

“IMPACT OF DEMOCRACY ON ECONOMIC GROWTH AN EMPIRICAL EVIDANCE OF PAKISTAN”

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INTRODUCTION

- The trend to determine economic growth from various factors and sectors is varying over the time.
- Such as exogenous and endogenous growth models that focus on physical and human capital respectively.
- Furthermore, studies like Jaunky (2013), Yang (2007), De Haan et.al (2003) and others used social and political variables to investigate the impact on economic growth through panel econometric technique.

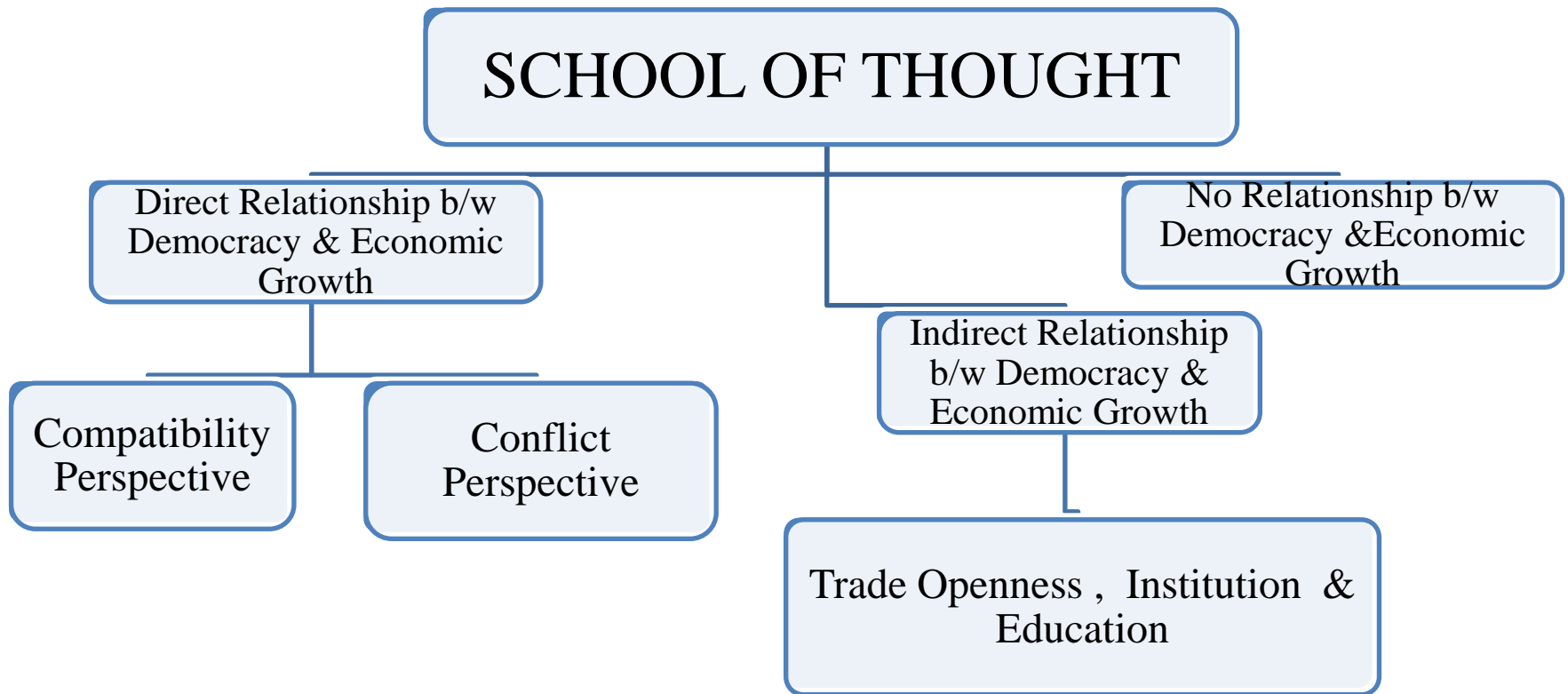
CON:

- Putting deep eye on current political and economic situation of Pakistan I thought that why not we investigate the relationship between political variable democracy and economic growth?
- I was more interested to find, is any indirect channel through which democracy impact on economic growth of Pakistan?

OBJECTIVES OF STUDY

- To investigate the impact of democracy on economic growth through direct and indirect channels (education, institution, and trade openness) for Pakistan.
- To explore the bidirectional causal relationship between economic growth and political variable democracy for Pakistan.
- In this research paper latest econometric technique Autoregressive Distributed Lag (ARDL) is used on large time period and huge explanatory variables.

EXAMINE THE IMPACT OF DEMOCRACY ON ECONOMIC GROWTH



COMPATIBILITY' PERSPECTIVE

- 'Compatibility' perspective claims that democracy has a positive effect on economic growth. Some researchers argue that in less developed countries (LDCs) democratic regimes are appropriate to promote sustained and equitable economic growth (e.g., Sirowy and Inkeles, 1990; Feng, 1997).
- Democratic processes is involve in existence and exercise of fundamental civil liberties and political rights, that create social circumstances which are more conducive to enhance the economic development. Hence, the democratic governments are more favorable for good economic performance than other political arrangements because democratic governing party, go back to public for their reelection. (e.g., Sirowy and Inkeles, 1990; Feng, 1997)

CON:

- The positive effect of democracy on economic growth is that democracy tends to encourage and to prepare economic-actors such as entrepreneurs and businessman to exercise economic freedom and thus, it could push the government to promote economic freedom and, eventually, it will contribute to economic growth. The political and economic freedom promotes property rights and market competition, which is one prerequisite to promote economic growth.

CONFLICT' PERSPECTIVE

- Bhagwati (1966), “the political economy of development poses a cruel choice between (self-sustained) expansion and democratic process”.
- Alesina et al, (1992), Dictators may also be forced to follow opportunistic policies if their survival in office is threatened.

INDIRECT CHANNEL WHICH IMPACT ON ECONOMIC GROWTH

- It is historically proved that autocracies mostly applied protectionist's policies because autocracies profit a few producers at the expense of a great mass of consumers, while democracy provides opportunity for all producers to gain from the free market. (Barro, 1996; Tavares and Wacziarg, 2001).
- Applying trade openness will increase the internal degree of product market competition and, thus, it will utilize technological transmissions for accessing larger markets and may provide incentives for greater policy discipline through regional or global economic transmission. It makes economic processes more efficient and enhances growth (Barro, 1996; Tavares and Wacziarg, 2001).

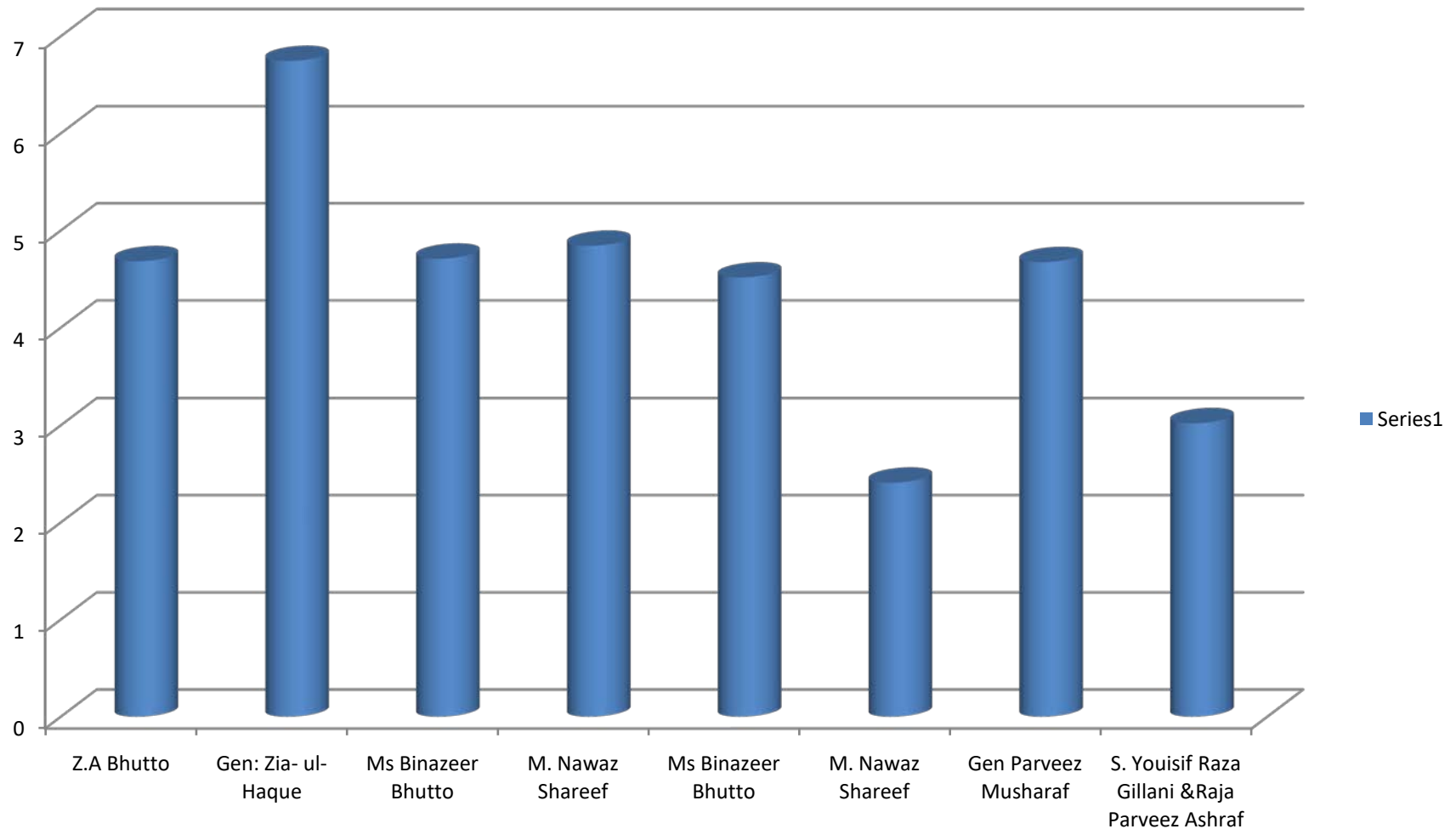
CON:

- The education cause economic growth through democracy in this way; when people are educated then their behavior will more rational and they think about their society. Finally they elect good people for parliament. The parliament will make good economic and social policies for country which increase social and economic development of country. (Babur Wasim Arif, Farrukh nawaz kayani, and Umar nawaz kayani 2012).

CON:

- The institution effect economic growth through democracy in this way, democratic government always strength the institutes and it divided the responsibility on the shoulders of institute which create specialization in the economy, and every specialized institute perform their responsibilities in their domain. Finally each institute makes policies in the light of constitution of the country which leads to social and economic development of the country.

BRIEF HISTORY OF THE POLITICAL REGIMES OF PAKISTAN AND AVERAGE PERCENTAGE GDP GROWTH.



ECONOMETRIC METHODOLOGY

- ARDL Econometric technique has been used to investigate the impact of democracy on economic growth through direct and indirect channels (education, institution, and trade openness) for Pakistan.
- ARDL Econometric technique is also used to find determinants of democracy for Pakistan.
- The granger causality, has been applied to explore the bidirectional causal relationship between economic growth and political variable democracy for Pakistan.

MODEL SPECIFICATION

- This model has been used to investigate direct and indirect (institutions, education and trade openness) impact of democracy on economic growth for Pakistan over the period 1980 to 2013.

$$EG = \alpha_0 + \alpha_1 DEM + \alpha_2 DEM(TO) + \alpha_3 DEM(EDU) + \alpha_4 DEM(COP) + \alpha_5 DEM(LO) + \mu_t \quad \text{EQU 3.1}$$

Where,

EG = economic growth, DEM = democracy score,

TO = trade openness, EDU = education,

COP = corruption Index and LO= Law & order index

The Unit Root Results of Variables Used In Impact of Democracy on Economic Growth

Series	Order	T-statistics	P Value	Decision
EG	Level	3.67*	0.009	I(0)
	1st Difference	7.25	0.000	
DEM	Level	1.60	0.470	I(1)
	1st Difference	5.26*	0.000	
ED	Level	1.61	0.466	I(1)
	1st Difference	5.28*	0.000	
CP	Level	1.89	0.331	I(1)
	1st Difference	5.40*	0.000	
LOD	Level	2.11	0.241	I(1)
	1st Difference	4.30*	0.001	
TOD	Level	1.60	0.470	I(1)
	1st Difference	5.20*		0.000

ARDL BOUND TEST RESULTS; IMPACT OF DEMOCRACY ON ECONOMIC GROWTH

Test Statistics	Value	K
F-Statistics	4.99	5
Critical Value Bounds		
Significance	1 0 Bound	L 1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

THE ARDL LONG RUN COEFFICIENT RESULTS; IMPACT OF DEMOCRACY ON ECONOMIC GROWTH

Variable	Coefficient	Standard Error	T-statistics	P-statistics
Constant	6.15	0.51	11.89*	0.000
DEM	11.38	5.06	2.24**	0.041
CP	-1.46	0.58	2.50**	0.025
LOD	-0.27	0.10	2.54**	0.023
ED	0.17	0.06	2.68**	0.017
TOD	-0.31	0.14	2.22**	0.042

PAIR-WISE GRANGER CAUSALITY TEST

Null Hypothesis	Observation	F- Statistics	Probability
Dem Does no granger cause EG	33	2.88	0.099
EG Does no granger cause Dem		0.30	0.587

DATA SOURCES

VARIABLE	SOURCE
Education	Economic Survey Of Pakistan (Statistical supplement)
Democracy score	Polity IV
Law & Order	International Country Risk Guide
Corruption	International Country Risk Guide
Economic Growth	WDI
Trade Openness	WDI
Government Expenditure	SBP

POLICY RECOMMENDATION

•In the light of results education is not an only key indirect channel of economic growth through democracy, but also it is an important determinant of democracy. So it is especially mandatory for the democratic government to increase education expenditure and take initiative for better education of the citizens as they understand their manifesto and effect of their policies on living standard.

CON:

- Study utilized corruption index and law & order index to analyze the impact of institutions on democracy. From the results of this study suggest that high corruption and uncertain law & order situation in Pakistan reduce faith from democracy and create frustration among citizens. Now it is the responsibility of ruling Democratic government that must strengthen the institute as they perform their duties under the constitution of Pakistan and eradicates corruption from the country. And it is also the responsibility of government and law enforcement agencies to create peace in the society which creates stairs for strong democracy which help to increase the growth of the economy.

