

In the name of god

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ


Research title

Investigating Correlation between State
Expenditure & Economic Growth in Iran


STATEMENT OF THE PROBLEM

- ▶ The connection between economic growth and government expenditure, or in broader sense, the size of private sector, is a significant analytical issue. A general view suggests that public expenditure influence physical infrastructure or human capital drastically and eventually affect economic growth. State cooperation with public sector may directly or indirectly impacts production increase. The nature of impact of public expenditure on growth depends on its composition so that despite abundant experimental studies, there is no meaningful correlation between public expenditure and economy growth either in a negative way or in a positive way. In this case, the result varies based on country or region, analyzing method, and categorizing public expenditure. This correlation is particularly of importance in developing countries, specifically for those countries which have undergone changes and increase in different levels of public expenditure. Studying this feature (correlation) in Iran is of great significance due to: 1. Iran is considered as one of the developing countries, and 2. Iran has experienced growth in different levels of public expenditure in different points of time. Thus, being aware of the impact of such expenditure on economy growth seems essential and vital due to the fact that optimally directing this expenditure that have positive affect on economy growth and eliminating expenses that have negative affect, and separating the neutral ones are necessary


Main Questions

- ▶ Is there any meaningful relationship between government expenditure and economy growth in Iran?
 - ▶ 2. Is there any meaningful relationship between government expenditure and private investment in Iran?
 - ▶ 3. What are the expenditures that have positive and negative influence on economy growth?
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Significance of the Study

- ▶ Since public sector is influenced by government expenditure and eventually impacts economic growth; therefore, conducting a research that not only makes a distinction between government expenditure and each section's expenses on economy growth but also deals with indirect impact of the expenditures on economy growth through public sector, seems necessary.
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METHOD

- ▶ The method to be used in this study is Counteraction which is based on Auto Regressive Distributed Lag Method for time-series variables.
 - ▶ **Data collection Procedure**
 - ▶ The following study is a library-based one. This paper collects its data from different authentic sources e.g. Central Bank of Iran, Iran Census Center, Iran. Management and Planning Organization, and some data published by the bureau of economy statistics of ministry of economic and properties issues.
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Economic Interpretation of the Results:

- ▶ According to the results which have been provided in the mentioned tables, the followings are of significance:
 - ▶ 1. Private investment has a meaningful and positive impact on the economy growth in the short run.
 - ▶ 2. State investment also has a meaningful and positive impact on the economy growth in the short run.
 - ▶ 3. State human capital expenditure has a negative impact on economic growth, though, meaningless in short run.
 - ▶ 4. State consumption expenditure has a negative and meaningful impact on economy growth. However, estimating coefficients of the chosen model in long run show absolute meaningfulness of explanatory variables. Private investment and state investment and state human capital expenditure in long run will have a positive and meaningful impact on economy growth. However, state consumption expenses has a negative and meaningful impact on economy growth.
 - ▶ 5. These coefficients have long-term interpretations. Private investment in long run has come to 1.0543. That is, with 1% percent increase in private investment. On average, economic growth will advance 1.0543%.

Economic Interpretation of the Results:

- ▶ 6. The coefficient of state investment is 6.7609. This means that, with any 1% increase in state investment, economy growth will flourish 6.7609 on average in long run.
- ▶ 7. The coefficient of state human capital expenses is 12.1002. That is, with any 1% increase of this field, economy will grow at least 12.1002 on average in long run.
- ▶ 8. The coefficient of state consumption expenses is -2.9674 . This means that, with any 1% increase of this field, economy growth will decrease at least 2.9674 On average in long run.
- ▶ 9. comparing the coefficient of state investment expenditures and the coefficient of state human capital expenses, one can witness the effect of the latter case on economy growth is almost two times more than physical capital expenditure.

Economic Interpretation of the Results:

- ▶ 10. The growing coefficient of state construction expenditure in short run is positive. However, it is not a meaningful one.
- ▶ 11. The growing coefficient of state current expenses in short run is negative and meaningful one. In long run the coefficient of construction and current expenditures are both meaningful. The coefficient of construction expenses is positive and meaningful and for current ones is negative and meaningful.
- ▶ 12. These coefficients can be long termly interpreted, too. Growth of construction expenditure coefficient in long run is 1.5875. That is, with any 1% increase in Construction expenses, economy growth in long run, on average, will be 1.5875 increased.
- ▶ 13. When one compares the coefficient of construction expenditure and state investment, one can see the effect of state investment expenditure on economic growth is much more than construction expenses (about 4 times).
- ▶ 14. When one compares the coefficient of construction expenditure and state investment, one can see the effect of human capital expenditure on economic growth is much more than human capital expenses (about 8 times).
- ▶ 15. The coefficient of growth of current expenditure is 0.28511. That is, with any 1% increase in current expenditure, the economy growth, in long run, will be 0.28511 decreased.

Economic Interpretation of the Results:

- ▶ 16. There is a negative and meaningful relation between state investment and private investment either long term, or short term; so that, a 1% growth in state investment expenditure, on average, in long run, will lessen private investment 0.62584. Although state investment expenditure has a negative and meaningful impact on private investment, when you have a glimpse at their coefficients in economic growth model, you will see that the effects of state investment expenditure has much more influential role in Iran economy growth in that period compared to private sector (6 times). This may be caused by state numerous investment that leaves no place for private sector participation.
- ▶ Theory of "Crowding Out" supports this result. This theory claims that state investment will not permit the private sector to have a role in economy. That is, indeed, state investment will exclude private sector. The abovementioned calculations is: $-1.0760 + 0.45076 = -0.62584$

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