

Abstract

Four scholarly Research Papers (included as separate chapters; Chapter 2 to Chapter 5) have been written in the context of examining the impact of Public Expenditure on economic growth in Pakistan. The period of study is from 1972 to 2015 for the first three papers (Chapter 2 to Chapter 4). The period of study for the fourth paper (Chapter 5) is from 1993 to 2015 (due to the availability of data for selected SAARC countries).

First Research Paper explores whether Pakistan economy follows Wagner Law. Six versions of Wagner Law given by different economists were used. The seventh version was additionally included for examining the relation between Development Expenditure (DE) and Real GDP (RGDP). Other variables are Nominal Government Expenditure (NGE), Real Government Expenditure (RGE), Government Consumption Expenditure (GCE), Government Development Expenditure (GDE) and Population. Time series Engle-Granger Cointegration technique and ARDL Bounds Testing Technique for cointegration were used. The results reveal nonexistence of Long Run relation between Government Expenditure (GE) and Economic Growth (EG). Granger Causality Test (GCT) also does not show any Direction of Causality (DC) from either direction. Hence it is concluded that Pakistan economy neither follows Wagner Law, where economic growth causes to enhance public expenditure, nor follows the Keynesian Hypothesis, where public expenditure causes to enhance economic growth. Hence the results reveal that Pakistan economy does not support Wagner Law.

Second Paper examines the relationship of components of Government Expenditure and Economic Growth in Pakistan. The components of government expenditure consist of Expenditure on Education, Expenditure on Health and Expenditure on all other economic activities excluding education and health. The expenditure on Education, Health and other economic activities have further been disaggregated into Current and Development expenditure separately for each component of expenditure. The Long run (LR) and Short Run (SR) relation between the components of public expenditure and economic growth were estimated using ARDL Bounds Testing approach for cointegration and ECM Technique respectively. Granger Causality Test (GCT) was used to find out the Direction of Causality (DOC). The results reveal that Government Expenditure at the disaggregated level has no impact on economic growth in Pakistan.

The third paper examines the interrelationship between Money supply (M2), Inflation, Government Expenditure (GE), and Economic Growth (EG). ARDL Bounds

Testing approach and Error Correction Model Techniques were used to study the Long Run (LR) and Short Run (SR) relation. Granger Causality Test (GCT) was used for Direction of Causality (DOC). A Long Run association in Economic Growth, Government Expenditure, and Inflation exists. The results of the Error Correction Model reveal the Short Run relation amongst the variables; however, the speed of adjustment is slow which slightly less than 20% is. Granger Causality Test reveals Direction of Causality from Inflation to Economic Growth while causality between Inflation and Government Expenditure, Inflation and Money supply is bidirectional. However, no causality exists between government expenditure and economic growth. It is concluded that Economic Growth can be managed by monetary policy.

The fourth paper examines whether Wagner Law holds in case of SAARC countries. On the basis of the availability of data, 5 SAARC countries viz. Pakistan, Bangladesh, Bhutan, India, and Sri Lanka were selected. It is an extension of the analysis in Chapter 2 in which the Wager Law was examined in the context of the Pakistan economy. The purpose of this study, included in Chapter 5, is to compare Pakistan economy with the economies of neighbouring developing countries. The panel Data Unit Root Tests, Panel Data Cointegration Tests, and PMG/ARDL techniques were used to explore the relationship between Government Expenditure and Economic Growth. Panel Unit Root Tests reveal that both variables i.e. Real Government Expenditure and Real GDP Per Capita are of integral order 1 i.e. $I(1)$, hence Panel Cointegration Tests were carried out. Panel Cointegration Tests reveal the existence of cointegration between the variables. On the confirmation of the existence of cointegration, PMG/ARDL technique was used to find out Long Run and Short Run relation between the variables. Granger Causality Test indicates causality runs from Real GDP per capita to Real Government Expenditure. The results reveal that though there is an overall significant positive relationship between Government Expenditure and Economic Growth in selected SAARC countries however, the individual cross country results reveal that no such relationship exists. All these results validate that overall in SAARC countries Wagner law holds as a group.

The overall conclusion is that neither aggregate Government Expenditure nor components of Government Expenditure have an impact on Economic Growth in Pakistan. The reasons have been explored by examining the political economy of Pakistan since its creation, in Chapter 6.

An Abstract for each Research Paper has also been given at the beginning of each relevant chapter.