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Growth and Productivity; the role of budget deficit in the MENA selected countries

Mansoor Arjomand^{a,*}, Karim Emami^b, Farshid Salimi^c

^aM.A in Economics, Department of Economic, Tabriz branch, Islamic Azad University, Iran

^bAssistant Professor, Department of Economics, Science and Research branch, Tehran, Iran

^c PhD student in Economics, Mofid University Qom

Abstract

Today, efficiency is considered as one of the most effective ways of increasing economic growth by many planners and economic policy makers in different countries; further, huge investments made in this regard. On the other hand, the issue of budget deficit was introduced in economic literature since 1980s. Within this decade, current budget deficit significantly increased in the USA. Emerging of this phenomenon prompted many economists to establish public sector as the macroeconomic unbalancing factor, on the contrary to Keynesy who regarded public sector as the balance factor, particularly in developing countries since developing countries deal with specific problems such as foreign debt, high inflation, difficulties of payment balances, exchange parallel markets as well as various external shocks. Therefore, this research tried to study the effect of growth, efficiency and government budget deficit in MENA selected countries within 2000-2013 by using the recommended static panel models. Results of the estimated relations for the first model in which government budget deficit is the dependent variable indicate positive effect of economic growth and inflation rate variables as well as the negative effect of labor productivity and government budget deficit. Moreover, the second model in which economic growth is the dependent variable demonstrates the positive effect of labor productivity index and economic growth. In addition, negative correlation of government budget deficit with economic growth is also maintained.

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* Corresponding author. Tel.: +989141460955
E-mail address: Arjomand.Mansoor@Gmail.com

1. Introduction

Today, improved efficiency has been interested by many planners and economic policy makers in many countries, as one of the most effective ways of increasing economic growth rate; in addition, many investments made in this regard. Investments on enhanced human capital, research and development and like are of states measures to improve efficiency, which results in economic growth and economic development. If achieving high levels of development is of countries' primary goals, it may not realize disregarding research and development. On the other side, the issue of budget deficit introduced since 1980s in economy literature when the current budget deficit significantly increased in the US. Emerging of this phenomenon prompted many economists to establish public sector as the macroeconomic unbalancing factor, on the contrary to Keynes who regarded public sector as the balance factor, particularly in developing countries since developing countries deal with specific problems such as foreign debt, high inflation, difficulties of payment balances, exchange parallel markets as well as various external shocks. Therefore, regarding the aforementioned, studying effective factors of efficiency and growth are of special place; further, continuous efforts and many studies conducted at countries and even enterprises levels in order to identify the requirements and to offer proper solutions. According to this perspective that in a dynamic economy usually the enterprises with higher level of efficiency survive in production cycle comparing other enterprises, several studies focused on the effect of efficiency and its growth on exiting noneconomic and inefficient enterprises from activity cycle. One of the effective variables in the area of international competition of enterprises influencing countries' business deficiency is government budget deficit.

Abundant experimental and theoretical studies conducted in the area of the relationship between state budget deficit and economic growth with the interest of all production factors at international level. In this regard and along with the experimental studies, the present research investigated the relationship between economic growth and labor productivity and the effect of budget deficit on the economic growth of MENA countries within 2000-2013. The next section introduces theoretical basics including provided theories and the results of experimental studies on this issue. Section 3 indicates model, research methodology and tests. Section 5 explains test results and model estimation. The last section concludes this paper.

2. Literature Review

Budget deficit is the economic challenge of many countries in recent decades. This problem is more widely seen in developing countries, as they are deprived of efficient private sector. This leads to extending governmental activities and increasing government economic share in such countries such that a main share of total demand is assigned to expenditure and government investment. In contrast, in revenue side, government lacks adequate revenues to cover its huge expenses. The result of such process in these countries is nothing but permanent budget deficit. If government relies on banking resources for financing the budget deficiency, it may lead to economic inflation such that internal (domestic) imbalance would also transfer to the external economic sector, since increased government expenditure initially leads to increased growing of total demand. While, government increased expenditure at total supply side may not result in increased supply due to economy's structural problems and total supply unattractiveness. The ultimate result of these effects is emerging of inflation in the economy. In this situation, importing increases and exporting decreases. Thus, imbalanced state budget transferred to the external part causing current account deficit in these countries. Afonso and Tovar Jalles (2011) in a study examined the effect of budget deficit (from state debt point of view) and total efficiency of production factors on the economic growth of 155 countries selected around the world. Research results demonstrate that state debts have a negative, significant effect on economic growth; whereas, total efficiency of production factors has positive, significant impact. Marashdeh and Salman Saleh (2006), in a research studying government budget deficit and trade deficit, found out that trade deficit in Lebanon had a long-term impact in budget deficit. Salman Saleh (2006) also believes that there is a positive, significant relationship between trade deficit and budget deficit in Lebanon. In his attitude, trade deficit reduction policies were effective for decreasing budget deficit in Lebanon. Vito Tanzi (1985) in finding the answer to the question that whether the historical and unprecedented budget deficit in USA experienced in 1980-1984 may be real as one of the explaining factors of high rate of interest, believes that interest rate indeed is positively related to budget deficit and public debt level; further, given the constant conditions, interest rate increased by increased

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