

THE IMPACT OF GOVERNMENT EXPENDITURES ON ECONOMIC DEVELOPMENT IN PAKISTAN

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ABSTRACT –This study examines the impact of education and health on economic growth by using secondary data extracted from Economic Survey of Pakistan, World Bank, IMF, State Bank of Pakistan database for the period 2005-2015. OLS method was applied for analysis of data and linear regression model was used to obtain results. Economic growth is taken as a dependent variable and Health, education, investment and saving rate are taken as independent variables. SPSS software was used for drawing the results. We have found that education and health have negative impact on Pakistan’s GDP because educated worker (human capital) are unemployed whereas investment and saving have a slightly positive impact. We also found that skill development enhances the efficiency and productivity of human capital

Kew Words: Education, health, investment, saving, GDP growth rate.

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1. INTRODUCTION

Economic development is getting significance from specialists and policy makers in light of the truth that economic development plays an active role in the increase of social, political and social well-being of nations. Fiscal deal has an important role to improve the economic development between above explained macro level policies. Financial arrangement is fundamental government strategy to lead the economy towards all the more rapidly monetary development and produced by government to sustain its level of expenditure and influence on economy of the country. This study is going to find out the correlation between the economic large scale level arrangements. Monetary approach is basic government deal to lead the economy towards all the more rapidly economic spending. There is a weak connection between's rate of economic development and government consumption; it implies the government uses give in positive externalities and linkages. In the short run, the rate of price rises does not impact the monetary improvement but rather government uses do as such. The contributory check consequences show that there is unidirectional contributory between economic development and government expenses. There have been many debates on the role of government intervention in the macroeconomic viewpoint all over nations. Thus, governments attempt to spur monetary improvement through various instruments. Open consumption has more often than not been a variable of financial strategy which is a device of the state to impact the monetary advancement. Economic development as sign of economic presentation within a country is measured as an objective that nearly all of the countries would predict because of its impact in raising the standards of living, the state's profit, and the employment levels. Hence, the understanding the determinant

factors capable of causing economic development is very important. Government spending is one of the important factor in economic theory. However, with the present

1.1. Research question

Our main research question is:what is the impact of Government Expenditures on economic development?

1.2 Objective of the study

The main objectives of our study are stated as under:

1. To measure the impact of public expenditures on economic development.
2. To study the main economic problems of Pakistan and causes of unemployment, inflation, terrorism and energy crisis.
- 3.To study the role of Fiscal policy and monetary policy in economic development;
4. To investigate how public spending enables the government to control business cycle.

2. LITERATURE REVIEW

Keynesian (1936) financial analysts will acknowledge the expenses of a somewhat higher government obligation load to get unemployment down and help development.

Solow (1956) says that Government used monetary policy and subsidies in developing countries to enhance economic growth. .

Rajan (2008) investigated that in the short run, restrictive monetary policy negatively affects growth. In the long run, inflation is anchored at a certain level, they will be far more confident of investing in the domestic economy.

Wagner's (1835) predicts that the improvement of technology in economy expanded share of open consumption in gross national output.

Gregorious (2007) study the effect of government consumption on development and conclude that public expenditures have significant impact on economic growth in developing countries.

Awan (2012) says that in developing countries mostly expansionary fiscal and monetary policies are used to expedite the process of economic development.

Rahn (1996) contended that the level of government spending expands financial development. The hypothesis is utilized by traditional liberals to contend for a decline in general government spending and tax collection.

Spirits (2003) proposed that on a few events fell levels of government expenditure would be better monetary development while on unusual events more high amounts of government expenditure would be very attractive. development and national income. He stated that advocates of bigger government spending argue that policymakers are separated as to whether government spending helps economic government programs provide valuable "investment" such as education and infrastructure. They also claim that rise in government spending can bolster economic development by putting money into people's pockets. The expenditure incurred by public Authorities like Federal, Provincial and local Governments to satisfy the collective social welfare of the peoples.

Awan (2015) stated that fluctuations in public spending due to twin deficit of budget and trade have substantial negative impact on the lives of low income people.

3. RESEARCH METHODOLOGY

Research data is collected for the purpose of analysis to produce results. Research data is used for research design, sampling design, data processing and analysis. Secondary data is used in this study. It specifies relationship between two or more variables. We used secondary time series data. from 2006-2016

3.1 Explanation of selected Variables

3.1.1 Gross Domestic Product (GDP)

Gross domestic product (GDP) is taken as dependent variable because we want to see the impact of education, health and capital expenditures on economic development. GDP is the market value of final goods and services which is produced in any country within one year with the help of domestic resources. GDP measures the national income and output of economy of country. GDP is equal to the total spending of all final goods and services produced within the country in a specific period. it is usually calculated on an annual basis. it can be measured by using two techniques which is income approach and expenditure approach. It measures the final value of all goods and services produced in specific period of time.

3.1.2. Education (EDU)

Education is one of the basic factors of development. This plays major role for development. Pakistan cannot achieve development goal without investment in human capital. The role of education in increase economic growth and development, with the role of educational quality. Education provides ladder to uplift the skills of the people which in a turn become helpful to attain the objectives of higher incomes, outputs and growths. Since centuries one finds that human skills and knowledge can be promoted through the formal education system. The educational systems of third world countries strongly influence as well as are influenced by the whole nature, magnitudes and character of their development process. the formal education not only becomes responsible for imparting the knowledge and skills, but it also leads to change the values, ideas, attitudes and aspirations which may or may not be in accordance with the developmental interest of a country. Society has impact on the

educational system of an economy. education is just like the motivation for development of any country.

3.1. 3 Health

The relationship between the health of a population and development of any society is difficult and change over time. The entire time history, enhanced health has been one of the principle advantages of improvement. This advantage comes about halfway from an expansion in pay and incompletely from logical advance in the battle against ailment and inability. This second factor is progressively imperative contrasted with basic financial development. Wellbeing and improvement' tries to understand these mind boggling joins. It is worried about the effect of better health on advancement and neediness decrease, and on the other hand, with the effect of improvement approaches on the accomplishment of health objectives. Specifically, it expects to construct bolster crosswise over government for more elevated amounts of interest in health, and to guarantee that wellbeing is organized inside general monetary and advancement designs.

3.1.4 Capital Stock

It is a particular measurable idea utilized as a part of macroeconomics. In that sense, it alludes to a measure of the net augmentations to the capital supply of a nation (or a financial area) in a bookkeeping interim, or, a measure of the sum by which the aggregate physical capital stock expanded amid a bookkeeping period. To land at this measure, standard valuation standards are utilized. It is utilized additionally in monetary hypothesis, as a cutting edge general term for capital collection, alluding to the aggregate "supply of capital" that has been framed, or to the development of this aggregate capital stock. In a considerably more extensive or vaguer sense, the expression "capital arrangement" has in later circumstances been utilized as a part of

monetary financial matters to allude to reserve funds drives, setting up money related foundations, monetary measures, open obtaining, advancement of capital, privatization of budgetary establishments, improvement of auxiliary markets. In this use, it alludes to any strategy for expanding the measure of capital possessed or under one's control, or any technique in using or preparing capital assets for speculation purposes.

4. EMPIRICAL ANALYSIS

The empirical results of our study are given in the following tables:-

Table 1 Variables entered/removed

Model	Variables Entered	Variables Removed	Method
1	Capital stock, Education, Health.		Enter

a. Dependent Variable: GD

b. All requested variables entered.

Entered some variables to reduce the multicollinearity. Multicollinearity may be avoided if the sample size is increased. Due to increase in sample size the covariance among the parameters get reduced. Because the covariance is inversely related with sample size. Enter method is used in this table, in this method we can entered or remove some variables to get accuracy in results. However, no variable was removed from the model.

Table 2: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error				Lower Bound	Upper Bound
(Constant)	9.376	7.578		1.237	.262	-9.167	27.918
Education	-4.238	3.502	-.567	-1.210	.272	-12.807	4.331
Health	.122	3.180	.021	.038	.971	-7.659	7.902
capital	.266	.423	.363	.629	.552	-.769	1.301

a. Dependent Variable: GDP

The level of significance is =0.05

if the observed value of t is greater than the critical value of t then t statistic or t ratio is significant

Ho is rejected in favor of H1

if $t^* < t$ then t is significant and

Ho is accepted against H1

In this case, Ho is rejected H1 is accepted coefficient for β foe education is -4.238. this means that reduction in education expenditures would bring negative effect on economy. B for health is .122 which shows increase in health expenditures will bring

positive impact on economic development. B for capital is .206 which shows increase in capital expenditure has positive impact on economic development.

5. CONCLUSIONS

In this research study, we try to measure the impact of Education on GDP growth Our econometric analysis suggests that education is an imperative causal determinant of pay for people inside nations. It is concerned with the impact of better health on development and poverty reduction, and conversely, with the impact of development policies on the achievement of health goals. In particular, it aims to build support across government for higher levels of investment in health, and to ensure that health is prioritized within overall economic and development plans. The effects of health and education on development are well established. There may also be synergies between these two, in which case we are likely underestimating their impacts. Understanding the links between health and education is important for social policy as well as academic knowledge. Our results show that human capital are very much important to increase economic development. In fact, more educated people are more likely to enjoy good health, and so healthy people enjoy the learning process more than sick people. This strong bidirectional relationship generates a virtuous circle leading to greater development. Our empirical analysis proved that government spending is helpful in economic growth. If Government increases its expenditure on education and health there will be high economic growth.

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CONTRIBUTION OF AUTHORS AND CONFLICT OF INTEREST

This research work was carried out in collaboration between two authors.

Author 1. Prof.Dr.Abdul Ghafoor Awan designed the study, carried out its editing and give final shape to the draft of manuscript. He guides the author 1 in collection of data, empirical analysis and drawing results.

Author 2: Riffat Naseem is a student of M.Phil Economics. She contributed in this research study by way of reading and proofing of manuscript. She also collected data and conducted its statistical analysis.

Both authors carefully read the manuscript and they have no conflict of interest with any institution or any person.
