted in the withdrawal of the Israeli occupying forces from about 6.8% of the total Palestinian territories occupied in 1967. And the Palestinian National Authority assume its responsibilities in the liberated lands and the extension of its mandate to a number of sectors in the rest of the West Bank and Gaza Strip. Since then, the Palestinian National Authority has been carrying out their financial responsibilities and the delivery of public services and to play their role towards the Palestinian territories, reflecting the financial orientation.

The Palestinian authority has received its financial powers after the occupation of the Palestinian territories stage lasted for 27 years in which the financial powers to the authorities of the Israeli occupation. Palestinian National Authority inherited the economy is weak almost total dependence on the Israeli economy and poor infrastructure and the performance of public services and the weakness of the legal and institutional construction. Public expenditure for Israeli occupation authorities in the West Bank and the Gaza Strip did not exceed the level necessary to maintain the minimum for the performance of public services; furthermore, The expenditure on infrastructure was directed to serve the Jewish settlement expansion in the Palestinian territories in the West Bank and Gaza Strip, where the Public expenditure to the authorities of the Israeli occupation of the size of only 9.1% of GDP in the West Bank and 12.4% of it in the Gaza Strip in general in 1993. This ratio is very low compared to rates recorded with the Arab countries where total public spending relative to GDP in the same year in Algeria, Tunisia, Morocco, 34.5% and 39.5% and 34.6% respectively, (Abu Shaker 2003, p. 20). If the Palestinian National Authority obliged the reconstruction of the Palestinian economy through institution-building and the development of administrative and institutional structures, legal environment, and modernization of physical infrastructure to create a favorable investment environment

for the work of the Palestinian private sector. And for the preparation of the annual general budget and approval of specific and implementation of this financial orientations based to a realistic vision based on the self-potential determined by the economic indicators of the performance of the Palestinian economy, In addition to international aid assumed by donor countries in the framework of assistance to the Palestinian people during the transitional period. The goals and directions of Public expenditure of the Palestinian National Authority's policy can be read through what is set by the Ministry of Finance of the objectives of the annual speech in the general budget.

3.2.1.2 Goals and Dimensions of Public Expenditure of the Palestinian National Authority Policy

Public expenditure policy is considered as one of the tools of the government that is used in the implementation of the comprehensive development plans designed to achieve macro-economic targets. Public expenditure policy has evolved to become a continuous process that includes the formulation of public goals and measurable targets specific, detailed plans to achieve these objectives, It was identified The goals Public expenditure policy based on a study of the requirements of the economy and society and the amount needed for various projects, and determine priorities based on the problems and challenges faced by, the national economy, according to the capacity available to the government to achieve them (Abdel Razek, 2002, P 20)

With regard to the Palestinian situation among the general budget speech that set goals and outlines the policy Public expenditure passes three stages, namely, (a letter of the general budget, various years)

This is done based on the review of the economic and financial conditions that prevailed during the previous year to shed light on the needs of the Palestinian economy, and knowing these requirements are based on the economic and financial indicators of the performance of the Palestinian economy. And review the budget speech several economic and financial indicators, including:

- i) Political conditions and restrictions on the Palestinian economy by the occupation authorities.
- ii) Labor market indicators such as unemployment rates and the Palestinian labor force.
- iii) Indicators of poverty rate and the rate of dependency.
- iv) Signs of growth or decline in gross domestic product and per individual.
- v) Foreign Trade Indicators (imports and exports).
- vi) Status Indicators banking (deposits and loans).

It is known that economic and financial conditions determine on the one hand the needs of the Palestinian economy on the other hand determines the possibility of revenue collection crisis interview public expenditure.

Where expected income form the exact final of the potential of public expenditure, it was estimated what can be obtained from local revenues in the following ways:

- i. Compared to what has been collected in revenues from the previous year in light of the economic and financial indicators for the previous year with what could be collected from the revenues for the next year in the light of the outcome of the economic and financial situation of the Palestinian economy.
- ii. Measuring what can these revenues to cover public spending and the size of the expected shortfall.
- iii. Determining assistance size from donor countries, based on what has been presented of aid from donor countries in the previous year.

Setting goals and outlines of the policy of public expenditure of the Palestinian National Authority before the perception of the role that can be played public expenditure to the Palestinian National Authority Policy. This vision represents a set of constants and perspectives that represent the state's role in economic life and overall strategic direction of fiscal policy, so fiscal policy considerations are not linked to immediate crises and become a management tool, and included letters of the general budget of many of these starting points, including:

- 1) Government's absolute commitment to an economic approach based on openness to encourage entrepreneurship and leadership by the private sector within the legal and regulatory framework to ensure fair competition and equal opportunities.
- 2) Careful construction of public expenditure policy based on a realistic perception of the possibilities available.
- 3) Refrain from borrowing on commercial terms, special purpose finance current expenditure.
- 4) In savings in the trade balance (surplus in revenue for self-current expenditures) and directing this surplus to finance capital expenditures.

Then comes the role of the design and determine the objectives of public expenditure policy, and most of the letters indicated the general budget to achieve the following objectives:

- a) Address the situation of extreme weakness in aggregate demand by increasing public spending according to the estimated available.
- b) On the face of negative growth resulting from the reluctance of the private sector for investment effects.
- c) Dealing with difficult living conditions, especially in the social area and the field of reconstruction.
- d) Providing sufficient resources for the development of human resources, and sponsorship by paying special attention to the needs of education, health and social services sectors.
- e) Confidence-building efficient financial management and the credibility of the Palestinian financial system by creating Create mechanisms of public spending restraint.
- f) Help the various Authority institutions to carry out its functions to the fullest.
- g) Payment with maximum allowed by the resources available to the loans that were obtained.

3.2.1.3 The Evolution of the Size of Public Expenditure to the Palestinian National Authority

public expenditure is one of the available means and tools used by the states to carry out the tasks assigned to it; public expenditure size is an indicator to measure the extent of state intervention in economic activity, and varies in size and role of the state and potential operational according to the policies and directions of development countries, (Draz and Hegazy, 1997, p. 65). Where this role is limited in some countries, the main functions of government, such as defense, internal security, justice and macroeconomic management, and expanding in other countries, depending on the extension of government activity areas and sectors that could be activated by the private sector (Draz and Hegazy, 1997, p. 71). Experiments have shown a causal relationship between the size of government's expenditures and the level of economic development has reached states, because the states play the role of catalyst for development and economic growth through its impact on the investment environment surrounding the producers (Malhees, 1998, p. 247). On the Palestinian level During the period since the establishment of the Palestinian National Authority acceleration is evident in the size public expenditure; this was the logical consequence of widening the powers received by the Palestinian National Authority from the Israeli occupation authorities, and the increased government employment in the civil and military fields. And Table No. (6) Indicates that the Palestinian public expenditure has seen a remarkable development during the period (1996- 2001). Rising from 715.3 million dollars in 1996 to 1363.1 in 2001 and ranged a proportion of GDP between 27.3% -, 37.55% during the same period (Abu Shaker, 2003). And this ratio is very high and close to the percentages recorded in Arab countries Where public spending ranged to GDP in the period 1970-1993 in Algeria, Tunisia and Morocco between 28.5% to 34.5%, and 32.3% to 39% and from 27.1% to 34.6%, respectively (Abu Shaker 2003, P 20). It is known that the size of public spending indicates the extent of the activity and state interference in economic activity; the role of the state in economic activity affected significantly in the case of the general stability of the state. The size of the government sector and its structure and functions inversely associated with the status of internal and external stability, the more the depth of this stability, the more the

government's need decreased to a government public expenditure, a major concerns focused in the field of public policies (Malhees, 1998, p. 258). On the Palestinian level, the data indicate that the stalled process of political settlement and the legacy of the Israeli occupation has had a deep impact on inflation the size of government of public expenditure and government device existing in the police and the civil service sector. Because of the increasing economic and social pressures arising from the negative developments in the political settlement process and especially the siege and closure imposed by the Israeli occupation authorities on the Palestinian economy; This push the Palestinian Authority to resort to the use of government employment mechanism as a way to alleviate the unemployment on the one hand and to increase its interference in economic activity providing necessary to cover its spending growing resources and to secure the basic needs, such as health, education and security for the citizens on the other hand. Also low private investment and the low of its rates; because, of the deterioration of the investment climate and declining confidence in the future of a political settlement process has led to the growing role of government in order to address the situation of extreme weakness in aggregate demand caused by the private sectorsizes for investment; this has been confirmed by most of the letters of the general budget of the Palestinian National Authority as one of the stated goals of the policy of public spending. As it is known, the increased government spending represents the most effective way and the most effective way to deal with the phenomenon of weak aggregate demand,through the face of negative effects on the growth of the private sector sizes for investment, or not being able to spend enough. So the Palestinian National Authority to increase public spending during the period 1996-2001, shows that through higher public spending Palestinian National Authority, where growth rates this growth stood at 16.6% per annum during the period 1996-2001.This spending has been the face of financing the reconstruction of the Palestinian economy through institution-building and the development of administrative and institutional structures, and the legal environment and modernizing the physical infrastructure to create the right investment environment for the work of the Palestinian private sector.

Table (7) Economic division of public expenditure of the Palestinian Authority 1996 - 2001 (\$ million)

	Ingredients	1996	1997	1998	1999	2000	2001
	Total public expenditure	715.3	927.9	1211	1191.5	1194.4	1363.9
A	Current expenditures	525.3	709.6	818.3	818.8	927	925
	Its share of public expenditure	73.4%	76.5%	67.6%	68.7%	77.6%	67.8%
B	Capital expenditure development	190	218.3	437.1	474.7	267.4	438.7
	Its share of public expenditure	26.6%	23.5%	36.1%	31.5%	22.4%	32.2%
1	Capital expenditures financed from the budget	0	26.3	47.7	10.7	6.3	23.7
	Its share of the capital expenditures	0.0%	12.0%	12.1%	3.1%	2.6%	5.6%
2	Capital expenditures financed by foreign aid	190	160	345.50%	330.00%	335.00%	400.00%
	Its share of the capital expenditures	100.0%	7330.0%	87.9%	96.9%	97.4%	94.4%
3	Emergency spending	0	32	0	0	0	0

- Source: Palestinian Central Bureau of Statistics, 2004. Government spending Statistics, 1994-2002 Ramallah- Palestine.

- The evolution of the size of public expenditures during the period (2001-2014)

With the outbreak of the intifada in 2000 and the subsequent deterioration of the Palestinian economy and a decline in purchasing power caused by high unemployment rates and thus a reduction in tax revenue, these events combined have led to a decline in Palestinian revenues, affecting the size of public expenditures, reaching their lowest level in 2002 at about 1246 million dollars. In 2003 it began to foreign aid and grants to increase until 2006, where the Palestinian elections that produced a victory of Hamas, which reflected negatively on the Palestinian economy since Israel stopped the transfer of clearance to the Palestinian Authority as well as donor countries stopped providing aid. This led to the inability of the Hamas government from carrying out its duties towards the Palestinian citizens and their inability to pay salaries in terms of expenditures decreased from 2281 million dollars in 2005 to 1707 million dollars in 2006. At the end of the fourth quarter of 2007, the Palestinian split happened has been the removal of Hamas from power and Dr. Salam Fayyad became prime minister instead of Ismail Haniyeh which prompted Israel to the transfer of clearance to the Palestinian Authority as well as donor countries have returned to provide assistance to the Palestinian Authority and the Palestinian expenses continued to rise where expenses have doubled during the period from 2001 to 2015.

To identify the public expenditures components Palestinian National Authority, more precisely, will be divided according to the most common classifications that divide the overhead economically and functionally.

3.2.1.4 Economic Classifications of Expenditures

The division of public expenditures according to economic classification into two types: Current expenditures, capital expenditures and development (Shamieh, 1997, p. 82)

➤ Current expenditures

Current expenditures meant those dedicated to non-productive activity expenses include health education, social security, and the expenses of the

governmental body, and Economic Management (Shamieh and al-Khatib, 1997, P 85).

Table (7) indicates that the current expenditures have evolved significantly over the period 2001-1996 where it has increased from 525.3 million dollars in 1996 to 925 in 2001. In 2010, it reached 2984 million dollars and in 2014 reached about 4,000 million dollars; the current expenditures accounted for more than 90% of the volume of public expenditure of the Palestinian National Authority during the study period.

Economic classification of current expenditures

And include current expenditures on the three items, namely: (salaries and wages, operating expenses, manufacturing expenses).

1. Item wages and salaries:

It is those expenses paid by the government to its employees as a result of their work or intellectual or mental effort (Shami and al-Khatib, 1997, P 86) formed Salaries, wages and the largest share of current expenditure, where the share of current expenditure amounted to 85% during the years of the study.

2. The Item of operating expenses:

The expenses spent by the state on goods and services required by the government administrative units to achieve their goals, Including utilities, communications, transportation, fuel the office expenses and other (Yunus, 1971, P 32).

Ministry of Finance data indicate that operating expenses witnessed a clear decline in the share of current expenditure in the period under study. Where Decreased from 42% in 1996 to almost 16 % in 2014.
(http://www.pcbs.gov.ps/Portals/_Rainbow/Documents)

3. The Item of manufacturing expenses

The expenses spent by the state without getting any good or service in return; but it means the distribution of the wealth and income between different social groups, Including charity grants and social and economic. This item represents in most ministries and institutions of the government's share of social security that is paid for insurance and pension fund (retirement) for PA employees include any social security contributions the grants, retirement and compensation.

➤ Capital and Development Expenditure

And general expenses include costs incurred by the state to expand production such as physical infrastructure such as roads, transport, energy and water, in addition to non-physical infrastructure, including institutional and legal infrastructure, which works to create the appropriate investment climate for private sector work (Draz and Hijazi, 1998, P 12)

Development expenditure witnessed great development, rising from \$ 190 million in 1996 to \$ 438 million in 2001, Where the share of public expenditure rose from the Palestinian National Authority from 26.6% in 1996 to 32.2% in 2001 (http://www.pcbs.gov.ps/Portals/_Rainbow/Documents); This comes in line with the stated objectives of the policy of public expenditure approved by the Palestinian National Authority in the general budget speech for different years in which it decided its intention to increase the share of capital and developmental spending for the Palestinian National Authority gradually. With the outbreak of Al-Aqsa Intifada took the share of development expenditure to decline after the collapse of the PA institutions after al-Aqsa intifada, reaching developmental expenditure share in 2014 about 11%. (http://www.pcbs.gov.ps/Portals/_Rainbow/Documents)

3.2.1.5 The Appropriateness of Public Expenditures Policy to Achieve the Goal of Increasing the Absorptive Capacity of the Palestinian Economy.

The relationship between government spending and the size of use can be clear and direct if this spending is directed to stimulate the private sector to invest and expand domestic production base that provides job opportunities for the labor force (Qaisi, 1998, p. 124); this is achieved if public spending is directed to investment in physical infrastructure such as, energy and power projects, irrigation, transport and communications, and which serves as the input to support investment and reduce its cost. In addition, the institutional infrastructure and legal environment which reduces the investors' hesitating resulting from the spirit of uncertainty and risk that may affect the investment decision, the right climate for private sector investment and availability. Where investment and investment environment is affected by the state-owned institutions and activities, the development of regulations and legislation, and their application, and the imposition of public order and the practice of these institutions and their relationship with the private sector, economic and sectoral policies established by seeking to (Malhees, 1998, P 242).

In this section will be addressed to the appropriateness of public expenditures of the Palestinian National Authority's policy to achieve the goal of increasing the absorptive capacity of the Palestinian economy, to check this we will track the effects of the policy of adoption of the Palestinian public expenditures and procedures arising from it, and their impact on development and the development of local production base that provides employment opportunities of the Palestinian labor force.

Palestinian public sector remained a part of the Israeli occupation authority's management since 1967 and public expenditures to the authorities of the Israeli occupation in the West Bank and Gaza policy has aimed to make the Palestinian economy dependent economies and marginalized and consumer market for Israeli products. To achieve this, the occupation authorities have taken the policy of public austerity spending so that not only provide a minimum of social infrastructure services (education and health) have not kept pace with population growth; it also works on the Palestinian economic infrastructure destruction, especially in the energy, water and communications areas, and directed most public expenditure on

infrastructure to Jewish settlement expansion in the occupied Palestinian territories Service. Thus, the infrastructure of the Palestinian economy has become in the case of the delays and is not able to meet the requirements of the Palestinian Development (Abdel Razek, 2001, P 32).

After the establishment of the Palestinian National Authority in 1994, the powers of the Palestinian public sector management moved to it. And the public sector has become managed by Palestinian government and it was possible to draw policies relating to the public sector including public expenditures policy to serve the development goals of the Palestinian people. In this context, the Palestinian National Authority sought to the reconstruction of the Palestinian economy through institution-building and the development of the administrative structures of the institutional and the legal environment, and modernization of physical infrastructure appropriate to the work of the Palestinian private sector.

The most important physical infrastructure in its parts physical and institutional and legal and set up by the Palestinian National Authority will be reviewed.

One of the most important challenges facing the Palestinian National Authority in the economic field is to improve the investment environment which stimulate the private sector which stimulate the private sector to increase investment in order to ensure promotion of endogenous capacity of the Palestinian economy and expand domestic production base that provides employment opportunities of the Palestinian labor force.

For this purpose, the Palestinian National Authority has increased its investment in infrastructure to provide appropriate investment environment for private sector. Where the total spent on the physical infrastructure of \$ 1.23 billion during the period 1996 to 2015; in addition, it has invested in the development of social services, \$ 516 billion, and institutional building \$ 259 million. So what was spent on services infrastructure, both physical and social reach more than \$ 2 billion during the period under study; annual investment in infrastructure projects has risen by more than four times what it was in 1994.

Palestinian National Authority worked to activate many of institutions designed to stimulate investment in areas such as the Palestinian Federation of Industries, Investment Promotion Board, Federation of Commerce and Industry and Agriculture Chambers, Institution for Standards and Metrology. Below we review the most important institutions created by the Palestinian National Authority in order to stimulate investment in the Palestinian areas.

These unions, concerned with the development and improvement of the Palestinian industrial sector and the preparation of studies and research, and to provide information that will help these industries to make their own investment, marketing and production decisions.

The most important of the General Union of Palestinian Industries goals can be summarized as follows: Contribute to the establishment and development and improve the situation of specialized industry associations in Palestine, participate in the formulation and implementation of regional and international conventions, rehabilitate and the organize of the Palestinian industrial sector to suit international regulations, participate in drawing public policies, laws and legislation related to the industrial sector, preparing studies and research and provide information to contribute to the economic development in general and industry in particular, and coordinate with public and private sector and civil institutions to serve the economic development in Palestine.

The increase in consumer awareness of the quality and specifications of the goods on the one hand, and the sharp rise in competition in the local and international markets on the other hand, to stimulate the relevant government institutions to work on the issuance of specifications and promotion between the producers and follow its application. In this context, the Palestinian National Authority created an Foundation for Standards and Specificationsto work to achieve the following objectives: Protect the health and the safety of the consumer, protect and preserve the Palestinian environment, raise the level of quality the Palestinian industries and increase their competitiveness, and contribute to the national economy and economic development.

This will facilitate the development of Palestinian products and makes them eligible to enter the global market and thus open up new markets to Palestinian products.

Commercial, industrial and agricultural rooms spread in many Palestinian cities and governorates; these rooms have played a significant role before the formation of the Palestinian National Authority institutions in several areas, including: the issuance of certificates of origin for Palestinian products intended for export to Arab countries. These rooms are also provided many of consulting, education and training for its members in the areas of trade and investment.

Investment promotion body established under Law No. (1) for 1998. The Commission has established in order to activate the role of the law in stimulating investment in the Palestinian territories.

Summed up the functions of the body, including the following: Evaluate investment policies and supervise and access to their suitability with reality, raise the appropriate recommendations to the Council of Ministers to make amendments to the incentives granted to investors in order to attract them to Palestine, continuous control over the projects benefiting from the law, issuance of annual investment guide which talks about investing in Palestine, to establish a service center aims to serve investors and facilitate investment in Palestine procedures (Majdalani, 2002, P 14).

The Commission is facing some objective factors which Specified its activity, summarized by occupation and its practices that strike any Palestinian economic development-oriented. There is no doubt that the political and security stability and legal environment in any country is one of the key factors to encourage internal and external investment, and the flow of capital in search of employment opportunity feasible and safe.

As the political and security reality of Palestine is the reality of it is stable no matter what the incentives offered attractive so attractive, it cannot compare to the political and security risks and uncertainty of subsequent developments, which threaten the loss of core capital.

According to the adverse economic environment at great risk for investments in the public and private sectors; These risks are increasing as a result of the unpredictability of the conditions of production and market conditions and in light against the Palestinian economy and the possibility of impeding the development of Israeli policies. In addition, restricting the control of the Palestinian National Authority on the land and water, which sets out to provide the necessary natural resources for the promotion of investments and the creation of real economic growth and therefore the commission is facing a significant challenge represented in the Israeli policies that curtailed their role which curtailed the hoped role in achieving Palestinian development efforts to encourage and stimulate internal and external investment.

3.2.1.6 The Impact of Public Expenditure Policy in Increasing the Volume of Use in the Palestinian Economy

Due to lack of sufficient time series from which can test the relationship between government expenditures and the size of employment in the Palestinian economy and it will analyze the impact of the Palestinian public expenditure policy on the volume of usage in the Palestinian economy based on the analysis and comparison of some of the available economic indicators.

Here it can be noted that after the return of the Palestinian National Authority to the Palestinian territories in 1994, the Palestinian National Authority began to use General expenses purposeful policy within specific plans which seeks to promote Palestinian economic reality and accelerate the growth processes, through public spending directed towards these goals.

Since the Palestinian National Authority takes over, it has established government devices for the advancement of public functions, and for this purpose they run many of the workers in the civil and military devices, and it is limited to the absolute increase in the number of government employees. But it doubled the relative importance of the government sector in employment and job creation, and especially since the emergence of the Palestinian government sector coincided with a large

decline in job opportunities for Palestinian workers; because of the closure of the Israeli labor market and the imposition of closure and siege on the Palestinian National Authority areas, which negatively impact on the operational capacity of the Palestinian economy. This has increased the Operation rate in the Palestinian government sector, where the number of Palestinians employed reached 81 thousand workers in 1996 which has formed 23% of the total number of Palestinian workers for Palestinian labor market (Nashashibi and others, 1998, P 27). This number has been steadily growing; where the annual growth rate during the period 1996- 2015 reached 6.7% annually, with the number of employees in the government sector rose in 2014 to 209 thousand workers. They have occupied 25% of the total employees in the Palestinian labor market. If you look to the annual increase in the absolute number of employees during the same period, which amounted to 453 000. There are 128 thousand workers, some of them worked in the Palestinian government sector during the same period, approximately 28% of the increase in the number of Palestinian workers during this period have been absorbed into the public sector; these high operating rate in the public sector is due to that the Palestinian National Authority was forced to pursue a public employment policy, desiring to address the problem of unemployment in the light of the difficult conditions experienced which the Palestinian economy passed through and still going through. This underestimate the severity of unemployment in the Palestinian territories and prevent the aggravation. However, the Palestinian Authority's ability to continue the adoption of this approach may be limited considering that the increase in the size of the Palestinian labor force. This has prompted the Palestinian National Authority to replace public sector employmentto directed to increase spending to stimulate the private sector on investment to be able to absorb the increase in the labor force. For this purpose, the article salaries and wages has been restricted in the authority's budget project In recent years; this means the direction of the Palestinian National Authority to freeze government hiring and focus on the private sector to stimulate investment and provide employment opportunities for the Palestinian labor force, unlike what happened in previous years which is reliance on public employment to solve the problem of unemployment.

As for the other part of the public expenditure, It is investment expenditure, which included physical infrastructure such as energy and water projects, roads, telecommunications and building the industrial cities projects. In addition to non-physical infrastructure, which included legal and institutional structures which aims to improve the investment environment that stimulate the private sector to increase investment and expand domestic production base that provides employment opportunities of the Palestinian labor force. This expenditure have developed significantly during the period from 1996 to 2000 with the outbreak of the intifada, the share of investment expenditure dropped to 11% in 2014 and it is worth mentioning that most of these expenses were financed almost entirely through aid of donor countries and not from tax revenue. These projects have aimed to support and increase the accumulation of capital and assets. It is known that investment spending is working to reduce investment costs and create a climate and environment appropriate for the child, which stimulates and increases the size of the consequent increase in the volume of use on the level of the economy (Fawzi, 1971, P 158).

At this level, we can say that infrastructure spending during the study period had removed many of the obstacles to the growth of private investment, Through the establishment of many of the road networks and supply many of the areas of electric power, water, communications and modernization of infrastructure, institutional and legal.

But in terms of its impact on the volume of use, sufficient data are not available for it. But here it can be referred to the growing importance of investment in the Palestinian territories during the years of the study, where it has invested a total of \$ 1363.3 million in both the West Bank and Gaza Strip for fixed prices for the year 2014.

Total capital form about 20% of GDP during the years 1996-2014, this percentage is close to global levels, as the average of investments Of the – GDP reached 22% in low-income countries and 24% in high-income countries. The Palestinian economy has achieved since 1996 to 2014, real growth in GDP up to 9.3% per year Annual rate during the relevant period, operating volume rose within the

domestic economy in the West Bank and the Gaza Strip Of the 335 thousand workers in 1996 to 805 thousand workers in 2014.

It can be explained by the high ratio of investment to GDP and the subsequent increase in operating in the private sector to the atmosphere of optimism that accompanied the peace process. What made the significant increase in private sector investment, especially in the construction field as well as public investment and the Palestinian National Authority, which face to modernize Palestinian infrastructure. Where public investment has seen a steady increase since 1996 where the average of the real public investment growth rate reached 10% until 2000 and with the outbreak of the intifada, the volume of investment dropped and then began increasing. Also, the importance of public investment after 1996 increased compared to the previous period in order to increase the attention of the authority and donor countries increased the development of infrastructure.

This means that public investment of the Palestinian National Authority is considered as a major cause of the increasing importance of investment in the Palestinian territories and what followed it of increase in the absorptive capacity of the Palestinian economy during the years of the study.

However, the Palestinian Authority's ability in the field of public expenditure policy remained limited due to restrictions imposed by the transitional phase and the practices of the Israeli occupation of agreements on the other hand. Where the economic decision-making power has not been restored about the doing the public investment spending to develop infrastructure, in areas that have not restore full control over them in areas classified (B and C) without the approval of the Israeli side.

3.2.2 The Role of Public Revenues

There is no qualitative difference or qualitative evolution in public revenues in the era of the Palestinian Authority for any other era, and the difference lies in the quantitative development that has occurred in the Palestinian public revenue. Public revenues are divided in the era of power to current revenues and aid to support development projects (OlaAshela, 2005,25)

- 1) Local revenues to the Palestinian National Authority, which generally consists of taxes and fees, and include all tax revenues from income tax and customs revenues and VAT and excise and property tax and purchase tax (Sabah, 2010,18). Income tax imposed in the Palestinian territories on the income of individuals, which are collected from the population on a holistic basis, and it is an upward slide in the Palestinian territories. As well as the taxes imposed on the companies, here are imposed on company's profits by 20% in the Palestinian territories (Ola Ashela, 2005, 26). And also imposed on transfers which is to be transferred by the Israeli side to the Palestinian Authority that is being deducted from the entry of Palestinian workers in Israel and Israeli settlements which is placed in the clearing account under income taxes, and impose a value-added tax on all goods and services produced locally deals, divided by the value added tax levied to place (Ola Ashela, 2005,28)
 - a. The added value tax that is collected in the Palestinian Authority.
 - b. The added value that is obtained through the clearing with Israel tax, which is collected by the Israeli side on behalf of the Palestinian side in exchange for the collection of 3% fee, while customs duties are imposed on imports, including insurance and shipping charges.

- 2) Grants for budget support

Grants form to support the budget item for the decreasing the importance of public revenues to the Palestinian Authority as shown in the table (11-2 page 87 taxes and expenses). This means that the Palestinian Authority work to cover this deficit through the local revenues, because the trend towards support current expenditures from donor countries has become unreliable which are decreasing and conditional (Shtayyeh, 2003). And therefore, Researcher goes to say that this item casts on the political decision-maker in the Palestinian economy that takes into account the need to maximize resources and revenues available and possible, in order to be able liberation and freedom from political and spelling conditions by donors.

- 3) Aid to Support Development Projects

Development budget of the Palestinian Authority dependent on foreign aid provided by donor countries for reconstruction and building infrastructure of the Palestinian economy; in the past, before 2000, foreign aid was funded almost the entire development expenditure while the Treasury's contribution to the financing of these expenditures were very limited. In spite of the importance of grants and foreign aid which are provided by donor countries to support the development budget, however, continue to rely upon them has its risks which of the most important (Sabih ,2010,33)

Relied upon become permanently in the field of developmental spending, and therefore the authority did not geared towards increasing the allocation of part of the ongoing revenue for the purposes of development projects.

The grants and aids fluctuate from year to year due to its association to the political situation, and thus in case of dropping the Palestinian Authority forced to borrow from banks. Foreign aid is made up of two parts: the first takes a picture grants and the second takes the form of loans, and these loans are paid by the Palestinian Authority with benefits. Implementation of public expenditure and the achievement of development goals of power have become dependent on external factors.

As the Palestinian case is different from other that an important part of the overall revenue generated because of the relationship with the Israeli economy, Israel collects it in accordance with the arrangements stipulated in the economic agreement between them and the Palestine Liberation Organization signed in Paris in 1994 (Abdel Razek, 2004,15). Therefore, Israeli siege of the Palestinian areas and the destructive war waged by Israel on the Palestinian territories in 2000 had and still a devastating impact on the Palestinian economy and therefore on local public revenues. The increase of the unemployment rate and the decline of GDP as mentioned in the previous chapter was clearly one of the core reasons to the decline in tax revenues.

Without going into the details related to the path of political settlement, although the foreign loans in support of the Palestinian budget, whether to support the development of investment or otherwise, is very soft loans. However, this advantage for the benefit of good fiscal policy loses much of their importance in

terms of political consequential dictations rather associated with it up and down according to the natures of the political developments.

Developments in the General revenues of the Palestinian authority during the period of 1995-2014

Any increase in public expenditure must be accompanied by an increase in public revenues, and states usually resort to get revenue in many ways Such as taxation and foreign debt and the creation of money and other items that have already been explained. For the Palestinian case they can use all the tools in the collection of revenue with the exception of money creation; and the reason for this is due to non-availability of a Palestinian currency.

Since the arrival of the Palestinian Authority, the Palestinian public revenue grew and developed, and the reason for this is due to the improvement made in the ability to collection of local taxes, thanks to training courses set up by the Ministry of Finance to the staff of tax collection, as well as awareness campaigns to the public and mechanisms followed by the Ministry of Finance to reduce the phenomenon of tax evasion. However public revenues are still experiencing a number of negative phenomena such as the case of leakage, because a large proportion of Palestinian imports come through Israel not be declared and addressed the West Bank and Gaza Strip. Accordingly, the income tax rate paid by the Palestinians on these imports go to Israel shall not prevent the Palestinian Authority, there is no doubt, the treatment of this problem will increase public revenues.

During this period, shows that there had been growth and development in the total public revenues and grants during the years of the study, and the main reason for this is due to the efforts of the Palestinian Authority represented by the Ministry of Finance by conducting financial and institutional reform on the one hand and training collection staff and awareness campaigns for citizens and detection of fraud and tax evasion on the other hand. This means that the Ministry of Finance as the concerned in public revenue development, It shall continue the process of fiscal and institutional and administrative reforms, the fact that revenues are the backbone of the Palestinian financial situation, and the fact that the Palestinian economic sector is

characterized by poor and stolen, poor in natural resources stolen by the Israeli occupation authorities.

Researcher could not clarify the developments in the general revenues (tax revenues) in the era of power was divided from 1995-2014 into three phases:

1. Phase I: (1995-2000) This period witnessed the establishment of the Palestinian Authority until the second intifada
2. Phase II: (2001-2007) this period of the second intifada until the Palestinian division
3. Phase III: (2008-2014) This period witnessed the situation after the Palestinian division up to the present day

In reviewing the public revenues to the Palestinian Authority for the period from 1995 to 2000, we find that public revenues have grown by a high rate as shown in the above table the annual growth rate have averaged 12.7% and was the highest growth in 1997. Where has increased by 28.8% In contrast, revenue rate in 1998 declined by 9.3% and has been associated with developments in the political settlement process, where donor countries deliberately to increase support in 1996, in order to offset some of the damage caused by the Israeli blockade and to prevent the collapse of the political settlement process (MAS, 2001)

1. Clearance revenues from Israel

It is a revenue collected as a result of commercial transactions between the Palestinian Authority and the Israeli side and transferred to the Ministry of Finance, according to the monthly meetings of the clearing include "customs" namely customs on imports to the Palestinian Authority or the result of direct import through the ports and collected by Israel on behalf of the Palestinian Authority, and VAT and fuel tax and purchase tax (Ministry of Finance, 2008). Israel does the job compared to 3% of the value of the collection. Clearance revenues have risen with Israel significantly, The annual growth rate of 17% on average 1995-2000; the annual rate of more than 45% of public revenues and approximately 65.8% of local revenues, and

about 79% of tax revenues for the same period (Sabih, 2010,36). This shows clearly that the Palestinian public revenue depends heavily on trade relations with Israel, and despite the fact that Palestinian clearance revenues are right but Israel used an instrument of political blackmail from time to time, and that in the times of Israeli-Palestinian strained relations, as the keep of these funds has a significant negative effect on the budget and the Palestinian economy alike.

2. Tax revenues

Earlier talk that the tax revenue in the Palestinian territories consist of direct taxes and indirect taxes, and the Palestinian tax system depends on the structure of indirect taxes which form main part of the tax revenue (Ministry of Finance, 2008); Tax revenues include income tax, customs and value added tax and property tax and purchase tax etc. (Sabih, 2010,37). Tax revenues of 357.7 million dollars have increased in 1995 to 847.8 million in 2000, achieving an annual growth of about 18.8%. The highest tax revenue growth in 1996, the reason for that is the extension of powers of the Authority in 1996 upon the rest of the Palestinian population centers, and widening the tax base and the creation of Israel to release the dues of power in clearing from previous years.

❖ The relative importance of each type of tax

This part aims to identify the relative importance of each type of tax contained in Palestinian tax system in terms of outcome, and in terms of the relative importance posed by the size of the local tax revenue.

1. Income tax and profits:

The Table below number (9) indicates that income tax revenues have risen from \$ 49.5 million in 1996 to \$ 86.3 million in 2000. The growth rate reached during this period 10.6 percent annually, but the contribution to the outcome of the tax remained humble, as only at best 13% of the total local tax revenues in 1998.

2. VAT

VAT is a tax and general revenue to the Palestinian Authority in terms of the size of its outcome; where the contribution rate reached 59% of total tax revenue of the Palestinian Authority during the study period. The growth rate was 17.7% annually. Table (9) indicates that the value added tax outcome increased from 247.8 million dollars in 1996 to 392.7 million dollars in 2000; however, the value-added tax suffer from a narrow tax base, where the form of the tax base of value-added 51.25% of GDP in 2000. This means that half of the value-added are not subject to the collection of value added tax them.

Tax outcomes divided VAT from the place where collected into two parts: the first is the added value that is collected from the Authority areas, contribution amounted to 44% of the total volume of VAT outcome during the study period, and this reflects the weak domestic funding base in the total VAT outcome. The second section is the added value that turns the Israeli side of the tax, these taxes constitute the recovery of the tax that is imposed on the Palestinian purchases from Israel and are recovered by clearing bills. Contribution amounts reached 56% of the total value added tax outcome, which means that 33% of tax revenue comes from clearing with Israel.

3. Customs taxes

Customs taxes accounted for significant growth during the period from 1996- 2000, growing annual growth rate of 42.3%, rising from \$ 59.7 million in 1996 to 301.8 million dollars in 2000, and its share rose from tax revenues from 16.7% in 1996 to 38.6% in 2000, see Table (9) This is a clear indication of the extent of reliance on the outside world in trade and finance, where the figures indicate that 29% of tax revenues financed by relying the customs taxes during the years of the study.

This is a very difficult period in the history of the Palestinian people and for a number of reasons, including, the outbreak of the second intifada in 09/28/2000, the

victory of Hamas in the legislative elections in 2006, the siege imposed on the Gaza Strip and the Palestinian Authority, and the state of division in 2007

Through the study and analysis of data on the revenues and expenses that appear in Table No. 8, especially with regard to local revenue, we find some of the changes that have occurred in public revenues, in the years from 2001 to 2002 there had been no significant change on the public revenues, and the change that has occurred is very similar, Meaning that tax and non-tax revenue in this period was suffering from a severe collapse. That was the worst period in the history of the Palestinian economy (Ashela 2005, 19), foreign aid (grants and loans) have witnessed a significant increase in 2001 and dropped in 2002. Here should be noted that foreign aid has been fully funded development budgets during the period preceding the intifada (Ashela, 2005, 20) where the years 2003 -2004 witnessed a rise in public revenue bill, due to high clearance revenues; Where Israel released entitlements reserved power, which was Israel should be delivered to the Palestinian Authority. Tax revenues and non-tax revenue have grown during this period, which contributed to the increase in domestic revenues to the Palestinian Authority. It is worth to mention that this increase was not achieved through increasing the tax burden on the citizen but through improved management and broadening the tax base (Palestinian Central Bureau of Statistics, 2005). The rate of increase in domestic revenues is 28.3% above what has been estimated in the budget.

When considering the years 2005-2007 the financial situation to the Palestinian Authority has not changed in 2005 from the years which preceded it, but public revenues witnessed an increase ability to almost 300 million\$, this increase was due to higher collection of local revenues (tax and non-tax) in addition to the height clearance revenues (Palestinian Central Bureau of Statistics, 2005) the reason for This increase is what has been achieved from reforms in the field of tax administration and implementation of the Income Tax Law. As well as the rise in the revenue generated from fees, licenses, investment returns and profits transferred to the Treasury contributed in increasing non-tax revenues; also recorded a clearance revenue increase contributed to the increase in total revenue, increase the clearance revenues estimated by data table 100 in 2005 to \$ 894 million, up from the previous year by \$ 181 million. The Authority went through difficult circumstances in 2006

when the donor countries refused to help the authority after the victory of Hamas in the Palestinian Legislative Council elections and the formation of the Palestinian government, as well as Israel refusal to pay dues clearing.

A result of the above inability of the Palestinian Authority's ability to implement its financial obligations, as well as not being able to pay the salaries of public sector employees although they have been able in some cases to provide advances to staff. These advances covered approximately 50-55% of the total salaries for 2006.

The difficult financial situation of the Palestinian Authority until mid-2007 has continued the case of any Palestinian division, When the emergency government was formed in June 2007, donor countries have to lift the siege imposed on the Palestinian Authority in the West Bank and kept it imposed on the Gaza Strip (Palestinian Central Bureau of Statistics, 2008); In other words, we can say that the year 2005 were in line economically in terms of the size of public revenues with the above witnessed a natural increase. However, in 2006 and 2007 and up to June 2007 witnessed the collection of local tax revenues and its components and non-tax fluctuated between each period and the other, but it is low in total than previously, Especially in light of Israel's non-diversion of funds to the clearing of the Palestinian side. It is worth mentioning that domestic revenues in 2006 saw a decrease of about 60% compared to the same period in 2005 (the Coalition for Accountability and Integrity, 2007)

The income tax and profits relative to overall tax revenues, reached in 2003, about 37%, and increased in 2004 to reach 38%.As well as the percentage of clearance revenues amounted to about 63% of total tax revenue in 2003, and 62% in 2004.(<http://www.oppc.pna.net/mag/mag13-14/new2-13-14.htm>)

The emergency government worked after its formation in 2007 on the application of rapid recovery plan, Its goal was to provide the salary for public sector employees and operating expenses of the Authority and the payment of the debt owed to the private sector, employees (MAS, 2008). As a result of the support provided to the Palestinian Authority from donor countries and the transfer of

clearance of reserved funds, as well as some emergency steps taken by the government aimed at financial reform, including improving tax administration and activation of procedures to improve tax compliance, Through the imposition of fines on taxpayers and non-registered for the purposes of customs and VAT and conscientious about submission of periodic disclosures or who provide incorrect statements. Also the amendments made to the Income Tax Law, which aimed to increase the tax base contributed to an increase in income tax revenues. All of this led to an increase revenues to the Authority (MAS, 2008), and received the Palestinian Authority in the first quarter of 2008, about \$ 526 million in aid and grants for budget support. Arab countries have contributed about \$ 154 million, as a part of commitments to the Paris conference, which was held in December of 2007 (MAS, 2008).

The caretaker government has been able during the fourth quarter of 2008, the payment of the entire debt owed to employees A result of delayed salaries. As well as the payment of arrears of suppliers of goods and services from the private sector, and local revenues in 2008 witnessed a significant improvement as a whole, reaching 759.1 million dollars, including a high rate of 134.3% compared to 2007. The reason for this in addition to the above-mentioned reforms is due to the collection of the National Telecommunications and license fees amounted to 79.8 million and \$ 25 million as cash returns from the Palestinian Investment Fund and with the exception of two items (National Company for license fees and investment returns Fund). And local revenues accounted for 41.1% compared to 2007 despite the drop in the collection of the Gaza Strip . And clearance revenues in 2008 amounted to about 1137 million dollarsdeclining about 13.7% from 2007 revenuealthough it contains a \$ 20.8 million benefit from the clearance revenues frozen by Israel, which has been converted beginning of the year 2008. The total revenue for 2008 amounted to 1896.1 million dollars. Higher by 15.5% from what was achieved in 2007.

In 2011 tax revenues amounted to 482.1 million dollars, in 2012 amounted to \$ 483 million, but in 2013 it reached \$ 597 million in 2014 tax revenue reached \$

604 million. The only clearing revenue doubled during this period, rising from US \$ million in 2011 to US \$ 2054 million

3.2.2.1 Taxe Systyem of Palestine Economy

This chapter is intended to identify the most important factors of tax policy in the West Bank and Gaza Strip in the period from 1996-2014, to draw out the most important tax policy directions in the West Bank and Gaza Strip and its impact on the volume of usage in the Palestinian economy. This chapter also aims to identify the expenses of the Palestinian Authority and its impact on the volume of usage in the Palestinian economy.

The concept of the tax has been associated with the principle amount of in-kind and material provided by individuals in the Middle Ages to the state treasury, and in return the State to provide protection to individuals. And subsequently it takes the form of an obligatory assignment to provide the state with what is required to carry out its basic duties. This concept has been expanded with the development of the concept of the state and its obligations; It is no longer limited to the work of States to provide protection, but exceeded to apolitical, economic, and social dimensions. From economically countries used tax laws to influence the different sectors through investment, production and consumption; to solve the economic problems such as unemployment, recession and encourage certain productive sectors. In terms of social side, states used the tax system for the distribution of income between individuals in a sense of social justice, and to reduce the consumption of goods to the community spam or harmful to individuals and the environment, such as smoke and fuel tax. Therefore, tax revenues is considered one of the most important substrates of financial system of the state at the present time, it provides a way to achieve the various policies and plans.

Tax is considered as the amount which imposed by the state on the citizen to contribute to the overhead costs. Without the benefit of the citizen or for a personal, and impose this tax according to the law, which constitute a form of imposition of state sovereignty. Al-Janabi defined it as “Cash deduction mandatory conducted by

the State or one of the public bodies on different economic units in the purpose of cover the public burden without specified charge and the distribution of these burdens between economic units according to the ability which has been narrated "(al-Janabi, 0.2008, p. 136).Saidi defined it as the "obligatory that they promote when achieve facility located it and specified by law." (Saidi, 2007, p. 131).It has an obligatory, financial and final nature will not be returned to their owner which has no specific return for it, and aimed at public benefit.

Taxes in general are divided into direct taxes and indirect taxes. As for direct taxes, taxes that are deducted directly, and paid by the taxpayer, and it represented by income tax and corporate tax. Direct taxes is characterized by the presence of direct relationship between the taxpayer and the official agency responsible for the collection of taxes.

The indirect taxes, from the other hand, are taxes that are imposed on the actions of taxpayers, which means that it would imposebased on the purchasing decisions of taxpayers, including:

value added tax.,Purchase tax, Tax complementary, customs fees, Production tax, Smoke tax, Beverage tax, Fuel tax.

In the case of indirect taxes, the collecting of taxes is usually done through a third party, that collect these taxes and convert it; The official body in charge collected from this party, for example;VAT paid income - of the final consumer – transformed goods by the company or merchant distributor, This means that the value-added tax value be within the consumer price item.

States usually resort to raise the ratio of indirect taxes to avoid direct confrontation with the citizens, and increase revenue indirectly, If the State has, for example, raise the value-added tax, that will lead to a slight increase in the item price paid by the consumer. This increase in collected go to the state treasury.The effect of this increase on the citizen in significant when it is compared to the impact of the income tax increase, This is because the increase in the individual income tax is

observed directly and prominently and accurately show when a monthly salary is received.

It can be summed up the main global taxes using the following taxes:

- Income tax: a tax imposed on individual income, whether it comes from the proceeds of the share capital or work if he\she works or is employed or both.
- Tax on capital: imposes on capital, either produced or not produced, a property owned by a particular person at a particular time and are persistent. This tax has been taken many forms, such as taxes on capital ownership, the tax on the capital increase, the tax on wealth acquired (legacies and bequests and donations).
- Tax Expenditures: take many forms; including specific taxes, and taxes on basic goods, and taxes on the same common-use goods, and taxes on luxury goods, and general taxes on expenses, and purchase tax, and tax production, value added tax, customs duties.
- Land and property tax: and that impose on the owner of the land and on an annual basis, regardless of the proceeds of the land, and also includes real estate tax, and knowledge

Tax is one of the main sources of financing the general budget, a task for all sectors in the country. Where tax is intended to cover the costs of services provided by community; And cover the expenses of the state to carry out its duties, in order to avoid recourse to borrowing, which is a burden on the state through the benefits that result from loans. The tax is sometimes used as a tool to reduce the specific consumption patterns such as smoking and drinking alcohol. It also can impose a tax of birth control in densely populated countries, or to encourage procreation, as in some European countries. The tax is used as an effective way to achieve justice between the citizens, where taxing high incomes, and are distributed it to the poor, through free government services, such as education and health. And this constitutes the embodiment of the changing social structure and the well-being of the community. Tax is one of the important tools in the allocation of the use of resources in order to achieve economic growth and stability; such as providing tax breaks for

investment on certain economic areas, and the imposition of high taxes on other areas. And it can be used in reducing the waste of resources on the economy dissipated wealth goods, or lead production in this direction. The taxes are used to reduce the import of certain goods competing national production, so as to protect and promote national production of the same goods. (Al-Khatib, 2006,17)

Tax Policy: a set of actions taken by the General Authority for the management of the affairs of society in conditions of economic and financial conditions and, through the laws and regulations of the financial and tax.

Tax policy is a part of the fiscal policy, which is part of the economic policy of the state; tax policy should help the state to contribute to the goals of the community, It is the program which is planned and executed by using all the methods and Arts taxes to produce effects that State seeks to achieve on all the economic, social and political activity variables, and the contribution to the goals of society, and here comes the role of the tax system as a practical translation of tax policy.

3.2.2.2 The Definition of the Tax System

The tax system means The types of taxes in a particular country at a particular time, and the tax system differs from country to country depending on the prevailing political and economic system in each of them.

The success of the state in the selection of the optimal tax system on full knowledge of ideologies society and all economic, social and political conditions and the goals it seeks to achieve, and on deep understanding of the scientific foundations to draw tax policy. The tax system in the broad concept of the two main pillars of objectives and methods.

The fisical policy of the state is part of the general policy of the state, and that the tax system is one of the most important instruments of fiscal policy at the present time; The aim of any tax system to achieve the goals of the State which is determined by the political philosophy. And in contrary to what occurred in the goals of these changes and with the increasing of the state spending for the sake of the common

good, The objectives it seeks to achieve the application of the tax system almost exclusively in the following:

Financial target is one of the main objectives and important for any tax, to secure a permanent revenue from internal sources to the State Treasury and is one of the purposes of government authorities, hence the base (the abundance of tax revenue). Any widening the tax excretory so that it is including all natural and legal persons with the economy as much as possible in collection expenses, where tax revenue is high and in all cases it is linked to the level of economic development.

countries in our time tried to use the tax as an important means to achieve a set of social goals and the most important of these goals include:

1. Prevent the concentration of wealth in the hands of a few members of the community.
2. Directing birth control policy in the countries whether as to promote birth control as in Europe and the Scandinavian countries or in birth control, as in India and China.
3. Address the housing crisis: And exempting capital invested in this sector from taxes for a specific period; for example, that allows the rapid consumption of the tools and equipment used in the housing sector. Germany after World War II imposed extra tax on the old properties and devoted revenues for the establishment of new housing and cheap wage.
4. Address some of the bad social phenomena where authorities can fight some pests, such as smoking, alcohol use by imposing a high tax on the manufacture and sale of various profit.

Economic objectives in our time are the most important objectives of the tax. Taxes are not deducted without raising impact on consumption, production, savings and investment so governments are encouraging the branches of production and the fight against agglomeration and the concentration in some of the productive sectors to guide economic policies and to solve the crises that it is exposed to as follows:

1. Use tax to encourage some productive activities:

By exempting those activities from taxes or from a part of these taxes; Many of the governments of developing countries have resorted to this method to encourage industrial and tourism investments. Syria after the issuance of the Investment Law No. 10 as well as some developed countries that resorted to attract the foreign capital to it where exempted from taxes of foreign investment, such as Singapore and Switzerland.

2. Use tax to address the economic recession:

Tax can be used to deal with periods of recession and deflation over the economic cycle where at least purchase, consumption and piling products, then the government to increase the purchasing power of individuals and by lowering the income tax rate in the first of its parts and raising the tax exemption and increase family exemptions and reduction of indirect taxes and especially the basic needs of citizens relating to rates.

Even in a period of prosperity, tax can be used as a tool of economic by raising taxes on entry; And lower taxes on capital to give a boost to productivity projects in order to increase production and reduce prices; It is worth mentioning that these measures must be part of an integrated economic policy and not an isolated tax procedures.

3. Use tax to prevent the concentration of economic projects:

And that by imposing special taxes on companies mergers that moving towards centralization and the imposition of a private taxes at every stage of the production in companies that flying toward the conglomerates which increases the cost of goods produced and thus limits the apparent concentration and agglomeration in economic activity.

4. Use tax to encourage investment and savings

This is done when the state exempt development revenue bonds issued by (public treasury) from taxes to encourage purchase, or reduction of tax on deposits in provident funds or any financial investment supports the national economy.

5. National production organization and to be protected from foreign competition by imposing high tax rates on imported goods; in order to protect local products and increase the demand for them and this leads to an abundance of domestic production and reduce dependence on imports.
6. Redistribution of wealth by raising tax rates whenever income exceeds a certain limit, leading high-income owners to pay more rates, and the reduction or abolition of the tax on the owners of small incomes and then redistribution of income from the new public projects and therefore benefit from it as much as possible from people and this in turn leads to narrowing of the gap between incomes.
7. State obtain revenues as a result of the imposition of taxes to be spent on projects and public services, accommodation factories and the delivery of health care and spending on development projects.
8. Adjust the policy of consumption of goods and services used by the state in two cases:
 - Reduce inflation or absorb the maximum amount of money in circulation to reduce the demand for goods, especially luxury ones by imposing new taxes or raising the tax rates, leading to curb and reduce inflation, VAT is an example of that.
 - State is encouraging consumption in cases of economic recession, where the state deliberately to cancel some taxes or lowering prices, leading to an abundance of money in circulation and therefore to increase the demand for goods and thus stimulate the economy.

The objectives of the tax system is different in capitalist countries than in the socialist countries, also these objectives may be different in developed capitalist countries than those in the developing capitalist countries.

3.2.2.3 Historical Developments of Tax System in Palestine

3.2.2.3.1 The Taxes During the British Occupation

The revenues have represented in the direct taxes which is made up mainly of tax on the income and the indirect taxes, which mainly relied on the customs duties. This is in addition to the license fees and services and semi-commercial projects returns and other income.

Taxes organized formally imposed in Palestine and the since the time of the Mandate, where the British Mandate issued several laws impose the following taxes:

Income tax: Income from work and income from capital are subject to this tax . This tax was imposed during World War II in order to achieve sufficient income to cover expenses in the mandate of Palestine. This tax was implemented issued a law governing the tax in 1947 in Law No. 13 Where tax has been imposed on the income of people took shape upward relative tax on corporate profits and the percentage of this tax

Local taxes: Which was imposed by the municipalities and village councils such as taxes on taxes on professions and trades that were imposed in advance the amount specified in addition to the real estate tax rate of 15% of the rent.

Property tax in the villages: Replaced in 1935 are tax tithes Aloyrko tax (Land tax in countryside) in this tax. Tenth tax has undergone several tax developments, as it was in the beginning in cash at a rate of 12.5% of the total yields. In 1925 tenths tax cut to 10% by subtracting the proportion of 2.5%, which is equivalent to rate that the Ottoman government had added to war preparations and the budget deficit and the establishment of the Agricultural Bank Ottoman. In 1927 tenths adjustment Act was passed and made an annual lump sum tax.

The Aloyrko tax was rated by Ottoman laws (0.004) of The Princely Land value and (0.010) of the owned land value. The Ottoman government used to

increase these rates from time to time as the need for services or to cover the deficit in the budget. This real rates became 6.24 per thousand of the princely land value, and 16.1 per thousand of the value of This real rates became 6.24 per thousand of the princely land value, and 16.1 per thousand of the value of land King, and 14.1 per thousand of the value of the built property of the owned land , and 14.1 per thousand of the value of the built property.

Mandate administration has recovered from land taxes (tithes and Aloyrko) in one fell swoop; in 1928 imposed property tax law in the cities, and it issued in the first half of 1935 property tax law in the villages. It is generally similar to the first law. Tax on buildings was guessed in the villages on the basis of annual net worth Tax. The cultivable land was divided into classes according to assess the degree of fertilized. The rate of tax is select on each acre for annual net ultra-estimated.

The tax rate on an acre has identified 10% of the estimated net yield. The tax on cultivated land and acidic trees estimated at 12.5% of net income on the basis that the owners of citrus orchards financially more capable to pay grain growers; Although the incident proved the opposite.

Tax on animals: it was called The livestock tax in the Ottoman Empire which used to be got in the form of live products; Then it was replaced by a cash tax on per head. Cash tax continued in the era of military administration with the conversion rate to the Egyptian currency and were as follows:

- ✓ Sheep and goats 48 on the Mullah per head.
- ✓ Camels and buffaloes to Mullah 120 per head.
- ✓ Pigs 90 Mullah on the head.

Then it lowered the tax year 1937/1938 and became 20 Mullah on sheep and goats and 50 Mullah on camels in Southern District

Property tax in cities: After the British occupation began in the years 1920 and 1921 the implementation of the tax in municipal areas in Haifa and Acre and Shfaram. The tax rate of 8.5% of total income%, and revenue is divided between the

government and the municipality concerned (the proportion of 3.5% for the first and 5 for the second) were collected from the owner of the house is not rented.

The property tax in cities was put into effect in 1928 and imposed on the basis of net annual value (net annual rental value) of the property set forth (living houses). And industrial buildings or land used for construction. It was decided that a tax rate of no more than 15% of the net annual value, and appointed annually by a decree issued by the High Commissioner (this was the rate in 1938, for example, 10% with some exemptions).

Indirect taxes: These taxes consisted of customs duties and excise fees and license fees and service charges stamps. The indirect taxes, particularly in the financial system in Palestine importance of structure, and the table below shows the percentage contribution of taxes to finance the general budget of Palestine between 1939-1944

Orientations of tax policy in the government of the british occupation

1. Tax policy of the British Mandate was exhausting for each of the Arab citizens and the Arab farmer. It has been designed according to the orientation targeted to take off the Arab presence from Palestine, a policy adopted to transform the burden caused by the escalation of policy-related spending Zionism in Palestine, particularly with regard to immigration and the ensuing continuous disorders. Conversion of that burden on the Arab citizen, who declined his income, and became a tax, affects 25% of the annual net income. Especially for the farmer whose annual income rate of 23 pounds and 370 Mullah. Note that with the merchants and people with liberal professions and users who their income have reached thousand pounds, and most of them Jews, were paying in the range of only 12.5% of the annual net income. It also reflects the inequitable distribution of the tax burden in the era of the Mandate. While the Mandate government gets taxes from the farmer, it had the right to deprive him of the benefit of the Treasury resources in the construction of roads to his village. Where the Mandate government had

enacted a law committed the farmers to open roads or pay a special fee, while indulged in its policy to establish a transportation network that serve military purposes and working on rallies and Jewish settlements connection to modern transport.

2. Tax policy associated with the aim of economic pressure on the Arabs, since the British occupation of Palestine underlined the British in accumulated tax collection. Although the occupation coincided with the end of the First World War, which Palestine lived in a violent economic crisis, farmers in particular have suffered, and they make up the majority of the population.
3. Directed tax policy to support the Jewish economy in Palestine; British authorities have imposed high customs duties on imports, which burdened the Arab citizen, under the pretext of protecting the domestic industry which many of were in the hands of the Zionists, and it means either that the Arab import and pay the tax to the British treasury, or be forced to buy the Israel production.

All this was reflected in the end on encouraging the growth opportunities in the Israeli economy, and opened areas to accommodate large numbers of Jewish immigrants, and provided job opportunities for them.

When looking at the contribution of these taxes in the Palestinian public revenue during that period, we see that the indirect taxes were in the largest proportion of public revenues in the financing of the British Mandate treasury. Where it forms 37% of the total revenue in Palestine in the period from 1939 to 1944 and then came the real estate tax accounting for 12% of total revenue - between extended as shown in Table (1) and formed taxes accounted for 14% of income national in Palestine.

Table (8) The contribution of tax in the Palestinian budget for the year 1939-1944

Tax	Amount (million dollars)	Contribute percent
Customs and Excise	59.94	37%
Real estate tax	19.44	12%
Income tax	12.96	8%
Income tax Fees and licenses	2106	13%
Grants and other income	48.6	30%
Total public revenue	162	100%
the proportion tax on of national income		14%

The source:

1-S.B. Himadeh, Economic Organization Of Palestine (Beirut, American University Of Beirut)1938, p. 511, D. Horowitz And R. Hinden, Economic Survey Of Palestine (Economic Research Institute),1938, p. 159, R. Nathan And Others, Palestine Problem And Promise (American Council On PublicAffairs,1949: p.338)

After the Israeli occupation of Palestine and its control over the areas which is known these days by 1948 regions, West Bank underwent Jordanian rule during this period continued this tax laws govern in Palestine until after 1948. However, the Jordanian government has changed these laws and issued new laws in the West Bank; the most important of these laws Jordanian Tax Law No. 25 of 1964 and the law on excise duties and local products No. 6 of 1963. Whereas, In the Gaza Strip, which is subject to Egyptian rule tax situation remained without a radical change. Since the Egyptian administration kept the tax applicable laws unchanged as it was the Mandate era and its role was limited to issue some clarifications from the military commander for the Gaza Strip without compromising the essence of these laws.

3.2.2.3.2 Taxes During Israeli Occupation

Tax situation has not changed and remained the same until the Israeli occupation of the Palestinian territories which took place in June 1967; and, since that date, the West Bank and the Gaza Strip, subject to Israeli military rule. Israeli military issued a ruling military orders No. 28 and No. 35 of 1967 which stipulated that the income taxes, real estate and customs remain unchanged in the West Bank and Gaza Strip until be issued new orders. Laws remained unchanged until 1975, where it began legal changes related to tax rates issued by the military administration through a series of military orders carried with it the imposition of new taxes and the modification of the existing. The military administration to impose value-added tax on all types of goods and services in 1976 and amended the progressive income tax rates which became from 5.5% to 55% with make adjustments in the size of the taxable and exemptions categories more than once during this period. It also raised the income tax on joint-stock companies in the Gaza Strip profits from 25% to 37.5% since 1986; It also imposed a purchase taxes and customs fees rates used in Israel on imports of the West Bank and the Gaza Strip from the outside world. While the imports draw from within Israel to the West Bank and the Gaza Strip from any fees or taxes; in addition, to imposing a tax on the production of new products and filed on cigarettes and alcoholic drinks. (Sabri, 1986,22)

The occupation wasn't satisfied with authorities to amend the tax laws that existed prior to the occupation, but the imposition of new taxes were not known before, namely:

1. Value added tax
2. Production tax.
3. Intifada tax on operating vehicles
4. Travel tax.
5. Arnona tax in East Jerusalem

It was developed in 1976 under the Executive Law No. 31 of 1976 on fees and tolls. This tax has been linked to the Jordanian Law No. 16 of 1963 through amendments to the special fees on local products Jordanian law. VAT has been imposed on the sales of goods with the exception of fruits and vegetables and to provide services and on imported goods (Stephen, 1990,22). And the imposition of taxes originally raised by 8% to 12% in 1977 and then to 15% in 1983 then to 18% in 1991, and then reduced to 17%, and these changes in the rates applied in Israel and the Palestinian territories (Alawneh, 1992,12)

Israeli occupation authorities considered this tax from the point of view of administrative a way to monitor the business activities in various stages of development and it requires a detailed system for the management of book keeping. Most of the Palestinian installations either unable to continue to work with this system or that it is not aware of the public its requirements. Which is reflected in the facilities of vulnerability to financial sanctions.

This tax is a general tax on all transactions, both from the sale of goods or the provision of services or import goods where a worker levied of his customers from the sale of the goods or provide the service. In addition to the value of the deal the same input tax is paid when obtaining the raw materials tax or goods and called the tax in the second phase of tax transactions and tax revenue earned by the state of each taxpayer is the difference between the tax transactions and tax earnings. And the seller or the service provider is in charge of the payment of the tax proceeds, which total more than 25 thousand dinars However, the Israeli tax practices Israeli tax practices considered all unlicensed workers licensed subject to the tax has the original text of the law to exempt a number of business deals from VAT such as export, tourism services, selling plants etc.

As a result of the imposition of this tax, the tax burden of other taxes rose in the occupied territories, whether the taxpayer is an individual or a legal person is constantly compared to relatively low and relatively decreasing income. The negative effects of the value-added tax has evolved into one of the most dangerous fiscal

constraints on the development of the Palestinian industry and trade sector closed so many economic interests because of tax practices relating to VAT.

Customs duties levied on goods and locally produced materials intended for consumption or use in industry and other fees collected in the form of a low percentage of the whole sale price of a commodity, or a lump sum, Or a combination of both. Israeli authorities from this tax aimed to destroy the ability of goods to compete with Israeli products on the one hand, in order to get the cash revenues on the other hand have varied rates by these two goals; it was low on the daily goods and to ensure a large consumption, financial tax outcome which The high electrical and mechanical goods and so as to reduce creation of such industries in the occupied Palestinian territories to compete with Israeli goods from one hand and Arab consumers need for it and purchased from the Israeli market.

The justification for the imposition of this tax to punish the population in the occupied Palestinian territories because of the intifada (uprising) and compensation for the resulting losses which does not contradict with international law, which authorizes the occupier only taxation of the need to fund expenses. The Israeli government has imposed in 1984 a private economic and social policy, tax on the working vehicles; pre-set period of three years so that the size of the tax in the first year amounted to 3% of the book value of the car and 2% in the second year and 1% in the third year of reasons.

And then identified the occupation authorities annual tax lump sum depending on the size of the car type and size of the motor, and production year pay an annual license.

This tax was imposed in order to restrict the movement of passengers from the citizens of the West Bank, Gaza Strip and Jerusalem; the amount of this tax is changeable from time to time depending on the economic situation in Israel, according to the tourist season and the dollar exchange rate. It rose in the tourism season in the summer and declined in the winter; This tax was imposed in order to service the Israeli economy and the stability of the Israeli currency and do not serve

the economy of the occupied Palestinian territories. Especially that this tax revenues turned to the Israeli Treasury, and it is not spent on the occupied Palestinian territories. Israel's economy benefit directly from the taxation of the expense of citizens in the occupied Palestinian territories, which the international law prevents.

Under the land tax law of 1955 where it has imposed typically charging for the amount of 1/4 dinars of each piece of land (about 4 thousand meters) in the 4 acres planted with fruit and vegetables. After 1976 Percentage of rate has changed to up to 0.60 of dinars for every acre and then stopped at two dinars in 1987.

Under Jordanian Tax Law No. 11 of 1954 No. 9 of 1967 imposed properties tax on buildings and land within the city limits by 17% of the net value of the annual rent for buildings but for the territory of the percentage was 10% of the net value of the annual rent of the land. The Ministry of Finance is doing for collection allocate 42% of the municipalities and village councils and 58% due to the government did not change the ratio under Israeli occupation.

Under the Education Act of 1965, the citizens of the municipal areas are subject to the 3% tax on the estimated value of rent buildings; military decision of the Israeli occupation rate was raised to 5% to 7% and then turning the revenue to education departments in the municipal authorities for the disbursement of school buildings and the construction of schools.

Israeli Tax Policy Objectives in The Occupied Palestinian Territories

It is necessary to distinguish between the two sets of objectives of the Israeli tax policy in the occupied Palestinian territories, which are:

The first group: are the goals that seek the ruling power to reach them directly as a result of the imposition of taxes.

The second group: the objectives it seeks to ruling authority reached indirectly resulting primarily from reactions in charge of producers and consumers after the stability of the tax burden on them.

Israel is seeking in the first group to achieve the following objectives:

1. Destroying Arabian competition: This goal is pursued by the result of the low level of prices in the occupied Palestinian territories, the level of prices in Israel in the early years of the occupation and until the end of the seventies. This constitutes threat to the ability of Israeli products to compete with the Palestinian competitive products in the internal Arab markets or in Israeli markets. This situation is pushing the occupation authorities to take financial and economic steps to raise prices in the occupied Palestinian territories in a way where some Israeli products can ensure the continuity of competitor in the future, and these measures impose direct and indirect taxes and encourage Israeli exports to the West Bank and the Gaza Strip in order to export inflation to them.

These measures were reflected higher average prices in the Palestinian territories is to rise higher than the rise in Israel and rank above in 1970-1978 until it became price levels in both Israel and the occupied Palestinian territories close.

2. Financial targets: Israel is seeking to reap the economic and financial returns from the land so as the West Bank and Gaza won't become a burden on the Israeli budget and Israeli citizen; Israel has worked to modify customs and tax laws that existed prior to the occupation in addition to charging for arrivals and departures at various official transactions in order to get sufficient financial resources. The benefits that get Israel is estimated in the period 1968-1985 in the form of taxes and customs fees and differences in the wages of workers in Israel and the fractions of their salaries and benefits from the Israel water and tourism by about \$ 22 billion size. As a result of the large increase in the size of the military budget of the Military Court as a result of the continuation of the occupation, particularly increased spending on settlements and security aspects prompted Israel to impose new taxes and modify the old tax laws so that they can cover the annual revenue budget of military rule (Alawneh, 1990,12)

3. The displacement of citizens: It used the tax as a way to cracking down on Palestinian citizens, by robbing them the bulk of their profits, which is forcing them to inaction for work and production, In order to lower labor earnings after tax deduction. And procedures that introduced by Israel, for example, the closure of shops for lack of taxpayer's ability to pay taxes. Because of the economic situation due to high unemployment rates all these conditions drive the citizen to emigrate in search of work; The intensity of these practices has increased during the years of the intifada in contravention of international law and explicitly (the United Nations Conference on Trade and Development (UNCTAD) 9/23/1991).

The objectives of the second group, it lies in the indirect effects resulting from the imposition of taxes are as follows:

1. Initial effects: It is the consequences of the actions of the legal financier of taxes to the time the tax stability in the actual protection of the financier of taxes such as changing prices, The change in the change in the quality of production and other terms that include all economic processes following the payment of taxes and to download these taxes for people who spend in the interactive production stage which be either behind or in front of the production phase or reciprocity in which the taxpayer is located. Some of these effects that resulted from all this economy instability and a clear difference in price levels even in the stores per city and creating a kind of panic and fear of taxes and the direction of the Palestinian consumer to the merchant and the Jewish product.
2. The final effects: The effects of the actual conduct of the taxpayer after the stability of the tax burden it and to pay for the amount of tax; that is by reducing consumption and savings and investment or other income components. This is reflected in the end of production, employment and prices. Israel's goal of taxation is to raise prices in the occupied territories and reduce the demand for local goods and go to the Israeli market and the

Goods. High prices have led to a decrease cash savings rates and the direction of the Palestinian consumer to the commodity economy or to the flight of domestic capital abroad and thus lower investment.

3. Guiding effects: The general effects that the state seeks to achieve from taxation, such as promoting investments in a particular area and not to encourage it in another area as well as the redistribution of income etc. of the general goals.

All of the above was an attempt by Israel to increase the dependency and link the Palestinian economy to the Israeli economy.

Thus, we see that Israel's tax policy was never intended to use taxes to service the Palestinian economy but rather to achieve the interests of serving the Israeli economy, and this is contrary to the rules of international law which states that taxes must be in the interest of citizens in the occupied Palestinian territories service.

But the situation changed after the Gulf War, where the Civil Administration reached the conviction of the need to use taxes in order to stimulate economic activity in the occupied territories so it has released an investment promotion law under the military order (1342). Which gave the new factories that was held after 01.01.1991 and obtained the approval of the Directorate tax breaks ranging from 3-5 years, in the condition that the exemption period of not more than 6 years from the date of the grant is necessary to set up a factory certification. Table number "9" shows the percentage contribution of economic sectors in GDP and employment during the Israeli occupation period (%)

Table (9) the contribution of economic sectors in GDP and employment during the Israeli occupation period (%)

Year	GDP			Labor		
	Agriculture	Industry	Construction	Agriculture	Industry	Construction
1968	35.2	5.4	6.2			
1970	33.7	6.9	9.4	42.8	15.4	9.8
1975	27.3	8.3	16.3	29.8	13.6	6.6
1980	29.8	7.1	15.5	24.1	15.7	8.3
1985	22.8	7.6	16.5	18.7	13.4	8.6
1986	29.5	8.4	15.3	17.5	12.8	8.1
1987	22.5	9.4	16.4	15.1	12.3	7.4
1988	39.9	8.3	13	17.7	11.4	6.8
1989	30.4	8.1	14.5	16.0	11.0	8.4
1990	38.2	8.0	12.5	16.8	9.1	7.4
1991	31.4	8.0	12.5	17.3	10.3	7.1
1992	39.5	8.0	13			

The source: World Bank ,1993

Taxes led to a steady decline in national income and low-income components of this consumption and saving depending on the location of the taxpayer from income groups. Also it played a negative role in the development and growth of the

commercial sector where it exacerbated disagreement between consumers and traders on the one hand and between traders with each other. So that the product is doing its best in order to transfer the tax burden to the consumer as taxes led to the lifting of domestic goods prices; thus increase consumer aversion of them and replace them with Israeli goods cheap. (Alawneh, 1992)

As for the impact of taxes on the industrial sector it has been reflected in the increase in unit production, financing and marketing problems faced by the industrial sector already. Which results in a decrease in tax savings and impede investment and a rise in local prices of industrial goods that have become unable to products the Israeli and foreign products (Alawneh, 1992,13)

Indirect taxes such as value added tax also led to a rise in prices at least in a tax rate; Also led to lower demand and thus the direction of commodity prices to decline. Tax increase in unemployment also contributed, through their impact on industrial installations, the bankruptcy of many of them which was reflected in the low levels of demand for labor and a high cash deductions to lower disposable income. Also influenced taxes led to the emigration of citizens from the occupied territories as a result of the economic difficulties caused by the tax to economic sectors. Consequently bankruptcy of many of them and to the parking tax impediment to the establishment of new institutions and thus reduce the absorption of the increase in the labor force which reflected and led to labor immigration abroad. Table number "10" shows the percentage of collected taxes and other income in the West Bank from 1968-1992

Table (10): percentage of taxes collected and other income in the West Bank from 1968-1992

Year	direct taxes	Indirect taxes	Revenue	Value in millions
68	12%	79%	9%	8
72	8%	81%	11%	21
75	34%	44%	22%	36
80	38%	40%	22%	59
86	28%	57%	15%	107
88	26%	50%	24%	170
89	28%	46%	31%	151
91	22%	49%	39%	156
92				195
Average	22%	61%	17%	

Source :Puplic Finance In West Bank and Gaza Strip (UNCTAD, Geneva, 1994)

In the era of the Israeli occupation it can be concluded some features of tax policy for that period, which was the most important:

1. The tax policy of the Israeli occupation of the Palestinian worked on overloading the shoulders of the taxpayer through high tax rates, whether directly such as the income tax or indirect such as the production tax and VAT which led to the high tax burden of individual and total.

2. Tax administration did not use in the collection of taxes specific and clear system based on the rule of law in the collection process, but discretionary methods used in most cases of officer. As was the temperamental in addition to the use of violent methods in the collection as the arrest and confiscation and seizure to force the taxpayer to pay.
3. Tax administration has worked to reduce tax exemptions such as Exemptions in the income tax and sometimes cancel and do not deal with it. As it did with the value-added tax when considered that each seller is licensed or unlicensed employees is subject to this tax whereas the law considers the taxpayer is in charge of the payment of this tax all seller or service provider who increase the total annual over 25 thousand dinars(Alawneh, 1992)
4. Intentionally, tax administration of the occupation didn't publish tax laws so that the Palestinian in charge of remains in ignorance of his rights and duties. Thus, in charge of the taxpayer is unaware of the tax imposed on him and the dates of paid and how to pay it and his ignorance of associating. Occupation aims to keep the Palestinian issue in a state of confusion and fear of taxes in order to be reluctant to invest his money in any product project.
5. The tax policy of the Israeli occupation worked on influence the savings, investment and production trends by imposing high taxes on the Palestinian product to lose its competitiveness price ability in front of the Israeli Product. As they did not use taxes to encourage investment through exemptions but on the contrary it has canceled the exemptions already exist and did not grant any exemption in order to stimulate investment, both internal and external. It has also imposed low rates on daily consumer goods so as to ensure a large consumption of high tax and the proceeds were high the high durable goods as electrical, mechanical, to reduce the establishment of such industries in the Palestinian territories and the Israeli purchase of the product (Alawneh, 1992,13).

3.2.2.3.3 Taxes During the Palestinian National Authority

The Palestinian tax regime elements have been formulated in the Paris economic agreement; It is a reflection of fiscal policy that was practiced by the Israeli authorities. The formula of the tax system came as a supportive of economic relations between Israel and the Palestinian territories.

In 2004, the Palestinian Authority was able to create the first unified system of the West Bank and Gaza strip. At the beginning of the year 2008, a new tax law has been applied which is a Palestinian tax bill for the year 2007, and which refer to it as a promotion of law; it can restore community's commitment to pay the tax after aren't commitment in previous years. In 2011, a new tax law was imposed, amended many of the items covered by the 2007. In 2015 it was the adoption of a new tax law did not begin its work after.

The tax policy of the palestinian authority

Because of the volatile political situation in Palestine, I see that there is a lack of clarity in the level of the economy; As the political stability followed economic stability and therefore must work to improve the tax climate. Where that tax revenue is the main tributary to the state treasury and to focus attention on this sector because of its active role in the cover overheads and achieve the needs and requirements of society growing continuously.

The tax policy of the palestinian national authority targets

1. First goal: financial target, is the primary goal, and this is intended to ensure the collection of the largest possible outcome of tax in order to finance ongoing investment and government expenditures, note that it cannot in any way to achieve the desired financial target without taking into account the identification of other targets, on the one hand, and to determine the size of public expenditures on the other hand.
2. The second goal: which is not less as important as the first goal, but it may be more important, it is economic objective as it is required of all tax policy to

work on the development of the local economy and determine the appropriate size of the tax burden to the required level of development and address the problems faced by countries. Like the fight against unemployment, inflation and encourage investment, which plays a prominent role in providing employment opportunities for the labor force.

To achieve these objectives, the tax policy should be based on the general tax principles, equality, justice, sure, the economy in the collection, not respecter of persons at the expense of others or at the expense of the Treasury to get to achieve the goals that were imposed tax for it.

With regard to the Palestinian tax situation, it can be read that tax policy of the Palestinian National Authority through what trends set by the Ministry of Finance declared and written goals in its speech the general budget. The speech shows the general budget of the most important objectives that the Palestinian National Authority is seeking to achieve through tax policy are that (the Ministry of Finance, the general budget speech for different years):

1. The change of the economic climate that prevailed during the years of occupation, this includes a thorough review of all economic activities and financial legislation. Reforming the tax system is considered as major and essential compounds in this review process.
2. The reform of the tax system in order to increase revenue and improve efficiency. Increase revenues lead to increased public savings and thus to increase the national savings; rising of economic efficiency promotes growth and improves the process of allocation of resources, so as to save part of the developing revenue and it is exported part of the developing output.
3. The removal of structural distortions that hit the Palestinian economy as a result of the Israeli occupation; it is financial pressure and the weakness of the public sector, requires that the necessary increase public spending to meet revenue size. As the big changes introduced by the Israeli occupation authorities on the tax system, and new taxes that have been imposed which its main purpose is the punishment of citizens to serve the Israeli economic

interests and not for the benefit of the Palestinian economy and the public sector. The evidence of this the lack of public services provided during the years of Israeli occupation of Palestinian territories.

4. The unification of tax legislation in the West Bank and Gaza Strip in line with the new Palestinian reality and meets the requirements of national sovereignty, and the goals of economic and human development.
5. Work to increase and export development, as it leads to the expansion of export markets, and thus to encourage investment and economic growth and job creation, and therefore to combat unemployment.
6. Ease the tax burden on the Palestinian in charge and taking into account the economic and social situation to and this would encourage personal savings, which is the basic and important influent to finance private investment.
7. Change the negative perception of the taxpayer towards the Palestinian taxes, after it was prevented from paying under occupation which is an important part of the national resistance.
8. Definition taxpayers of their rights and duties through the publication of tax laws and procedures to taxpayers.
9. Simplify the tax system and procedures that facilitates to expect the size of the tax to the taxpayer due, and reduce collection costs in line with the economic base in the collection.

3.2.2.3 The Economic Effects of Taxes

- 1- The impact of the tax on the incentive and production

Taxes could lead to a reduced ability of individuals to work and thus their ability to production decreases. This is achieved in cases That reduce the productivity of their efficiency as if it led to reduce their necessary consumption or deprive them of part of the income... etc. And all this prompted some countries to report tax breaks to take into account the minimum standard of living and to refrain from imposing taxes on the consumption of essential goods.

There is another opinion from the viewpoint of traditional which is that the tax may have a positive impact on motivation and production from where it paid the owner of the project to increase production. It also pushes the worker to spend great effort in the purpose of making up for what it is carved out by the tax, but this theory can be acknowledged or find a bond at a time when the number of taxes was limited and it was a moderate tax rate.

At present it is difficult to take it, especially in cases where the tax rate is ascending to a large degree, which reduces the desire to do compensative work.

2- The impact of the tax on production expense

Indirect taxes in all cases, and direct taxes in the special conditions of lead to higher production expense, it can result in a tax increase in production expense and a reduction in the rate of profit. Consequently, the production could diminish based on the imposition of the tax, if the shortfall in production has become Public so that means that means a shortage of supply of goods and this means a lack of demand for workers and reduced employment and increased unemployment. But if the demand for the commodity featuring a lack of flexibility, it may not result in any tax deficiency in the quantity of production.

3- The impact of the tax on saving

The national savings consist of private savings and public savings and investments to the State, that go into public sector activity which can be used, and usually use the tax to fund these investments, and as such tax can be a way to form the state save (public saving) and thus affect the national savings by increasing.

The first effect of the imposition of the tax is to lose available access to individuals and therefore lead to lose their savings and their consumption; and this leads the individuals to redistribute available incomes between savings and consumption, according to the flexibility of each of them, as well as the redistribution of spending on consumption for the benefit of the necessary expenditures. Since spending on consumption is characterized in relation to savings,

The lack of relatively flexibility, the savings become the first victims of tax. This the impact of size savings in general, but we must distinguish between the two communities of taxes:

The first category have a great impact on the reduction of savings; taxes that affect saving sources, it is those taxes that is imposed on capital. And those that affect some of the profits of some economic activities making the investment unprofitable, and these taxes: taxes on capital assets, And taxes on inheritance, and progressive taxes on the upper segments of the income.

The second category of tax may lead to encourage indirectly savings, this effect is achieved if it resulted in the reduction of consumption; taxes on spending, taxes on consumer goods, and customs duties are some of its examples.

4- The impact of the tax on investment

The tendency to invest depends on one hand on the interest rate prevailing in the market, on the other hand, plenty of marginal capital.

The impact of taxes on the tendency for investment through its impact on the marginal efficiency of capital through its impact on the rate of profit. The more chances of winning increases, tendency for investment and decreases with decline.

And income taxes can lead, especially progressive taxation to reduce investments directly because of reduced profits; This is for new investments, taxes can also be used as a tool to guide investments between various economic activities. The use of any tax effect on the structure of the investment is done through excellent tax treatment for the economic report of the activities to be encouraged. In addition to report new tax treatment for activities to be shrinking; and the effectiveness of this policy appears for the new investments because of what surrounds the old stagnation of investments which may prevent its transmit.

5- The impact of taxes on the marginal rate capital (production)

This is done as follows:

As to the nature of capital goods: through specific taxes, Taxes on certain types of final goods in turn affect the desire to invest in such goods compared to other where businessmen are trying to resort to goods the lowest tax burden.

Volume economies: Indirect taxes here reduce the volume economies through reduced demand for products.

Import of capital goods: Customs import taxes make capital less expensive. Also, indirect taxes play an important role in reducing the import of luxury consumer goods, This in turn reduces the depletion of foreign exchange and facilitate the importation of required goods to be the best head of the national money.

Organizational efficiency of production inputs: It is one of the most significant risks for taxes in connection with a factor of (capital / output) marginal the potential impact of taxes on ways of mixing the factors of production. Here, if it were not neutral taxes will be encouraged to follow the ways less efficient in terms of resources as well as the reduction of these taxes can help facilities in the use of best production practices . And help in better allocation of economic resources if pushed economic establishments to make the price of a good draw with social marginal production cost.

Taxes can also increase or decrease the total amount of the supply of the various factors of production, and factors of production are: natural resources, labor supply, quality efficiency (labor administrative skill). As well as the use of economic resources in the government and in the public business sector and the role of taxes it is achieved through the following:

The nature of the tax structure may affect the willingness of individuals to do some discoveries in the exploitation of natural resources in high-risk contained therein light.

For example, income tax returns and reduce the chances of exploitation of economic resources, But on the contrary, if, for example, impose a tax on the ground,

especially if they were not linked to income, and this may result in a more optimal use of the land and so on.

Taxes affect the overall supply of working hours, Income effect encourages individuals to increase working hours to make up the shortfall in income due to the tax. While encouraging substitution affects individuals to reduce their working hours to lower the opportunity cost of leisure time, for example.

If we assume, for example, that individuals wishing to maintain their standard of living, they increase their working hours in the event of increased tax. But if people want to increase their income, the imposition of the tax have the opposite effect, leading to a significant reduction in their working hours.

Taxes may also affect the relative width of the types and levels of work, for example, reduce progressive on the income from the desire of individuals to get educated professions that require training or education tax. As well as the imposition of tax on the cash income and subsistence exempt from tax limit may lead to a lot of people wanting to retire from work, it may also increase taxes on people with limited income from labor supply and increase their desire to enter into business life.

As for indirect taxes imposed on the leisure goods consumed by the owners with limited income reduce their desire to leave the subsistence sector and the transition to the commercial sector; The imposition of taxes on essential goods for low-income may lead them to go down to the living standards of less than subsistence level and undermines their ability to work and production.

As well as the tax structure may affect the extent of the ability of individuals to access to education, training and overtime for them and their children as well as for staff and businessmen in connection with the training of new workers. High tax rates may also pay some of the trainers highly trained citizens to move abroad.

The indirect taxes on essential consumer goods and services will lead in turn to a reduction in the efficiency and quality of the work force.

Capital is considered one of the main elements of the production and the lack of it affects the development process; also, the composition of capital does not mean only the trend towards savings, but extends to the achievement of investment, but people in developing countries moving towards consumption than for savings. The reason for this is the declining of individuals share in the national income and consequent negative economic impacts where there becomes a dependence on imported consumer goods from developed countries. The role of developing countries is to export raw materials which is required to manufacture these goods to developed countries, that increases the progress of these countries, and thus developing countries, which seeks to achieve economic development should mobilize national savings and channel them towards investment.

6- The role of taxes in achieving distributive justice

The concept of justice in income distribution is a relative and ambiguous concept at the same time; in other words, does every member of the society take of national income as the amount of his/her contribution to the achievement of this income or to provide each individual with a minimum income at First and then increase its share according to their productivity and its contribution to GDP. Many writers were agreed that the concept of distributive justice depends on the prevailing philosophy in the community, and the majority of social philosophies agreed on the following (Alhadjari, 1998,25):

- Equitable distribution of income is not the distribution, which entails full equality in the distribution of income among members of the community.
- Large gaps in income distribution between the members of the community to be unfair.

Achievement of justice in the distribution of income by using tax policy in particular, and fiscal policy in general occupies a great importance equally in both developed and under developed economically countries due to its role in achieving economic and social stability. In order tax policy succeed in achieving justice in the

distribution of income, should be characterized by both direct and indirect taxes to the upward; which means Whenever income increased, the more the tax rate.

In the case of goods and services a progressive achieved by distinguishing between these goods and services on the basis of its consumer groups, which The means the luxury and leisure goods that is used by the rich imposed on it higher taxes than the staples ones. This is called type of tax "taxes on goods according to its characteristic distribution" (Ahadjara,1998,25).

From here tax policy in order to succeed in the redistribution of income, the rich should bear the largest burden of direct and indirect taxes share; also states can interfere directly in the re-distribution of income in favor of poor and low-income people through:

- Set the minimum wage laws.
- Set identification laws to the agricultural and industrial property
- Convert some economic activities to the public activities does not allow the private sector to participate.
- Application of Zakat in Islamic societies, One study suggests where (Ahadjara, 1997,19) that it can to eliminate the problem of poverty and the achievement of greater distributive justice (Under reasonable assumptions)Within a period does not exceed a year, but the practical reality indicates that indicates that public spending programs and manufacturing subsidies more effective than tax programs.

It is known that the use of progressive taxation on incomes and granting subsidies for low-income which may affects negatively on economic efficiency in the allocation of economic resources because it affects the incentives for work, savings and investment.

Naturally the impact of tax policy differsThe fairness of the distribution of income in underdeveloped countries economically developed countries because of different economic, social and political characteristics where in those countriesspread tariff protection, legalized the use of foreign exchange, price controls, black markets,

and credit rated; this makes the tax burdens, take the opposite direction to what it takes in developed countries. In addition to an outbreak of some economic phenomena such as bribery, corruption and nepotism significantly to some of the economically underdeveloped countries.

7- The impact of tax on the individual income

It is well known that when the individual earned income, he/she is seeking to distribute it to various aspects of consumption and savings; If the tax imposed on the income and led to the irreducible, that should lead to a re-evaluation of the individual uses his income again; the impact of the imposed income tax on the layer to which the individual belongs.

If the members of the high-income layers which is careful to maintain their standard of living and consider saving as surplus after the fulfillment of consumer needs, it will be tax from that part of the income to be paid. It will pay the tax from that part of the income which will be directed to the savings. Which means that will lead to a lack of savings and the survival of consumption on what it was before the tax.

But if the individual members of the lower classes, Tax will be paid to the lack of consumer spending account. And therefore they will not allocate any part of their income for savings, whether before or after taxation. As an individual who belongs to a middle-class income is distributed between consumption and savings.

3.2.2.4 The Components of the Palestinian Tax System

Palestinian tax system consists of the following basic tax:

3.2.2.4.1 Direct Taxes

1. Income tax

Palestinian Authority began to work with its arrival in the tax law in the Palestinian National Authority areas of income tax laws that were a valid before

1967 in the West Bank and Gaza Strip. Jordan's modern income tax law No. 25 of 1964 applies in the West Bank governorates. British Mandate Law No. 13 of 1947 in the governorates of the Gaza Strip, in addition to the regulations issued under each. Income tax revenues did not represent the Palestinian Authority only a low percentage of the total tax revenue or the total public revenues to the Palestinian Authority in order to narrow the tax base. It consists of income tax in the Palestinian territories of the following types:

a. The tax on personal income

It is a segments progressive tax that has been modified these slides that was applicable before entering the National Authority Military orders of the Israeli occupation and the presidential decree came into effect from the date of 1/1/1999, where this has been reduced these slides. The collection of the tax from the population on the basis of a holistic (includes labor, craft, profession or employment that would have to pay wages and salaries, profits, returns, and benefits). Exempt from income from agriculture in the West Bank (but not in the Gaza Strip) and interest on public loans, and non-profit organizations. And also it does not impose tax on capital gains cash returns, which include deposits Profits Share. The collection of income tax in several ways, it was brought up at the source, such as deducting salaries and wages, or to be paid in installments during the financial year and include people and businesses companies. Or that are collected as a lump sum tax on vehicles; which include all taxpayers who own vehicles and use them for income where you pay depending on the vehicle type.

b. Clearing transfers

It is what is collected by the Israeli side to the Palestinian National Authority, which is deducted from the entry of Palestinian workers in Israel and settlements. It is placed in the clearing account under: item includes income taxes (Awartani and others 1994 p.17)

- 75% of proceeds from Palestinians working in Israel income taxes.
- All taxes collected from Palestinians working in the settlements.

- Income taxes in Palestine upward, the following table shows the percentages imposed on each tax bracket:

Table 11. Percentages imposed on the tax brackets

Annual taxable income(New Israeli Shekel (NIS))	Percentage%
5424	8%
14464	16%
25746	32%
42714	45%
What is more than that	48%

Source: Article (14) of the Palestinian Income Tax Law No. 17 of 2004

Income tax law includes a range of discounts on the entry of individuals, namely:

- ❖ 15% of the value of the total salary.
- ❖ 840 NIS, each child a teacher (a maximum of five children).
- ❖ 50 % of the first NIS 8,000 of the value of the annual rent.
- ❖ 25% on the rental value increased to 8,000 NIS a year.

Labor remained in force under these rates until the end of 1994, and in the beginning of 1995, Minister of the Palestinian National Authority Board has endorsed a range of facilities. As well as a set of amendments relating to income tax for individuals segments, personal and family exemptions. These amendments came into effect uniformly in the West Bank and Gaza Strip.

Table 12. percentages tax and slides approved by the Council of Ministers in 1995

Percentage %	Annual taxable income NIS
5%	1- 42000
10%	42001-10500
15%	10501-16800
20%	16801-29400
30%	29401-50400
35%	50401-48000
40%	48001-147000
48%	147000 and above

Source: Article (14) of the Palestinian Income Tax Law No. 17 of 2004

In pursuit of the Palestinian National Authority to ease the burden on the Palestinian citizens have been adding many deductions of income subject to tax, that take into account the economic and social conditions, for those who are working to encourage personal savings, which is the main tributary of the private investment, and included these deductions:

- 4200 NIS citizen resident
- 5520 NIS for a wife who does not work
- NIS 840 for each child under twenty (up to five children).
- 1200 NIS for each of the dependent of other dependents (father and mother only)
- 20% of total income to the staff of the public and private sector.

- 50% of the amount of lessee rent housing for up to 8,000 NIS.
- 25% of the amount of rent housing for more than 8,000 NIS.
- 4,200 NIS for each college student (maximum of two students).

In pursuit of the Palestinian National Authority to unify the tax legislation in the provinces of the country it has been preparing a draft consolidated income tax law in line with the new Palestinian reality and it meets the requirements of national sovereignty and the goals of economic, human and social development. Pending ratification of the new draft law, the competent authorities of President Yasser Arafat issued a presidential decree to reduce the tax brackets applicable as of 1/1/1999

It is reduced segments minimize the tax burden on individuals and companies a high proportion. The mainly goal of this law is to expand the tax base for income tax and to encourage the Palestinians to be bound by, and taking into account the overall economic situation of the Palestinian people. Therefore the Palestinian National Authority adjusted tax brackets so as to be compassionate and easy procedures and clear, and the tax rates are relatively low. The tax system in order to not be a catalyst for tax evasion, and not to adopt many of the sources of income as was the case when the occupation authorities levied these taxes.

Table 13. rates and tax assessments segments

Annual taxable income NIS	Percentage %
1-27500	5%
27501-66000	10%
66001-110000	15%
What is over that	20%

Source: Article (14) of the Palestinian Income Tax Law No. 17 of 2004

It is clear from this table that the number of tax brackets has been reduced from eight segments in the rate table in 1995 to four segments, and that the higher tax rate of 20% instead of 48%; this means that the new amendment aims to dilution the burden on the taxpayer, taking into account the economic conditions prevailing in the Palestinian territories. The new amendment also reduced the number of tax brackets, and is worth mentioning that most of the studies suggest that reducing the number of tax brackets avoids complications.

Which is possible to be a barrier to existing and new investments. And thus installed prospects for economic growth, as studies suggest that the less complexity of the tax system, the less the direct costs of administration to the tax system and the process of collection and this is in line with the economic base in the collection (Abdel Razek, 2002, p. 32)

Table 14. Tax brackets in the Income Tax Law No. 17 of 2004

Taxable income (NIS)	Percentage %
3800	8%
3801-6000	12%
What is over that	16%

Source: Article (14) of the Palestinian Income Tax Law No. 17 of 2004

A natural person non-resident tax levied by 16%

Exemptions: income from agriculture

Discounts:

1. 9,500 NIS for each student for the purpose of higher education with the exception of received a grant
2. 1900 exemption in addition to support their wives that do not work

3. 7600 exemption rent to the individual resident
4. 19,000 exemption for the purchase housing (one-time only)
5. 1900 children exemption for every child whatever any numbered 350 Dinar

Non-resident natural person gets these exemptions if the family resident in Palestine and distinguish between the tax department four types of collection:

- Discount at the source: Includes discount of salaries and wages and 5% of the value of any business deal more than 500 NIS.
- Individuals and companies: include people and businesses that pay taxes in installments during the financial year.
- Vehicles: include all taxpayers who own vehicles and use them for income, and do not pay income tax, but as a deducted sum depending on the vehicle type.
- Conversions: include income taxes paid by Palestinians working in Israel and the settlements and the transformation that Israel does not impose tax on capital gains and cash.

Table 15.Segments and tax rates applicable in Article 16 of the 2011 currently applicable

Taxable income to the US dollar	Percentage %
40000	5%
40001-80000	10%
Above that	15%

Source: Article (14) of the Palestinian Income Tax Law No. 17 of 2004

A natural person non-resident tax levied by 15%

It is noted that the Palestinian Authority has worked to reduce the tax rate over the past years where has taken expansionary fiscal policies in an effort to get the economy moving

Income Tax Act 2015

It can display the changes in the income tax law briefly as follows: - (see Table 16)

It has been reducing the number of tax brackets and lower tax rates, Income Tax Law No. (17) for the year 2004 reduced tax brackets to three segments and reduced rates (8%, 12%, and 16%, respectively) compared to previous years.

Then conducted an additional amendment to the tax rates in 2007 where it became (5% .10% .15%) while maintaining the same number of segments.

Last update was conducted on the original law passed by the Legislative Council in 2004, so that has been completely canceled and issuing Presidential Decree No. 8 for 2011 The original is to become law later or any subsequent modification is as a percentage of the original law. This decision put new rates and a variety of segments, in addition to the exemption on the profits of the sale of shares has been changed from 100% to 25%.

In 2012 the Council of Ministers submitted a proposal last amendment to the tax segments of tax rates by raising tax rates on the income of individuals and corporate profits by adding the first two tranches at a rate of 22.5%. And the second on the high-income tax rate of 30% of the private sector and objected to this amendment. And it intensified criticism starting from linguistic, legal drafting and the end of the mystery and lack of transparency and its negative impact on the economic and investment activity. After a serious dialogue with the government, the dialogue resulted in the Council of Ministers in response to recommendations concerning the modification of percentages on the slides with the addition of a fourth segment by 20%. To tax rates ranging between 5% to 20% for individuals and businesses.

On 11 March 2014 issued another amendment, a decision on amending the Law on Income Tax Law (Presidential Decree No. 8 of 2011). And which brought exemption of capital assets resulting from the sale of securities profits to full exemption, and fulfilled 10% of the benefits resulting from funding programs, and the elimination of interest on deposits and commissions.

Last edited issued on 03.31.2015 (decision-Law No. (5) for the year 2015) to amend the decision of the Income Tax Law No. (8) for the year 2011. This adjustment raised the subject segment of the exemption and imposed a tax on monopolies by only 20% while this segment was canceled on individuals and companies have become the upper segment 15% for individuals and companies and other moral institutions.

Table (16) Adjustments made to the income tax law since 2011

Modifying tax rates	Adjusted tax segments	The subject of modification	Modification date
5%	(1-40000)	A new law cancels the Law No. 17 of 2004.	Law No. 8 of 2011
10%	(40001-80000)	25% exemption from capital gains of securities, cancel the exemption on residential rents, cancel the taxes on the sale of land and property	On 24/10/2011
15%	The above		

5%	(1-40000)	Suspension of the previous segments in Resolution No. 1	The decision No. 2 of 2012 dated on 01/31/2012
10%	(40001-80000)		
15%	(80001-125000)	And work according to Law No. 8/2011 with the addition of a fourth segment 20%	
20%	Above that		
Without adjustment	Without adjustment	Full capital gains exemption of securities instead of 25% impose a 10% tax on the benefits of microfinance, and profits of insurance companies	The decision No. 4 of 2014 dated 03/11/2014
5%	(1-75000)	Amendment to the value of annual exemption, value of 36,000	The decision No. 2 of 2015 dated 03/13/2015
10%	(150000-75000)	adjustment segments and ratios for individuals and businesses	
15%	15% and more		

Source: Article (14) of the Palestinian Income Tax Law No. 17 of 2004

2. Taxes on company profits

These taxes imposed on company profits, and were imposed by 37.5% in the Gaza Strip and 38.5% in the West Bank, but it was amended by Presidential Decree to 20% in both regions from the date of 1/1/1999 and remains in place until the present day

Methods of income tax estimate

Needed tax applicable law, as amended in charge of providing tax return which shows the income achieved from all sources at the end of each financial year, law requires the taxpayer to hand over the tax return no later than 30-4 of each year. Also identified the law on 5/31 of each year as the deadline for submission of budgets and final accounts for companies. After the submission of this detection, it is Permissible for sheriff appreciation that accept what is stated in the detection report is being appreciated on its basis. But if the sheriff decides the amount of taxable income used his intelligence and expertise if he found that there were grounds to reject what is stated in detection, as if the detection is not true. In this case, the sheriff of appreciation after the notice issued appreciation handed over to the taxpayer, this notification includes the amount of income taxes due on the taxpayer, and this notification includes justification declined to be submitted, in addition to taxpayer's right to object to the new estimate.

Objection

The taxpayer has the right to object to the submission of the tax assessment sheriff during a maximum period of 15 days from the date of delivery estimate in accordance with Article (59), Requesting consideration again in appreciation with a statement of reasons. After that agreement with sheriff is reached the value of income and the amount estimate about the due on the tax taxpayer. Assessment rate as the basis of paragraph (4) of Article (56), and will be notified by taxpayer. If no agreement is reached with the Assessment sheriff according to the first case, the paragraph (5) of Article (56) of the authorized for the sheriff to acknowledges the tax written order; he may recognize the initial estimate or aggravated or reduced, or to

cancel according to the requirements of the new realities. Here if taxpayer did not agree to the second notice estimate, taxpayer can according to the text of Article (60) to resume the estimate sheriff's decision to resume the income tax issues court within 15 days of receipt of the estimate logo. Also, the decisions of the Court of Appeal are subject to differentiate according to certain conditions under Article (8/75) by both taxpayer and sheriff of appreciation, within 15 days from the date of the appeal decision.

Methods of collection of income tax

Tax Law requires applicable, as amended Every taxpayer subject to income tax payment of regular payments during the fiscal year, where such payments are recorded as borrowings for the account taxpayer. These have been identified on basis of the tax consequences to taxpayer in the previous year, So that this tax installment of ten equal installments and paid monthly as of the first of February until October. For the taxpayer, who did not appreciate his income for the previous year and the advance is determined according to his statement about his income and conviction sheriff of appreciation. The law gives the taxpayer the right to demand the right to reduce the advances in accordance with Article (62 / h) if the taxpayer exposure to damage confirms his loss in the current tax year; Or in the case of work stoppage period of time, or if the taxpayer has reasons to suggest that the tax are worth it for the current year will be less than the tax paid. In this case, when the Income Tax Department makes sure of that, The re-programming system of the private advances to the taxpayer.

The advance paid by the taxpayer is a down payment on a tax that will be worth the expense, Thus, the income for the year by the taxpayer to pay advances self-assessment will determine. After estimate the taxpayer income, the tax payable by one of two possibilities arise. The first either to the amount of advance payments equal to the value of the tax due in accordance with the judgment and therefore not required to the taxpayer any additional payment. The second possibility is that the value of advances paid is higher than tax that have been identified according to the final estimate value, and here the taxpayer the right to request in response to excess

of the amounts paid, or revolve for years to come. In case of a loss, the law gives the right to the taxpayer to measure the loss and a maximum of six years that the tax of not less than 50% of the tax implications before clearing.

3.2.2.5.2 Value Added Tax

It is an indirect tax imposed on the value added cost of the good or service and incurred by the final consumer when he needs to satisfying commodity or service.

Value-added tax imposed on the occupied Palestinian territories under the Military Order No. 685 Military Order No. 643 of 1976, and since that year the Israeli occupation authorities began to raise the value-added rate is gradually increased from 8% in 1976 To 12% in 1987 to 15% in 1988 to where stood at 17% in 1991

Israeli occupation authorities Considers this tax from the point of view of administrative means to monitor the business activities in different stages; because, it requires the development and management detailed system for bookkeeping, most of the Palestinian installations either unable to continue to work with this system or that it is not aware of its requirements of public. Which is reflected in the facilities of vulnerability to financial punishment.

This tax is a general tax on all the deals, both from the sale of goods or offer services, or import goods where a worker gets from his customers for the sale of goods or the provision of service. In addition to the value of the deal in the same tax input, Which is paid when obtaining raw materials, goods and the tax in the second phase is called the tax transactions. And tax revenue earned by the state of each taxpayer is the difference between the tax transactions and tax earnings and the seller or the service provider to pay the tax the taxpayer the tax is that the total proceeds of more than 25 thousand dinars However, the Israeli tax practices considered all practitioners licensed and non-licensed subject to tax. The tax has the original text of the law to exempt a number of business deals from VAT such as export, tourism services, selling plants etc.

As a result of the imposition of this tax, the tax burden of other taxes in the occupied territories has increased; whether the taxpayer is an individual or a legal person continuously exchange for relatively low income and relatively decreasing. The negative effects of the value-added tax has evolved into one of the most dangerous fiscal constraints on the development of the Palestinian industry and trade sector where many economic interests closed because of tax practices relating to VAT.

After the signing of the Paris economic agreement that is signed by the Palestine Liberation Organization with the Government of Israel, Which has been whereby the transfer of financial powers to the Palestinian Authority in the Palestinian territories liberated, remained the VAT rate at 17%. The Palestinian Authority, according to this Convention is permissible to work to modify the value-added tax rates by increase a maximum two percentage points and two minimum reduction points, the percentage of between 15-19% in accordance with the Convention itself. The Palestinian Authority has the right to recover the value-added tax and other taxes, which deducted on imported goods from Israel; The Palestinian Authority, also give back its deducted on goods exported to Israel. Value-added tax is imposed on all goods and services produced domestically deals; It is an indirect tax imposed on the value added to the cost of item or service, any added value it adds performer on the item or service cost (Whether it is purchased raw materials in the purpose of manufacturing or resale) Plus wages and services that helped make salable item costs and the collection of value added tax at each stage of production through which add value to the Item. All goods and services produced locally form (after deducting purchases of intermediate goods) and value-added tax base, with the exception of goods and services for export and tourism services, fruits and vegetables and internationally funded projects; it is also exempt from VAT institutions that sales for less than 42,000 shekels a year.

VAT department classified commercial institutions into three categories according to its annual sales.

1. Licensed institutions with sales equal to 185 000 NIS and more

2. Small institutions with sales between 42000 and 185000 shekels.
3. Exempt- institutions that its sales less than 42,000 shekels.

The institutions that its sales to more than 365 000 NIS to pay VAT per month, and those which its sales less than from that pay the tax every two months. The financial institutions pay 11% on employees' salaries and the net profit.

3.2.2.5.3 Buying Taxes

Purchase tax imposed on the occupied Palestinian territories in the Customs and Excise Law No. 1 of 1962 employed by the West Bank and the Customs Law No. (11) for the year 1929. Employed by the Gaza Strip and Buying tax Law of 1952.

Buying tax is paid directly by the producer who is producing the goods and pay this tax one-time only, frontloaded bear beneficiary of the use of these goods. Purchase tax is considered as a part of the customs tariff and the difference between it and the tariffs that it is imposed on local and imported products at the same time while all the other taxes and fees in the customs tariff levied on imported goods. And Buying tax is paid on the whole sale price of consumer goods and some raw materials, goods produced tax and pay Buying price on the wholesale of consumer goods and some raw materials, goods produced tax, the buying tax rate ranging between 5-95%

3.2.2.5.4 Customs Taxes

The customs taxes and Excise Act No. 1 of 1962 employed in the West Bank and the Customs Law No. 11 of 1929 employed in the Gaza Strip are the laws that went on the occupied Palestinian territories during the Israeli occupation of the West Bank and the Gaza Strip; the occupation authorities have introduced many military orders, which gradually led to the application of the Israeli customs duties on Palestinian land. After the signing of the Oslo Accords, the texts of the Paris economic agreement have become the general framework governing trade and economic relations of the areas of the Palestinian National Authority.

This agreement stipulates that the Palestinian Authority implements the standards and the rates that applicable in Israel; the Palestinian Authority has the right to adjust rates on goods contained in the three lists which are containing (A1, A2, B) which is determined in the Economic Protocol which lists of necessary goods for reconstruction and development programs, in addition, it imports from countries linked by a special relationship with the Palestinian side (Egypt, Jordan, and the other Arab and Muslim). With the exception of these lists and the increased from the agreed quantity, which are imported in accordance with the needs of the Palestinian, Israeli rates of Customs will be used as a minimum to the Palestinian Authority. And the authority have to decide any increase in the equations for these commodities or excess quantities when are imported by the Palestinians to the Palestinian Authority areas. Customs duties imposed on the basis of the value of imports including insurance fees and shipping In the mostly average this tax is 50% of the value of imported goods

3.2.3 The Appropriateness of the Tax Policy to Achieve the Goal of Increasing the Absorptive Capacity of the Palestinian Economy

The relationship between tax policy and absorptive capacity can be straightforward if the tax policy is working to develop and expand domestic production base that provides employment opportunities for the labor force (Qaisi, 1998, p. 172) This is achieved if the tax policy work to pave the way for private investment and allow a sufficient amount of personal savings, which is the main stream and it is important to finance these investments.

This is done to allow sales of taxable income, or by providing a specific exemption is deducted from the amount of tax due on the investor. In addition to determining the appropriate size of the tax burden of required level for development on the one hand, and on the other hand, tax policy procedures must be appropriate in terms of appreciation and collection and encouraging investment and business (Qaisi, 1998, p. 172). This means that the tax policy takes into account the appreciation and the collection procedures in terms of general rules known in the public finances science, such as failure to collect taxes before the scheduled date (appropriate base)

and not to raise tax rates were unjustly (justice Base) and not to collect the advances and not the complexity of the collection procedures (rules of certainty and economy in achievement), (Alawneh, 1992, p. 5.)

This topic will be addressed to the suitability of the Palestinian the tax policy and actions emanating from the general rules described above. It will be verified by reviewing group of decisions and actions taken by the Palestinian National Authority in order to influence the tax system and its compliance with these general rules.

The tax system prevailing in the occupied Palestinian territories far from reality tax uncommon and did not take into account the economic developments in the occupied Palestinian territories during the years of Israeli occupation (Alawneh, 1992, p. 56). With the entry of the Palestinian National Authority to the Palestinian liberated territories and handed over of financial powers, sought to change the harsh tax climate That prevailed during the years of occupation; this has included a comprehensive review of all tax legislation and the reform of the tax system. However, the Palestinian National Authority and because of the restrictions imposed on it by the Paris economic agreement which was signed with the Israeli side cannot use tax policy in indirect taxes in order to achieve and encourage economic goals. So in the Palestinian area receded in the use of direct taxes and VAT and customs duties on goods contained in the lists (A1, A2, B) as tools to achieve the economic goals; So the Palestinian National Authority restricted with respect to indirect taxes, and can only be exercised in the tax policy of direct taxes such as income and acquisition fees as they wish, according to the Palestinian interest (Alawneh, 1997: P 10)

Below we will try to Palestinian tax policy in terms of assessing their suitability with the general tax rules

Tax rules are defined as the foundations that need to be taken into account when setting the tax system, which would achieve conciliation of interests between the taxpayer and the state treasury. The state respect of these rules leads to ease the tax burden on taxpayers (Alawneh, 1992 p. 51) and therefore lead to the promotion of business and private investments that provides the opportunity to work for

Manpower, these rules include: justice, appropriation, certainty, and the economy in the collection.

Justice requires that impose a tax on net profits, and ask all costly to achieve profits; the tax must be imposed on net profit and not on the external features of this profit and therefore follows the need to accurately estimate the profit and allowed to contest in these estimates (Qaisi, 1998)

When you try to apply this rule to the Palestinian tax policy, it is noted that this rule achieved in the following points:

- The income tax estimate in the West Bank and Gaza Strip based on the tax return in which it is placed in charge of the income achieved from all sources during the fiscal year.
- Tax officer accept rolls provided by the taxpayer tax assessment on the basis of it. Unless there is reason to reject what is stated in the detection, as if the detection is not true in this case officer decides the amount of tax taxable income used his intelligence and expertise.
- The taxpayer has the right to object to the estimate of the tax that the sheriff to come to an agreement with sheriff appreciation, if this is not done the right of the taxpayer to appeal the decision to the appreciation of the resumption of income tax issues court.

The second condition to ensure justice must be personal taxes; which means that Taking into account the status of the person in charge and the burdens of the family, so it is possible that there will be two people have one income. However, the financial burdens vary, making one of them able to perform the tax easily and the other may be possible, (Qaisi 1998). When taking this rule is noted that the taxes imposed in the West Bank and the Gaza Strip, especially income taxes taking into account the living, personal and family circumstances of the taxpayers.

Where the Palestinian Authority has sought since received financial viability in 1994 to increase the discounts that take into account the charge of the situation is illustrated by:

- Increase the ratio of the total of exempted income from 15% to 20%
- To provide NIS 4,200 discount for each college student (maximum of two students)
- In addition 5520 NIS discount to the wife that does not work

The last condition of the conditions of justice requires that the principle of taking the tax escalating, Increase of the proportion of tax income the greater the size, because the sacrifice less than the greater size of income, and vice versa. And therefore the equality require that The equal sacrifice on the part of taxpayers to bear public burdens; to achieve this,taxes should be progressive so that citizens participate to bear the burdens of the state each according to his ability (Qaisi, 1998, P 12)When looking at the situation in the West Bank and Gaza Strip it is noted that the income tax takes the principle of escalation and the percentage of tax rises in the higher income size.

The work of this principle requires that every taxpayer should know precisely how much law required from the taxpayer to pay from taxes, They know precisely how much they is required to pay of tax law, and the payment dates in unambiguous matter, and always be sure that he would not berequired with more than what is imposed on him.Therefore, the income tax should avoid all ambiguity andthe taxpayer will be safe from all arbitrary or control, and to be clear and understood by all citizens tax and not subject to the interpretation of legislation. As the state must put all laws related to taxes, and divided by the decisions, regulations and instructions available by law (Alawneh,1992, P 60)

When you look at the extent of matching tax situation of the Palestinian base uncertainty it shows that the Palestinian situation is where this rule through the following points:

- The income tax is estimated based on the income of the taxpayer in the previous year's tax, and for the taxpayer, who did not appreciate his income to previous years, the tax determine according to his statement about his income and conviction warden estimation, and

this means that the taxpayer knows precisely what it's worth the taxes before the start of the fiscal year.

- Income tax departments in the occupied territories provide a guide to income taxes in Palestine and the amendments made to it. This guide includes the rights and obligations of the taxpayer and the sanctions imposed on it in the event of irregularities.
- Explanations and clarification of tax laws in legal forums such as the resumption of income taxes referred to by a court of law are available.

It implies that the tax collection schedule must take into account the situation of the taxpayer, and facilitation in the performance of such a tax in terms of collection procedures and schedule (Alawneh, 1997, p. 22) here can be describe the tax situation in the Palestinian territories as a completely identical to the requirements of this rule for the following reasons:

- a) The law allows the taxpayer to submit a tax return in a period extending from the beginning of the financial year 1/1 and up to 30/4 each year for income tax of individuals. In addition, the law allows companies to submit budgets and final accounts from the beginning of the financial year and until the day of 31/5 each year; this means that the law gives taxpayers for more than five months from the beginning of the fiscal year to provide statements of income.
- b) Pay tax on the amount of regular payments during the fiscal year, and recorded these payments as advances to calculate the taxpayer and these advances is calculated based on what has been paid in the previous year.
- c) Owed amount of tax paid in installments over ten equal installments paid monthly.
- d) The law allows the taxpayer to reduce the amount of advance if he has reasons to suggest that the tax which is deserved for the current year will be less than the tax paid.

- e) In the case of increasing the value of advances paid for the amount due to tax the taxpayer, the taxpayer has the right to ask for a payback to excess amounts paid or recycled for years to come.

This rule seeks to ensure ease of application of tax regulations, so tax collection is low cost without the need to enter into the maze of procedures and routine and bureaucratic difficulties, (Alawneh, 1992, p. 59) Palestinian tax and summarized reality in this regard are as follows:

- a) That the tax laws are clear and does not need many explanations and enter into the maze that will reduce the amount of tax revenue.
- b) The direction of the Palestinian National Authority to reduce the number of tax brackets, It is known that reducing the number of tax brackets to lead not to complicate the tax system and ease of administration (Abdel Razek, 2002, P 43)
- c) Provide many tax departments in all Palestinian governorates, and that makes it easier for taxpayers and the warden income tax time and effort and money required for the collection of income tax; Thus concludes that tax policy taken by the national authority in order to influence the actions of the tax system were appropriate general rules of the tax, which means it is appropriate to encourage investment, which provides employment opportunities of the Palestinian labor force.

Taxes affect the allocation of resources at the government's use of taxes as a way to supplement their public policies, such as policy-oriented rapid economic growth coupled with the flexibility to use high. This growth was achieved through the removal of barriers to investment in the private sector, these obstacles can be removed in two ways: The first method is based on providing incentives and tax breaks that lead to increase the volume of investment. The second way they reduce reliance on income taxes and capital and greater reliance on consumption-based taxes, and this offset is working to encourage private savings, providing more financial resources for investment and lead to an increase in the volume of

investment; thus widening the production base and increasing its ability to provide employment opportunities for the labor force (Anaqeb, 1996, p. 21)

The review will be exemptions and tax incentives contained in the income tax. It included income tax law of individuals set of deductions and exemptions on the entry of individuals:

Income of natural persons

4200 NIS citizen resident

5520 NIS for a wife who does not work

840NIS for each child under twenty (up to five children)

1260 NIS for every dependent person from the other dependents (parents only)

20% of total income to the staff of the public and private sector

50% of the amount of rent housing for lessee up to 8,000 NIS

25% of the amount of rent housing for more than 8,000 NIS

4200 NIS for each college student

Exemptions granted to natural persons aims to maintain a minimum acceptable living standards for these people, and to encourage personal savings, which is the main stream and is important for private investment. Which contributes to the expansion of domestic production base and increase its ability to provide employment opportunities.

Personal exemptions contained in Palestinian tax system look so great Under this law, we see that the person who gets the income of \$ 27,500 NIS a year, and has a wife does not work and three children, and pay the amount of NIS 8,000 per year almost exempt from income tax (paid almost 40 NIS per month) so of exemptions 17590 NIS, the equivalent of \$ 4628. This is the triple of the GDP per person in the West Bank and the Gaza Strip at the beginning of the year 2014 to \$ 1300.

The most appropriate exemptions are equal to twice the GDP per capita (Anakeeb, 1996, p. 20) This indicates that these exemptions are very large and enough to maintain an acceptable level of living standards and allows savings.

Exempt income from agriculture in the West Bank (but not in the Gaza Strip) The exemption of income in agriculture in the West Bank will lead to the promotion of investment in the agricultural sector; and thus employment's opportunities provided by the Palestinian agricultural sector which increased especially that agriculture in Palestine labor-intensive. The agricultural sector also works as an operator of a major Palestinian forces labor surplus resulting from the Israeli policy of siege imposed on the Palestinian economy (Shabana and Barghouti 1999, p. 73.); which means that the exemption of the agricultural sector and promotion will increase the absorptive capacity of the Palestinian economy.

Exemption of interest on public loans on capital and cash earnings, which includes revenues deposits and dividends. This encourages banks to expand in the granting loans to citizens who wish to invest in the state, in the case of availability of political stability and the stability of other factors, and therefore contribute to this increase in the volume of investment and the expansion of domestic production that provide employment opportunities for the labor force base.

Exempt income from the export and this leads to an increase and the development of export production and therefore investment and economic growth and job creation in automatic will be encouraged as to increase exports the same multiplier effect of investment. Where the national income increase according to this multiplier, (multiplier) and therefore increase production and increase domestic demand for labor (Oliver Blanchard, 2000, p139)

The second way which taxes affect private investment through, they rely on reducing reliance on income taxes and capital and greater reliance on consumption-based tax. In this regard, the Palestinian tax policy reduces the reliance on income taxes and increased reliance on consumption-based taxes such as the value of tax and customs tax, which amounted to the contribution of each of them 59%. 28% of the

volume of tax revenue during the years of the study, respectively, while the contribution of income tax did not increase at best about 13% of the tax during the study period. This is very suitable for the formation of small individual projects and therefore increase operating size.

It aims to encourage investment in general laws to the economy and stability of development, through incentives that encourage local investors and works to attract foreign capital, but it is different in the Palestinian territories due to the Israeli domination, which worked on the looting of economic resources in Palestine and make it a market for Israeli products. This has led to distortions in the Palestinian economy where the most important is: dependence on the Israeli economy in the field of employment, foreign trade, and infrastructure services, and weaknesses of the productive base.

But the stability of the internal situation and the talk about the peace process could create the field for investment and create economic climate stable and appropriate investment environment, and thus achieve the objectives of promoting investment by attracting Arab and foreign capital to the laws of the Palestinian territories, and to encourage local investors to invest in Palestine by increasing confidence in the internal investment (Makhoul, 2002,11)

3.2.4 The Impact of Tax Policy on The Volume of Employment in the Palestinian Economy

The impact of tax policy on the volume of use are analyzed based on the analysis and comparison of some of the available economic indicators.

Here we can point out that the Palestinian National Authority has sought to encourage the private sector to invest in Palestine at high rates, and for this purpose, it has taken a number of measures aimed through it to change the economic climate that prevailed during the years of occupation. This includes comprehensive review of all tax legislation and the reform of the tax system paving the way for private investment, through facilitating tax policy procedures in terms of the collection and recognition procedures to be encouraging motivating investment and business.

Therefore, it has been a comprehensive review to change the applicable tax laws in Palestine, but these changes were confined in direct taxes, especially income taxes and companies; because, of the restrictions imposed on the Palestinian National Authority through the Paris economic agreement signed with the Israeli side. Which denied the Palestinian National Authority from practicing a tax policy in the indirect taxes such as Value Added Taxes and Customs Taxes. In this regard, the Palestinian National Authority has sought to provide many of the tax incentives; many of discounts that take into account the situation of taxpayers and encourage personal savings, which are the main stream and important investments for private sector development, have been added. In addition, the Palestinian National Authority has issued encouraging investment in Palestine for the purposes of running the largest possible number of Palestinian labor law. As well as increased revenues resulting from these investments, through the granting of guarantees for private investment; furthermore, the incentives and tax breaks for projects that are efficient and intensity of work. These actions aimed to improve the tax climate to stimulate investment and expand local production base that provides employment opportunities of the Palestinian labor force. These actions aimed to improve the tax climate to stimulate investment and expand local production base that provides employment opportunities of the Palestinian labor force. In terms of the impact of tax policy on the size of the Palestinian economy, adequate data for that are not available, but the relationship between tax policy and the size of the use is possible based on monitoring the movement of private investment. The registration of new companies is an important indicator of the planned investment; The number of establishments in the West Bank has reached 23 510 facility and in the Gaza Strip, the number of establishments in 2015 reached 46 578 (Atlas Establishment Census, 2012). These companies recorded a new addition to the investment, and this refers to the significant rise in the number of companies registered per year when compared to previous periods. The second indicator that the impact of tax policy on the volume of usage in the Palestinian economy can be measured through that will be based on the analysis of the impact of tax incentives coming in the Investment Promotion Law on the size of investments and the size of the labor in it and in what sectors are concentrated.

The volume of private investment in the West Bank and Gaza Strip reached in the year (1998) \$ 1.4 billion (the Palestinian Central Bureau of Statistics, National Accounts 1999, p. 20). According to the Investment Board which give approval for projects that apply for tax exemption in accordance with the Investment Promotion Law to the size of the investment, which received tax exemption in accordance with the Investment Promotion Law reached approximately \$ 27 million in 1998 (Investment Promotion Authority, Annual Report 1999). And the proportion of investment which received tax exemptions under this law 3% of your investment in the same year where in term of operating these projects, these projects have served 870 workers in the same year.

These investments have been distributed to 32 projects. As for the sectoral distribution, Most of the award investments have focused on such exemptions in the industrial sector; where the number of industrial projects that got tax exemptions under the law 28 projects accounted for 87% of the total number of projects winning this exemption. In second place came the services sector, where the number of which got a tax exemption in 3 projects, form 9% of the total number of projects obtained tax exemptions .

Table 17 Number of projects in each sector and number of employment from 1994-2015

Years	The number of projects in each sector				Number of employees	Invested capital (US \$)	GDP	Gross capital formation	The number of companies registered during the year
	Industrial	Tourism	agricultural	Services					
1998	28	1	0	3	870	27406387	4067.8	1,402.10	
1999	56	11	0	8	2,169	44,753,387	4,271,20	1,831.30	
2000	59	5	1	6	2,556	60,208,573	4,313.60	1,358.90	791
2001	43	13	1	9	2,611	44,936,170	4,003.70	1,184.20	370
2002	19	4	0	4	751,0	21,776,616	3,555.80	930.5	299
2003	20	2	4	4	772,5	33,844,032	3,968.00	1,143.00	646
2004	24	3	0	4	787	8,482,932	4,329.20	1,151.50	806
2005	11	1	1	4	393	4,873,455	4,831.80	1,241.30	936

2006	20	4	0	3	647	10,232,129	4,910.10	1,155.10	483
2007	8	0	3	3	499	5,675,191	5,505.80	1,204.90	791
2008	26	3	0	3	718	9,355,303	6,673.50	1,371.90	1225
2009	38	2	3	3	1,302	22,336,412	7,268.20	1,504.80	1717
2010	21	4	0	3	1,109	16,336,412	8,913.10	1,921.50	1543
2011	96	14	3	17	3,596	84,353,985	10,465.40	1,863.80	1387
2012	46	10	2	9	4,120	62,246,671	11,279.40	2,378.50	1071
2013	47	8	1	3	1,877	37,830,266	12,476.00	2,707.30	1233
2014	32	9	1	5	1,656	54,258,863	12,715.60	2,415.00	1486
2015	3	0	0	0	92	573,468			1506
Total					28,571	561,958,018			

In 2000 the volume of investment in Palestine amounted to \$ 1.3 billion; according to the Investment Board granted approval for projects that apply for tax exemption under the Investment Promotion Law to the size of the investment, which received a tax exemption under the Investment Promotion Law amounted to approximately \$ 60 million, or 5% of the investment as a whole benefited from these exemptions, benefited from these exemptions 71 facilities out of 791 company entered the Palestinian market representing 9% of the companies received tax exemption. The companies that received the tax exemption had been filled in 2556 this factor has facilities distributed by sector 59 facility in the industrial sector and 5 facilities in the tourism sector and 6 facilities in the service sector and a facility in the agricultural sector.

In 2015 the volume of investment amounted to \$ 2.4 billion and Investment Authority reports indicate that investment size which received tax exemption under the Investment Promotion Law amounted almost \$ 54 million, or 3% of the volume of investment. These facilities operated 1665 workers representing 6% of workers in the Palestinian laborers size.

These data indicate that the volume of investment, which received the tax exemptions under the Investment Promotion law remains low and the size of the operation does not form that much importance. Also, most of the projects that received the such exemptions are concentrated in the manufacturing sector. Which led to the deterioration of the investment environment in the Palestinian territories as a result of Israeli actions, which is one of the most important obstacles for investors as a result of high risk and that lead to the prevalence of the spirit of hesitation among investors, and is unable to run projects or transfer of products between Palestinian cities as a result of the policy of siege and closure that Israel exercised towards the Palestinian territories. In addition, these measures have led to a lack of the ability of investors to obtain production requirements, or export their products. All of this led to that the non-stable and non-encouraging reality reduce the importance of tax exemptions granted to investments. Because no matter what the incentives offered attractive and alluring, it cannot be compared to the political and security risks and uncertainty of subsequent developments, which threaten the loss of main capital considering the risk resulting from the unpredictability conditions of production and market conditions. In light of directed to the Palestinian economy and the possibility of impeding the development by Israeli policies. Accordingly, the Israeli policies have reduced the hope role which was possible that the Palestinian tax policy plays in promoting and stimulating domestic and foreign investments, which negatively impact on their ability to expand the absorptive capacity of the Palestinian economy.

In addition to that the application of the results of the study on the practical reality, a survey about investors' opinion has been made about tax policy and its procedures, and their impact on the absorptive capacity. For this purpose, the opinion of a group of investors has been surveyed, And that includes only investors who have the capital of their establishments about million dollars, and that affected their facility directly and clearly to changes in tax policy.

The companies that its capital more than a million dollars in the West Bank only has been known and that's due to the difficulty of access to the provinces of Gaza Through the Registrar of Companies in the Ministry of National Economy. The total number of companies involved is 725 company, where it has been taking a random sample of 30 of these companies, and these companies are:

Table (18) The companies that its capital more than a million dollars in the West Bank

	Company name	The Company's Capital (million dollars)	Number of Workers	Types of Sectors	Salary in month in dollar
1	DahyatEljamea'a for Properties Co.	4.2	230	Jenin	650
2	Yarmuk Steel Factory Co.	4.2	170	Tulkarem	450
3	Baton Ektaba Co.	4	112	Tulkarem	750

4	MaslamaniIkhwan(Brothers) Co. for distribution	17	570	Nablus	500
5	JameelAdewani' Sons Co. for Properties	12	420	Nablus	600
6	Asalam for Cars Trading	1.4	150	Nablus	750
7	AbdElrahmanAlhijawi and his Sons Co.	2	350	Nablus	600
8	Van International Trading & Contracting	2	440	Nablus	540
9	ShaltafGeneral Contracting Co.	1.4	290	Ramallah	700
10	Engineers Ikhwan (Brothers) Contracting	4.2	350	Ramallah	800
11	Albha' for Stone and marble Co.	4.2	640	Hebron	650
12	Marina for Ordinary GeneralTrade	1.6	470	Hebron	560

13	IbnSinaCo. ForInvestment	1.4	590	Jenin	800
14	Azzam General Contracting Co	1.4	280	Jenin	750
15	The Arabic American university	56	1250	Jenin	800
16	Zadna for Agricultural manufacturing Co.	1.6	380	Jenin	650
17	Barham General Trading and Contracting, import and export Co.	4.2	735	Tulkarem	800
18	Tulkarem Company for Ready Concrete	2.1	608	Tulkarem	700
19	Ala'amyia (international) Stock ExchangeCo.	5.5	460	Nablus	650
20	Super Link Telecommunications Co.	4.5	650	Nablus	550
21	Zlmut Trading Co.	5	450	Nablus	600

22	Palestine Development and Investment Co.	2.8	980	Nablus	550
23	Rayhan Real Estate Investment Co.	26	680	Ramallah	850
24	Palestinian Cellular Communications Co.	35	442	Ramallah	450
25	AlQudsStock Exchange	1.4	172	Ramallah	900
26	Herbawi Industrial & Commercial Co.	65.8	1780	Hebron	680
27	Palestine Poultry Co.	18.9	1660	Nablus	900
28	Arab Islamic Bank	70	530	Ramallah	120
29	Paltel Co.	1.8E8	2231	Jericho	900
30	Bank of Palestine	1.8E8	1530	Gaza	1300

3.2.4.1 Main Problems of the Volume of Employment in Palestine Economy

First:

Did amendments and changes made to the tax system since the receipt of the Palestinian National Authority have increased the capacity of your organization?

The answer came to this question no, which means The changes made to the tax system did not lead to increased absorptive capacity; the reason for this may be due to these amendments and that the changes did not lead to the bad economic climate that prevailed during the occupation and continued even after leaving the West Bank and Gaza Strip.

Although the average tax burden has been reduced but Israeli policy and actions toward the Palestinians such as the blockade and closures limited the effect of these amendments; also, these amendments was limited in direct taxes due to the restrictions imposed on the power through the Paris economic agreement, which denied the Palestinian Authority toThe practice of tax policy in indirect taxes such as value added tax and customs tax.

Secondly:

Did the reduction of Tax brackets From 48% to 15% in the highest tax bracket have increased the capacity of your organization?

The answer to this question was no, that the reduction mentioned did not work to increase capacity; It seems that the reason for this is that the reduction was not a major motivation to companies working to increase investment and expand its capacity. Because of the political and security climate and instability worsen, which led to the deterioration of the investment environment in the Palestinian territories as a result of Israeli practices directed to Palestinian economy what led to the prevalence of the spirit of hesitation among investors, and led to the fact that it reduces the

unstable Reality of the importance of the reduction in the tax brackets and reflection on increasing investment and expanding the capacity of the work.

Thirdly :

Did exemptions and incentives provided by tax systemis sufficient and appropriateto increase the absorptive capacity?

The answer to this question was no, despite the fact that the tax system included many exemptions and deductions on the income of natural persons and the exemptions containedin The Investment Promotion Law for the year 2014, which includes many of the guarantees and material incentives. However, these exemptions are was limited in the direct taxes and did not include indirect taxes such as custom taxes and VAT only marginally; and therefore such exemptions may be insufficient if we take into account the restrictions imposed by the Israeli occupation on the Palestinian economy, which reduces the importance of these exemptions and thus limit its role in increasing the volume of investments and increase capacity for work.

Fourthly:

Is tax policy procedures in terms of appreciation was a suitable encouraging investment and increasing the capacity of your organization?

The answer to this question came no, although the estimate in the appropriate income tax came to general rules known in the public finance science that will encourage investment and business in contrary to what the situation was during the occupation of arbitrary estimate and depriving of the investor of objection to the estimate appeal; however, from the point of view of investors may be answered in the negative to this question is justified in view of the short time period in which the Palestinian Authority has practiced its finance powers compared to the Israeli occupation. The estimation methods followed by the Palestinian National Authority did not affect as required after increasing the volume of investments and increasing the absorptive capacity of the work.

Fifthly:

Is the policy procedures in terms of tax collection is suitable for encouraging investment and increasing the capacity of your organization?

The answer to this question came no, although income Tax law states for the payment of the tax due on regular payments during the fiscal year and installment of tax on ten equal installments paid monthly; the reason for this may be due to that the methods of collection may not have a significant impact on that increase capacity to work from the point of view of investors.

Sixthly:

Are tax exemptions within the Investment Promotion Law led to increase the size of your investments and increase the capacity of your organization?

The answer to that question was no, and the reason for this is that the size of the investment, which received the tax exemption under the law is still low, reaching 3% of the total investment volume for 2014; it seems that the reason for this is due to a combination of subjective and objective obstacles that hinder the work of investment promotion responsible to give exemptions for projects benefiting from the law.

Some of these obstacles:

1. Investment Promotion Board's lack of investment plan that explain development direction and implementation mechanisms.
2. Weak supervision on benefited projects of the exemption within the law.
3. The weakness of the Authority coordination with other institutions related to Investment work.
4. Non-availability database meet the purpose and even if it was founded, the data are often conflicting and thus prevent the possibility of taking a decision based on facts.
5. Occupation practices that strike any Palestinian development-oriented and that lead to incentives to be provided; despite being attractive and alluring it cannot compare to the political and security risks that threaten losing the basic capital.

Accordingly, the Israeli policies Israeli policies identified hoped the role that it was possible that tax policy plays in encouraging and stimulating investments what has a negative impact on their ability to influence the expansion of the absorptive capacity of the Palestinian economy.



RESULTS & RECOMMENDATIONS

RESULTS

This study aimed to identify the adopted role of fiscal policy by the Palestinian Authority in increasing the absorptive capacity of the Palestinian economy.

This study began to study the absorptive capacity of the Palestinian economy at the overall level during the period from 1968 to 2014; this period was divided into four periods as follows: 1968-1987, 1987-1995, 1995- 2000, 2001-2014

The study showed the low absorptive capacity of the Palestinian economy in the first period, which extends from 1968- 1987, the absorptive capacity during this period reached 20.7% of the size of the workforce. The second period, which extends from the year 1987 - 1994 has reached the absorptive capacity of the Palestinian economy, 75.7% of the labor force during this period. And in third period which extends from the year 1994- 2000, the absorptive capacity has reached 58.7% of the labor force, and this means that out of every 100 people entered the Palestinian labor market,

These results suggest that the fluctuation of the absorptive capacity of the Palestinian economy, but in general the Palestinian economy remained unable to fully absorb the growth in the labor force, this is due to the high growth of labor supply faster than demand growth pace, where the labor force growth rate of 4.6% per year; in absolute terms the labor force growth rate of 8.665 thousand people annually during 1968-1987, Then workforce growth rate rose in the period during the period 1987-1994 to 10.2 per year. In absolute terms the rate of increase in the labor force reached 24.41 thousand per person per year, while in the period from 1994 to 2000 workforce growth rate of 8.6%, in absolute terms the annual increase rate of 45.66 thousand people reached each year. But during the period from 2001-2014, the size of the increase in the labor force stood at 653,800 workers.

After selecting the absorptive capacity at the overall level have been identified the absorptive capacity at the sectoral level has been shown that the contribution of the agricultural sector to the GDP did not exceed 3% at best, reduced the absorptive

capacity of the agricultural sector, where the agricultural sector have been absorbed any factor during the period from 1968 to 1987, but on the contrary decreased in the number of workers in the agricultural sector increased by 24.5 thousand workers in the period 1987-1968.

In the second period of 1987-1995, the study has shown the limited absorptive capacity of the sector, where only 3% of the size of the increase in employment in the Palestinian labor market have been absorbed.

In the third period 1996- 1999 remained low contribution of the agricultural sector, where absorbed during this period, 4.5% of the size of the increase in the number of employees in the Palestinian economy

In the period 2000-2014, the number of workers in the Palestinian economy increased by 341 thousand workers where The agricultural sector absorbed 14 000 workers, a rate of 4.2% of the size of the increase in employment,thus, the agricultural sector characterized by low absorptive capacity And a decrease in the relative importance of providing employment opportunities for the Palestinian labor force.

As for the industrial sector has decreased its capacity from 36.2% in the period 1968-1987 , where the industrial sector have been absorbed during 2000-2014, only 9.8% of the size of the increase in the number of Palestinian workers in the labor market. The decline in the capacity of the construction sector where it declined from 24.2% in the period (1968-1987) to 8% in the period (2000-2014). While the capacity of the sector of trade, restaurants and hotels characterized by fluctuating, dropping from 59.6% in the period (1968-1987), where trade, restaurants and hotels sector absorb 25% of the size of the increase in employment in the Palestinian labor market in 2000-2014.

In contrast, the study showed The high absorptive capacity of the services sector and other branches where this sector absorbed 77% of the size of the increase in employment in the Palestinian labor market in the period (1968-1987). In (2000-2014) the capacity of the service sector fell to 46.2%, and in general, the absorptive capacity of the services sector and other branches remain high in spite of this volatility.

After determining the carrying capacity of the macro-level and sector, it was determined the size of the gap between the workforce and the absorptive capacity of the Palestinian economy; the study showed that the average size of the gap has reached 71.3 thousand people, which is equivalent to 24.3% of the average size of the labor force during the period (1968-1987), as the average size of the gap of 4.65 thousand; this gap has grown at a rate of 4 percent annually during the period concerned.

The results also showed that during the period from 1968-1987 the demand gap for labor in the West Bank and Gaza Strip is increasing with the passage of time, with an average size of the gap 71.3 thousand people, equivalent to 33% of the average workforce size in the same period. As well, the average of the annual increase in labor demand gap amounted to 4.65 thousand people each year, and this means that the gap of demand for labor in the Palestinian territories has been growing at an annual growth rate of 4% per a year. And These results suggest that the ability of the Palestinian economy to absorb the labor force is very limited, and depends on the Israeli labor market in the discharge of the surplus of the Palestinian labor force, as the average number of Palestinian workers working in Israel 63.755 thousand workers during the same period.

In the period (1987-1995) the average size of the gap amounted to 125.17 thousand per person per year, equivalent to 24.3% of the average workforce during this period, this gap has grown at a rate of 5% per annum during the same period.

In the 1996-1999 period the average size of the gap reached 212 thousand workers per year, equivalent to 33% of the average workforce size during this period, as the size of the gap of 174.2 thousand people rose in 1996 to 212 thousand people in 2000, with the annual growth rate of 10.8 annually.

In the period 2000-2014 the size of the labor force increased from 667 thousand workers in 2000 to 1320.8 thousand workers in 2014. This means that the absolute increase in the size of the labor force stood at 653,800 workers; it amounted to an average gap during this period 359.6 thousand workers.

Then the role of public expenditure policy in increasing the absorptive capacity of the Palestinian economy has been analyzed. The chapter began reviewing the most important goals of public expenditures, which seeks to establish a policy of the Palestinian Authority, it has been reviewing the stated goals in the speech annual budget. The study showed that setting goals and outlines the policy of overhead passes in three stages: The first phase is to monitor the problems and challenges facing the Palestinian economy, and this is done based on the review of the economic and financial situation, which shows the performance of the Palestinian economy during the previous year. These indicators determine the needs of the Palestinian economy on the one hand, and on the other hand, determines the possibility of revenue collection to meet the crisis of public expenditures. Then comes setting goals and outlines of the policy of public expenditures. The speech also shows the general budget of the most important goals of the Palestinian Authority through public spending policy that is dealing with extreme weakness situation in total demand by increasing public spending, according to available estimates, in addition to counter the negative effects of the reluctance of the private sector for investment.

Then it was analyzing the evolution of the size of public expenditure which comes a translation of the objectives stated policy of public expenditures of the Palestinian Authority. The study showed that the size of government spending rose from 715.3 million dollars in 1996 to 15085 million in 2015; it also showed that one of the most important reasons for the high public spending relative to GDP is to the political settlement process crashes, and the legacy of the Israeli occupation and the Israeli policies represented by siege and closure on the Palestinian territories, which led to prevalence of poverty and unemployment in the Palestinian territories, leading the Palestinian Authority to resort to the use of government employment mechanism as a way to alleviate unemployment.

After that, the division of public spending economically and functionally, the study showed that the current expenditure received the largest share of public spending, with an average current expenditure of 67.7% of the volume of public spending during the years of the study; while development capital expenditure

constituted only 11% of public spending during the years of the study. The study showed that one of the most important reasons for the low share of capital and developmental of public spending returns to the donor countries that were forced to convert part of its aid, which was dedicated to capital expenditure to current expenditure, which was prepared to face the rise in the spread of unemployment and poverty in Palestinian society guided by the Palestinian economy of Israeli policies. Which was prepared to face the rise in the spread of unemployment and poverty in Palestinian society guided by the Palestinian economy by Israeli policies.

The division of current and functionally expenditure shows that the salaries and wages item earned a major share of them, As the share of wages and salaries amounted to 83% of the volume of current expenditures during the years of the study.

After that the impact of public expenditure policy on the volume of labor recruitment in the Palestinian economy has been tested, due to the lack of sufficient time series from which the relationship between public spending and the size of the policy of the Palestinian economy in the use is tested; the relationship has been tested based on the analysis and comparison of some of the available economic indicators.

The study showed that the Palestinian public sector contributed significantly to accommodate the huge numbers of the work of government functions, where the number of Palestinian workers increased from 81 thousand workers in 1996 to 209 thousand workers in 2014 and the study showed that the public sector absorbed nearly 25% of the increase in the number of Palestinian workers during the study period.

However, the study showed that the ability of the Palestinian authority in the area of public expenditure policy remained limited due to restrictions imposed by the transitional phase agreements on the one hand, and the practices of the occupation on the other hand, where not are restored power of decision on doing public investment spending for the development of infrastructure in areas classified (b, c) without the approval of the Israeli side.

RECOMMENDATION

In the light of the findings of the study results can come up with the following recommendations:

First, with regard to tax policy

1. To renegotiate with Israel about modifying the Palestinian tax law to enable the Palestinian National Authority to use tax policy to indirect taxes in line with the interests of the Palestinian economy.
2. To reduce the minimum capital requirement for a tax exemption under the Investment Promotion Law so that small businesses benefit from the incentives granted under the law.
3. To give more incentives projects that generate higher value-added which use local production inputs, and intensive work.
4. VAT reduced by two supporters, as permitted by the Paris economic agreement, and that would encourage investment and expand the tax base.
5. Work on the completion of the adoption of the tax law by the Legislative Council as soon as possible.

Secondly, with regard to public expenditure policy

1. Adapt stimulating fiscal policy development and adopt a rational policy for the management of public expenditure, it requires the adoption of the policy of public spending stimulating growth.
2. Reduce current spending so that the private sector does not bear the burden of funding and without the benefit of return on such expenditures.
3. In contrast increase the share of capital and developmental spending and directed towards infrastructure, physical and social development of incentive for the growth of your investment.
4. Conduct a comprehensive review of the status of the current infrastructure in the Palestinian areas, and put a development plan for these areas.

5. Begin funding the capitalist and developmental spending by relying on local resources even if it was gradually, because the financing of development capital expenditure by the donor countries will not continue indefinitely.
6. The adoption of the fiscal policy to stimulate the demand for labor by the private sector, and not rely on the public sector to make a functional expansion.
7. Directing public spending on the most efficient sectors, which play a significant role in job creation, such as the construction sector and the industrial sector.
8. Work on establishing an information bank economist, and encourage the establishment of research institutions holds the marketing research on the orientations of global markets perform.

Table 19: Percentage Distribution of Persons Aged 15

Region		Total	Labor Force Status	Unemployment		Under Employ		Employment		Total		Outside Labor Force		In the Labor Force
	No.	%	Number	%	No.	Percent	No.	%	No.	Percent	No	%	No.	%
1995	513	100	96	18.2	108	21.1	309	60.7	1,320	100	807	61	513	39
1996	567	100	130	22.9	69	12.1	368	65	1,399	100	832	59.5	567	40.5
1997	596	100	119	20	56	9.4	421	70.6	1,479	100	883	59.7	596	40.3
1998	631	100	92	14.5	41	6.5	498	79	1,539	100	908	59	631	41
1999	647	100	77	12	34	5.3	536	82.7	1,569	100	922	58.8	647	41.2
2000	667	100	95	14.3	35	5.1	537	80.6	1,603	100	936	58.4	667	41.6
2001	642	100	162	25.3	26	4	454	70.7	1,668	100	1,026	61.5	642	38.5

2002	657	100	205	31.2	29	4.4	423	64.4	1,734	100	1,077	62.1	657	37.9
2003	722	100	185	25.5	45	6.4	492	68.1	1,803	100	1,081	60	722	40
2004	752	100	201	26.8	48	6.4	503	66.8	1,876	100	1,124	59.9	752	40.1
2005	789	100	186	23.5	52	6.6	551	69.9	1,952	100	1,163	59.6	789	40.4
2006	834	100	198	23.7	67	8	569	68.3	2,033	100	1,199	59	834	41
2007	882	100	192	21.7	70	8	620	70.3	2,116	100	1,234	58.3	882	41.7
2008	908	100	241	26.6	63	6.9	604	66.5	2,202	100	1,294	58.8	908	41.2
2009	951	100	233	24.5	57	5.9	661	69.6	2,288	100	1,337	58.4	951	41.6
2010	976	100	232	23.7	69	7.1	675	69.2	2,376	100	1,400	58.9	976	41.1
2011	1,059	100	222	20.9	82	7.7	755	71.4	2,466	100	1,407	57	1,059	43
2012	1,114	100	256	23	77	6.9	781	70.1	2,557	100	1,443	56.4	1,114	43.6

2013	1,155	100	270	23.4	70	6.1	815	70.5	2,649	100	1,494	56.4	1,155	43.6
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Years and Above in Palestine by Region and Labor Force Status, 1995-2013

Numbers in thousands

Table20 :GDP by expenditure in Palestine* by economic activity for the years 1994-2013 at constant prices: 2004 is the base year

Final Use	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Final consumption	5,116.50	4,932.30	4,416.90	4,937.60	5,672.20	6,340.20	6,149.80	6,520.20	6,602.80	7,059.50	7,320.50	8,045.80	8,822.20	8,516.40
Household final consumption	2,930.80	3,170.70	3,103.90	3,568.20	3,953.70	4,208.40	3,881.10	3,674.60	3,309.90	3,822.70	4,270.30	4,781.30	4,497.80	4,869.70
Government final consumption	538.8	605.8	723.3	817.2	911.2	999.6	1,068.40	1,079.40	914.5	911.9	1,227.00	1,364.70	1,444.50	1,461.40
NPISH final consumption	221.4	224	224.8	185.2	185.8	195.8	167	178.3	192.5	203	174.9	194.2	207.5	189.1
Gross Capital Formation	1,041.60	1,046.50	1,051.60	1,186.40	1,361.50	1,874.10	1,312.20	1,035.70	877.5	1,117.10	1,151.50	1,234.00	1,138.20	888.5
Gross fixed capital	1,000.60	983.2	994	1,104.90	1,272.70	1,730.10	1,276.90	1,016.00	849.4	1,082.80	1,111.60	1,216.20	1,104.50	862.5

formation														
- Buildings	739	733.8	755.3	842.4	949.2	1,210.40	843.2	638.1	509.9	658	759.9	805.1	591.8	593
- Non-buildings	261.6	249.4	238.7	262.5	323.5	519.7	433.7	377.9	339.5	424.8	351.7	411.1	512.7	269.5
Changes in inventories	41	63.3	57.6	81.5	88.8	144	35.3	19.7	28.1	34.3	39.9	17.8	33.7	26
Acquisitions of Valuables, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Exports of Goods and Services	-1,700.40	-1,783.90	-1,760.00	-1,925.50	-2,050.70	-2,599.90	-2,149.10	-2,089.10	-1,847.50	-2,130.60	-2,540.60	-2,792.00	-2,687.60	-2,493.30
Exports	412	522.3	501.6	606.4	710.4	750.9	879.2	589.6	480.9	540.6	596.8	704.4	683.4	811.5
- Goods	384	485.1	462.6	562.3	641.3	658.8	689.9	511	418.1	479.5	525.3	564.2	589.6	649.1
- Services	28	37.2	39	44.1	69.1	92.1	189.3	78.6	62.8	61.1	71.5	140.2	93.8	162.4
Imports	2,112.40	2,306.20	2,261.60	2,531.90	2,761.10	3,350.80	3,028.30	2,678.70	2,328.40	2,671.20	3,137.40	3,496.40	3,371.00	3,304.80
- Goods	1,866.00	2,074.10	2,008.60	2,241.70	2,427.30	3,020.30	2,641.70	2,254.10	1,938.30	2,366.20	2,850.30	3,161.50	2,664.00	2,774.30
- Services	246.4	232.1	253	290.2	333.8	330.5	386.6	424.6	390.1	305	287.1	334.9	707	530.5

Net errors and omissions	48.5	36.9	-3.5	-1.5	17.5	63.6	56.3	53.3	-5.8	-0.7	46.1	14.5	9.2	-2
Gross Domestic Product	3,080.70	3,300.00	3,340.10	3,830.00	4,379.00	4,741.60	4,335.90	3,932.20	3,441.10	3,923.40	4,329.20	4,796.70	4,609.60	4,913.40

*The data excludes those parts of Jerusalem governorate which were annexed by Israel in 1967.

Source: Palestinian Central Bureau of Statistics, 2015. National Accounts Statistics, 1994-2013. Ramallah- Palestine.

Table (21) The participationion sectos in the GDP from 2000- 2014

year	Agriculture, hunting and fishing	Mining and quarrying Transformative Industry	Building and construction	Trade, restaurants and hotels	Transport, storage and communications	Services and other branches	The total
2000	80,500	81,000	111,000	98,900	27,900	172,100	571,400
2001	58,700	66,300	68,100	93,500	26,400	166,300	479,300
2002	69,200	57,500	48,500	89,400	24,700	162,000	451,300
2003	87,300	67,200	69,500	106,900	30,700	176,100	537,700
2004	90,000	69,200	63,300	106,600	29,200	191,500	549,800
2005	90,600	77,700	77,300	116,000	33,800	207,400	602,800
2006	106,400	78,300	69,800	120,800	35,500	225,000	635,800
2007	110,800	86,500	75,100	133,600	38,300	245,300	689,600

2008	94,100	81,900	71,200	131,600	32,500	254,000	665,300
2009	84,300	86,400	84,000	136,700	40,600	282,900	714,900
2010	87,800	84,700	97,800	143,100	44,400	285,100	742,900
2011	99,400	98,700	116,200	169,600	51,200	301,700	836,800
2012	98,400	102,200	123,100	167,900	55,400	310,400	857,400
2013	93,100	107,400	137,600	173,300	56,900	315,000	883,300
2014	95,100	114,700	139,300	184,400	49,600	330,100	913,200

Source: Palestinian Central Bureau of Statistics, 2015. Base labor force Data 2000 to 2014. Ramallah Palestine.

Table 22. Sectoral distribution of Palestinian workers in the local labor market of the West Bank and the Gaza GHZ of 1968 to 1987 (in thousands)

year	Agriculture	Industry	constructions	trade	services and other branches
1968	62.9	19.7	12.6	18.7	30.7
1969	60.3	21.5	12.1	23.5	32.3
1970	59.2	21	12.9	23.9	35.7
1971	52.3	19.7	8	24.7	37.8
1972	46.1	19	8.3	25.2	38.1
1973	41.6	20.1	8.4	25.9	36.8
1974	47.6	19.7	8.7	26.1	39

1975	44.5	20.1	10.1	27.8	36.4
1976	53.1	20.2	11.3	28.2	37.2
1977	43.5	20.2	12.6	27.9	37.3
1978	42.7	21.9	13.7	28.9	36.5
1979	38.8	23.2	14	29.3	33
1980	40.1	22.9	13.7	29.4	34.6
1981	37	22.4	14.9	30.3	35.6
1982	39.8	22.2	14.3	30.7	36.8
1983	38.1	22.8	14.5	31.8	37.5
1984	37.3	25.3	15.7	32.4	40.9
1985	37	24.7	16.8	32.9	41.2

1986	41.7	27.2	18.8	33.4	45.2
1987	38	28.5	18.5	33.2	49.8

Table 23. The sectoral distribution of Palestinian workers in the local labor market of the West Bank and the Gaza GHZ of 1987 to 1996 (in thousands)

year	Agriculture	Industry	constructions	trade	services and other branches
1987	38.4	28.5	18.5	33.2	49.8
1988	38.1	27.6	17.2	35.1	45.4
1989	41.4	28.6	20.2	38.7	46.6
1990	50.2	27.1	20.7	40.9	50

1991	49	29.3	19.6	41.3	50.5
1992	53.4	31.8	23	47.2	48.3
1993	53.9	35.6	34.6	52.5	82.5
1994	75.7	50.2	51.2	58.4	119.8
1995	42.3	59.7	63.4	61.8	111.2
1996	50.1	59.3	59.3	64.2	120

Source: Palestinian Central Bureau of Statistics, 2015. Base labor force Data 2000 to 2014. Ramallah Palestine.

Table 24. sectoral distribution of Palestinian workers in the local labor market of the West Bank and Gaza Strip from 1996 to 2001 (in thousands)

year	Agriculture	Industry	constructions	trade	services and other branches
1996	50.1	59.3	59.3	64.2	120
1997	47.5	60	67.3	69.9	120.8
1998	49.3	64.7	89.5	74.1	129.4
1999	56.2	69.1	98.5	75.8	146.3
2000	62.7	65.5	87.8	80.2	159.4
2001	62.2	69.4	75.1	101.2	207.6

Source: Palestinian Central Bureau of Statistics, 2015. Base labor force Data 2000 to 2014. Ramallah Palestine.

Table 25: Output in Palestine* by economic activity for the years 1994-2013 at constant prices: 2004 is the base year

Value In USD Million

Economic Activity	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Agriculture, forestry and fishing	579.3	638.8	720.7	674.8	790.4	743.5	707.7	641.5	634.1	709.4
Mining, manufacturing, electricity and water	1,335.8	1,398.6	1,206.8	1,302.7	1,467.3	1,552.4	1,779.5	1,678.6	1,491.4	1,604.9
Mining and quarrying	41.9	39.9	38.2	37.3	45.4	69.0	61.7	39.8	42.6	35.2
Manufacturing	1,136.8	1,197.7	1,020.2	1,085.0	1,206.5	1,254.8	1,475.8	1,339.4	1,150.1	1,286.5
Electricity, gas, steam and air conditioning supply	61.3	63.8	60.3	91.6	101.5	100.8	133.4	175.3	180.3	174.7
Water supply, sewerage, waste management and remediation activities	95.8	97.2	88.1	88.8	113.9	127.8	108.6	124.1	118.4	108.5
Construction	791.5	764.4	768.2	855.8	1,036.7	1,342.9	1,085.8	733.5	573.2	729.5

Wholesale and retail trade, repair of motor vehicles and motorcycles	604.6	528.1	493.6	621.7	693.1	758.3	740.2	640.2	645.5	674.7
Transportation and storage	224.3	228.9	221.6	285.1	320.5	336.3	290.9	217.9	207.4	208.5
Financial and insurance activities	45.9	83.5	110.4	131.0	176.8	207.6	229.7	170.1	171.2	184.4
Information and communication	4.2	5.1	6.9	62.9	127.8	171.1	239.3	182.8	154.2	186.6
Services	1,081.0	1,071.1	1,026.1	1,230.3	1,370.4	1,417.7	1,443.5	1,236.0	1,087.7	1,268.7
Accommodation and food service activities	91.0	88.9	79.5	103.4	121.4	127.8	87.2	54.0	32.0	54.3
Real estate activities	432.3	401.1	382.7	453.7	483.1	482.4	577.5	459.7	381.1	409.3
Professional, scientific and technical activities	59.5	34.2	51.6	74.7	73.6	64.1	77.8	64.9	42.8	53.3
Administrative and support service activities	9.2	23.9	40.0	15.4	19.2	23.2	28.1	14.3	9.1	12.9

Education	224.4	236.9	233.3	303.0	337.7	353.3	330.2	327.2	317.2	375.1
Human health and social work activities	172.2	184.9	187.7	217.5	237.5	255.3	222.4	215.6	213.8	245.1
Arts, entertainment and recreation	2.6	4.1	4.4	8.8	12.8	11.6	10.2	7.6	6.9	8.8
Other service activities	89.8	97.1	46.9	53.8	85.1	100.0	110.1	92.7	84.8	109.9
Public administration and defense	452.5	552.5	649.0	703.7	752.4	796.4	989.1	1,001.5	890.1	996.7
Households with employed persons	4.0	4.4	4.2	5.6	6.7	6.9	7.5	6.0	5.9	6.6
FISIM	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Customs Duties	0.0	64.7	115.5	200.5	293.6	354.3	323.3	200.1	102.9	195.9
VAT on Imports, net	21.1	188.9	249.4	302.8	316.4	324.2	326.3	245.8	211.7	209.6

GrossOutput	5,144.2	5,529.0	5,572.4	6,376.9	7,352.1	8,011.6	8,162.8	6,954.0	6,175.3	6,975.5
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Table 26 : Output in Palestine* by economic activity for the years 1994-2013 at constant prices: 2004 is the base year

Economic Activity	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishing	622.8	697.9	649.8	629.3	686	721.4	631.4	721.5	654.7	563.8
Mining, manufacturing, electricity and water	1,655.60	1,792.00	1,685.20	1,636.90	1,947.10	2,141.60	2,044.80	2,144.80	2,532.60	2,614.10
Mining and quarrying	53.4	48.3	36.1	26.2	42.3	48.4	43.9	72	51.2	82.1
Manufacturing	1,287.00	1,441.30	1,402.50	1,330.80	1,578.10	1,732.70	1,727.00	1,809.10	2,235.00	2,179.90
Electricity, gas, steam and air conditioning supply	202.2	186.8	146.5	178.8	214.2	278.5	201.5	196.5	157.8	260.1
Water supply, sewerage, waste management and remediation activities	113	115.6	100.1	101.1	112.5	82	72.4	67.2	88.6	92
Construction	779.2	710.6	585.3	628.8	552.4	708.8	996.2	1,232.30	1,351	1,360.5
Wholesale and retail trade, repair of motor vehicles and motorcycles	711.5	743.2	698	803.9	776.7	811.2	1,206.30	1,456.60	1,596.90	1,664.10

Transportation and storage	217.5	280.4	211	186.4	139.8	260.2	245	235.7	259.8	281.1
Financial and insurance activities	206.3	289.6	273.2	314.4	317.7	324.2	270.7	270.5	313.4	308.5
Information and communication	204.4	146.8	288.6	306.5	312.3	447	454.8	501.8	544.5	565.3
Services	1,293.20	1,430.70	1,154.80	1,217.10	1,422.10	1,491.90	1,389.90	1,582.20	1,794.30	1,879.00
Accommodation and food service activities	68.5	89.2	92	54.4	61.6	74.5	143.4	132	141.3	161.7
Real estate activities	420.5	437	290.7	333	383.5	462.4	281.5	249.3	284.9	295.3
Professional, scientific and technical activities	44.9	66.7	48.4	51.2	95.8	79.8	85.6	119.3	109.3	149.5
Administrative and support service activities	33.9	31.3	12.1	26.8	34.5	34.7	30.1	67	57.9	71.5
Education	380.7	404.9	384.4	391.9	428	478	407	466.4	567.8	577
Human health and social	237.1	243.4	225.1	209.4	237	260.6	260.8	322.4	377.3	387.2

work activities										
Arts, entertainment and recreation	13.6	19.5	15.6	29.3	31.9	21	37.1	57.7	58	51.7
Other service activities	94	138.7	86.5	121.1	149.8	80.9	144.4	168.1	197.8	185.1
Public administration and defense	1,202.10	1,502.00	1,411.60	1,344.80	1,297.60	1,222.30	1,622.00	1,852.90	1,909.10	1,880.50
Households with employed persons	3.7	1.7	2.9	3.4	3.7	4.6	3.7	3.7	3.9	3.8
FISIM	0	0	0	0	0	0	0	0	0	0
Customs Duties	204	265.9	286	283.8	333.6	353.6	388.6	362.6	373.3	389.7
VAT on Imports, net	323.1	363.6	350.9	450.2	564.4	587	542.1	476.5	498.5	488.8
GrossOutput	7,423.40	8,224.40	7,597.30	7,805.50	8,353.40	9,073.80	9,795.50	10,841.1 0	11,832.6 0	11,999.20

Palestinian Central Bureau of Statistics, 2015. National Accounts Statistics, 1994-2013. Ramallah- Palestine.

Table 27 :Value added in Palestine* by economic activity for the years 1994-2013 at constant prices: 2004 is the base year

Value In USD Million

Economic Activity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishing	356.1	297.1	244.7	276.3	300	236.1	240.4	299.6	336.9	347.5	332.9	408.7	339.1	309.9
Mining, manufacturing, electricity and water	591.5	673.9	572.4	696.9	707.6	831.8	643.6	710.2	894.5	925.9	956.6	963.3	1,091.60	1,158.50
Mining and quarrying	13.9	15.4	19.4	19.5	19.7	19.9	18.4	12.3	21.5	22.6	24.3	50	25.9	48.3
Manufacturing	472.8	467.5	356.2	481	477.1	599.3	440	494.4	655.2	707.5	775.8	757.5	890.9	929.1
Electricity, gas, steam and air conditioning supply	76.6	124.7	132.9	136	161.1	156.8	120.9	133.2	148.7	133.6	111.7	109.1	115	120.7

Water supply, sewerage, waste management and remediation activities	28.2	66.3	63.9	60.4	49.7	55.8	64.3	70.3	69.1	62.2	44.8	46.7	59.8	60.4
Construction	290.2	167.4	97	150.8	245.3	297.7	289.8	298.9	198.1	387	533	728.5	715.1	758.7
Wholesale and retail trade, repair of motor vehicles and motorcycles	507.9	452.1	483.5	466.7	475.2	490.7	470.7	619.3	506.7	555.5	950.5	1,228.1 0	1,304.90	1,295.10
Transportation and storage	193.3	153.4	140.4	132.1	132.7	165.6	119.4	111.4	81.9	122.4	104.4	108.5	115.1	127.6
Financial and insurance activities	169.7	132.1	128.1	156.3	162.2	244	231.4	273	280	269	202.1	209.5	249	252.6
Information and communication	180.2	165.8	140.2	165	185	112	241.5	267.7	289.8	380.2	408.6	441	468.3	452.7
Services	1,171.00	1,002.00	905.3	1,002.5 0	1,054.2 0	1,135.6 0	928.5	1,001.8 0	1,148.0 0	1,141.7 0	1,079.9 0	1,227.0 0	1,416.90	1,477.50

Accommodation and food service activities	48.8	27	13.1	25.9	30.2	41.5	48.8	36.8	33.8	29.7	68.8	44.1	68.1	82.9
Real estate activities	532.6	427.3	363.3	393.3	397.5	413.4	271.3	307.5	353	375.7	278.9	246.1	280.9	291.6
Professional, scientific and technical activities	55.5	42.7	31	13.9	31.6	46.9	28.7	33.5	76.8	62.1	66.5	80.5	87.6	123.1
Administrative and support service activities	18.9	10.4	6.4	9.6	25.7	21.3	8.3	20.9	25.9	24.7	22.4	57.5	45.3	44.9
Education	303.8	294	288	329.9	336.4	357.3	353.1	351.8	382.5	427.1	351.6	417.2	509.4	512.5
Human health and social work activities	139.8	140.3	141.1	165.2	160	154.2	162.3	143.5	137.9	160.2	149.1	209.9	237	241.4
Arts,entertainment and recreation	5.9	4.3	4.9	3.7	8.7	13.6	9.2	20.8	23.2	12.4	28.1	43.4	45.9	41.2

Other service activities	65.7	56.1	56.7	61	64.1	87.4	46.8	87	114.9	49.8	114.5	128.3	142.7	139.9
Public administration and defense	369.1	547.6	506.1	576	650.6	812.5	987.5	954.6	849.7	821.1	785.8	879.9	897.8	928.3
Households with employed persons	7.5	6	5.9	6.6	3.7	1.7	2.9	3.4	3.7	4.6	3.7	3.7	3.9	3.8
FISIM	-150.2	-111.1	-97.1	-111.3	-114.4	-160.5	-183	-360.5	-275.2	-231.9	-165.9	-155	-158.7	-166.2
Customs Duties	323.3	200.1	102.9	195.9	204	265.9	286	283.8	333.6	353.6	388.6	362.6	373.3	389.7
VAT on Imports, net	326.3	245.8	211.7	209.6	323.1	363.6	350.9	450.2	564.4	587	542.1	476.5	498.5	488.8
Gross Domestic Product	4,335.90	3,932.20	3,441.10	3,923.40	4,329.20	4,796.70	4,609.60	4,913.40	5,212.10	5,663.60	6,122.30	6,882.30	7,314.80	7,477.00

*The data excludes those parts of Jerusalem governorate which were annexed by Israel in 1967.

Source: Palestinian Central Bureau of Statistics, 2015. National Accounts Statistics, 1994-2013. Ramallah- Palestine.

Table28 : Per capita indicators by region for the years 1994-2003 at constant prices: 1997is the base year

Value In USD

Indicator	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
GDP Per Capita										
Palestine*	1,438.1	1,434.6	1,369.9	1,487.5	1,645.2	1,723.9	1,526.7	1,345.0	1,143.7	1,267.0
West Bank*	1,494.2	1,522.9	1,461.0	1,602.9	1,787.6	1,948.3	1,774.3	1,520.6	1,263.1	1,35
Gaza Strip	1,346.8	1,292.7	1,224.4	1,304.5	1,420.7	1,372.1	1,140.7	1,072.5	959.3	1,138.8
GNI Per Capita										
Palestine*	1,632.3	1,640.9	1,554.6	1,697.5	1,916.4	2,005.5	1,701.6	1,465.7	1,229.9	1,351.3
West Bank*	1,713.5	1,755.1	1,677.4	1,853.7	2,103.5	2,264.0	1,969.0	1,671.8	1,356.7	1,443.6
Gaza Strip	1,500.4	1,457.5	1,358.3	1,449.7	1,621.3	1,600.1	1,284.7	1,145.9	1,034.2	1,209.5
GNDI Per Capita										
Palestine*	1,851.1	1,813.3	1,736.7	1,845.5	2,052.1	2,147.2	1,929.3	1,790.9	1,608.6	1,572.5

West Bank*	1,930.4	1,927.1	1,859.1	2,001.4	2,239.0	2,405.7	2,196.6	1,997.0	1,735.4	1,664.8
Gaza Strip	1,722.2	1,630.6	1,541.1	1,598.2	1,757.3	1,742.0	1,512.5	1,471.1	1,412.7	1,430.6

Table29: Per capita indicators by region for the years 2004-2013 at constant prices: 2004 is the base year

Indicator	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP Per Capita										
Palestine*	1,358.1	1,459.4	1,360.1	1,406.0	1,449.1	1,529.8	1,606.4	1,752.5	1,807.5	1,793.3
West Bank*	1,472.0	1,515.2	1,534.8	1,681.9	1,830.5	1,943.0	2,025.1	2,181.5	2,251.3	2,214.0
Gaza Strip	1,184.1	1,374.5	1,096.1	991.3	878.1	914.1	985.7	1,121.1	1,159.0	1,182.9
GNI Per Capita										
Palestine*	1,429.6	1,559.5	1,476.0	1,538.1	1,605.0	1,656.7	1,702.1	1,858.7	1,925.3	1,935.1
West Bank*	1,559.9	1,647.1	1,693.1	1,863.7	2,049.2	2,117.9	2,170.6	2,341.6	2,433.6	2,438.6

Gaza Strip	1,230.6	1,426.2	1,147.9	1,048.6	939.9	969.5	1,007.6	1,147.9	1,182.6	1,204.6
GNDI Per Capita										
Palestine*	1,656.9	1,894.2	1,829.0	2,125.6	2,415.2	2,191.4	2,040.4	2,029.4	2,187.7	2,102.7
West Bank*	1,787.2	1,981.8	2,046.1	2,451.1	2,859.5	2,652.6	2,514.3	2,513.0	2,697.1	2,601.9
Gaza Strip	1,457.9	1,760.9	1,500.9	1,636.0	1,750.1	1,504.2	1,338.0	1,317.6	1,443.4	1,378.5

*The data excludes those parts of Jerusalem governorate which were annexed by Israel in 1967.

Source: Palestinian Central Bureau of Statistics, 2015. National Accounts Statistics, 1994-2013. Ramallah- Palestine.

Table 31: Percentage Distribution of Employed Persons From Palestine , 1995-2013

gender and Economic Activity	٢٠١٣	٢٠١٢	٢٠١١	٢٠١٠	٢٠٠٩	٢٠٠٨	٢٠٠٧	٢٠٠٦	٢٠٠٥	٢٠٠٤	٢٠٠٣	٢٠٠٢	٢٠٠١	٢٠٠٠	١٩٩٩	١٩٩٨	١٩٩٧	١٩٩٦	١٩٩٥
Agriculture, Hunting & Fishing	10.5	١١,٥	١١,٩	١١,٨	١١,٨	١٤,١	١٦,١	١٦,٧	١٥	١٦,٤	١٦,٢	١٥,٣	١٢,٢	١٤,١	١٣	١٢,٣	١٣,٥	١٤,٥	١٢,٨
Mining, Quarrying & Manufacturing	12.2	١١,٩	١١,٨	١١,٤	١٢,١	١٢,٣	١٢,٥	١٢,٣	١٢,٩	١٢,٦	١٢,٥	١٢,٧	١٣,٨	١٤,٢	١٥,٣	١٥,٩	١٦,٤	١٦,٨	١٨
Construction	15.6	١٤,٤	١٣,٩	١٣,٢	١١,٧	١٠,٧	١٠,٩	١١	١٢,٨	١١,٥	١٢,٩	١٠,٧	١٤,٢	١٩,٤	٢٢,١	٢٢	١٨,٢	١٧	١٩,٢
Commerce, Hotels & Restaurants	19.6	١٩,٦	٢٠,٣	١٩,٣	١٩,١	١٩,٨	١٩,٤	١٩	١٩,٢	١٩,٤	١٩,٩	١٩,٨	١٩,٥	١٧,٣	١٦,٧	١٨,٣	١٩,٢	١٨,٣	١٩,٣
Transportation, Storage & Communication	6.4	٦,٥	٦,١	٦	٥,٧	٤,٩	٥,٥	٥,٦	٥,٦	٥,٣	٥,٧	٥,٥	٥,٥	٤,٩	٤,٦	٤,٦	٤,٨	٤,٩	٤,٩
Services & Other Branches	35.7	٣٦,١	٣٦	٣٨,٣	٣٩,٦	٣٨,٢	٣٥,٦	٣٥,٤	٣٤,٥	٣٤,٨	٣٢,٨	٣٦	٣٤,٨	٣٠,١	٢٨,٣	٢٦,٨	٢٧,٩	٢٨,٥	٢٥,٧
Total	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠	١٠٠

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APPENDIX

The survey included the following questions:

1. Have the amendments and changes made to the tax system since received by the Palestinian Authority led to increased absorptive capacity of your facility?

Yes

No

If yes, Identify how?

2. Have the reduction of tax brackets from 48% to 15% in the highest tax bracket increased the capacity of your organization?

Yes

No

If yes, identify how?

3. Are the exemptions and incentives provided by the tax system sufficient and appropriate to increase the absorptive capacity of your facility?

Yes

No

If yes, identify how?

4. Were the tax policy procedures in terms of estimation appropriate and encouraging for investment and increasing the capacity of your organization?

Yes

No

If yes, identify how?

5. Were the policy procedures in terms of tax collection Appropriate for encouraging investment and increasing the capacity of your organization?

Yes

No

If yes, identify how?

6. Have the tax exemptions within the Investment Promotion Law led to encourage investment and Increasing the capacity of your organization?

Yes

No

If yes, identify how?

