

Macroeconomic Policies and Their Impact on Economic Growth and Employment A Case Study of Pakistan

Zaib-un-nisa

Bahauddin Zakariya University

Multan, Pakistan

Znisa5214@gmail.com

Introduction

Macroeconomic policies are meant to achieve non-inflationary, stable growth. There are two major groups of policy instruments to achieve the purpose; one is related to monetary conditions and the other to fiscal conditions. Fiscal policy corresponds to taxation and spending decisions of the government, while monetary policy, formulated by the monetary authorities, is related to the decisions regarding optimal amount of money and interest rate prevailing in the economy. The objective of fiscal policy is to maintain high employment level in the economy while that of monetary policy is concerned with money creation, level of optimal interest rate and with level of inflation in the economy (Lewis and Leith, 2002) Moreover It incorporates numerous basic policy issues including appropriate size of the state, the role of the government in accelerating economic growth, social development and redistribution of the benefits of the economic growth, improving employment and social justice by reducing inequality in income and wealth between income classes and present and future generations, and ensuring efficiency by promoting optimum allocation of resources (Haq and Akram 2009) Monetary and fiscal policies are very closely related to each other despite the fact that these two sets of policies are sometimes different in terms of scope, transmission mechanisms and time involved in influencing the economic variables. Fiscal and monetary policies have profound impact on the level and composition of savings, investment, output and employment as well as the viability of external account. The level and structure of taxation, magnitude and the pattern of public expenditures, the dimensions of the fiscal deficit and the sources of financing it, changes in money supply, availability and distribution of credit as well as its cost are major determinants of the production structure and employment levels aside from their significant impact on price level and movement of exchange rate.

Literature Review

Syberg (2003) showed that how expenditures of the central government of Sweden have effected economic growth during a period of 1960 to 2001. ordinary least square regression is used to estimate the model result of the study support both Keynesian & monetarist view of government expenditures on the one hand government expenditures positively effect GDP through investment while on the other side a government consumption e.g. transfer leads to significant crowding out effect. Rate of interest is found to be statistically significant a 1 percent increase in rate of interest lower the GDP by 0.16 percent, investment has found to be positive related with economic growth as 1 percent increase in economic growth. The author have suggested that Government should not spend beyond its core function that is protective function & provision of limited set of collection goods otherwise this could retard economic growth. Giordan (2004) studied the effect of government spending and net revenues on key macroeconomic variable in Italy by using the quarterly from 1982-2003. By using the vector auto regressive model the researchers have concluded that direct expenditures have positive impact on output private consumption & investment. Public wages have found an insignificant effect on GDP and employment. In the short run in case of inflation & interest rate both are effected largely & positively in the case of shocks to government purchases. Finally shocks to net revenue have negligible effects to the entire macroeconomic variable Khamfula (2004) studied the factors that affect Economic growth by a simultaneous macroeconomic model and the types and channels of shocks that affect long run economic growth.

By using simultaneous equation system, maximum likelihood method and Johansen's co-integration procedure. By using the data from 1994 to 2004 the researcher has found that real income growth is positively related to gross domestic savings.

Changes in the money stock is negatively related with growth in imports, total government expenditure, taxes, rate of interest and CPI more over it has confirmed by simultaneous equation regression that imports growth hinders economic growth. However the hypothesis that monetary policy shocks are more important in changing the course of long run economic growth than are fiscal policy shocks is not confirmed as evidence by the impulse response function of real economic growth variable, due to shocks triggered in both the monetary and fiscal equation. The study suggest that the Monetary authorities should cut down the interest rate to boost investment and economic growth and one fiscal solution that foreign investors should offer substantial tax holidays or tax cuts.

Data and Methodology

This study describes the issues of data and methodology on macroeconomic policies and their impact on growth and employment. The study deals with the formulation of framework of analysis to determine the effect of fiscal and monetary policies on growth and employment in Pakistan.

Methodological Issues

Econometric time-series data are often found to be non-stationary, containing a unit root. Ordinary least square estimates are inefficient if all the variables included in the model are non-stationary at level or if order of integration of all the variables are not $I(0)$. An examination of the stationarity of the series is the prerequisite of any Econometric work. First of all I have examined whether a time series has a unit root. Then long run relationship among the variables is found by applying the Johansen's multiple co-integration tests. Once the variables are found to be co-integrated, meaning that long-run equilibrium holds between them, they may still be in disequilibrium in the short run. Therefore, we have estimated an error correction model (ECM) to determine the short run dynamics of the system.

Unit Root Test

Under this step the stationary properties of the variables are checked. A variable is said to be stationary if its mean, variance and auto-covariance remains the same, no matter at what point we measure them. A number of tests are available in the literature to check the existence of the unit root problem both in the level of the variables as well as in their first difference. The Dickey Fuller (DF) test is applicable if error terms (U_t) are uncorrelated. In case the error terms (U_t) are correlated, DF test is useless. Augmented Dickey Fuller (ADF) test takes care of this problem by augmenting the equation(s) of DF test by adding the lagged values of the dependent variable(s). To test the unit root property of the variables, we employed Augmented Dickey Fuller (ADF) test. The equation for ADF test is as follows:

Without Drift and Trend:

$$\Delta Y_t = \delta Y_{t-1} + \alpha_i \sum \Delta Y_{t-1} + \mu_t$$

With Drift and no Trend:

$$\Delta Y_t = \beta_1 + \delta Y_{t-1} + \alpha_i \sum \Delta Y_{t-1} + \mu_t$$

With Drift and Trend:

$$\Delta Y_t = \beta_1 + \beta_{2t} + \delta Y_{t-1} + \alpha_i \sum \Delta Y_{t-1} + \mu_t$$

The null and alternative hypotheses are as follows:

$$H_0: \delta = 1 \text{ (non-stationary)}$$

$$H_1: \delta < 1 \text{ (Stationary)}$$

Co-Integration

The concept of co-integration was introduced by Granger (1981) to protect the loss of long run information in the data due to differencing the series. If the linear combinations of variables of $I(1)$ are $I(0)$, then the variables are said to be co-integrated. Co-integration is the statistical implication of the existence of a long run relationship between economic variables. To ascertain the long run relationship among employment and other variables, we use vector autoregressive (VAR) model which was developed by Johansen (1988) and further extended by

Johansen and Juselius (1990). Johansen procedure of co-integration provides two statistics. These include the value of the LR test based on the maximum Eigen-value and on the trace value of the stochastic matrix.

Error Correction Model

To capture the short run dynamics of the model, Error correction model has formulated based on the identified long run relationship. Error correction term included in the model captures the speed of adjustment towards long run equilibrium. The presence of co-integrating relationship in the long run model implies that all terms in the ECM are stationary.

Model Specification

The present study is based on following models:

$$\ln TLF_t = \alpha_0 + \alpha_1 TGRP_t + \alpha_2 TGEP_t + \alpha_3 PINV_t + \alpha_4 \ln M2_t + \alpha_5 \ln CPI_t \text{----- (1)}$$

$$\ln TLF_t = \alpha_0 + \alpha_1 TGRP_t + \alpha_2 TGEP_t + \alpha_3 PINV_t + \alpha_4 \ln CPI_t \text{----- (2)}$$

$$\ln TLF_t = \alpha_0 + \alpha_1 PINV_t + \alpha_2 \ln M2_t + \alpha_3 \ln CPI_t \text{----- (3)}$$

$$\ln GDP_t = \alpha_0 + \alpha_1 \ln TLF_t + \alpha_2 TGRP_t + \alpha_3 TGEP_t + \alpha_4 \ln M2_t + \alpha_5 \ln CPI_t + \alpha_6 PINV_t \text{---- (4)}$$

$$\ln GDP_t = \alpha_0 + \alpha_1 \ln TLF_t + \alpha_2 PINV_t + \alpha_3 \ln M2_t + \alpha_4 \ln CPI_t \text{----- (5)}$$

$$\ln GDP_t = \alpha_0 + \alpha_1 \ln TLF_t + \alpha_2 TGRP_t + \alpha_3 TGEP_t + \alpha_4 PINV_t + \alpha_4 \ln CPI_t \text{----- (6)}$$

Variables description and data sources:

In the study seven variables are used namely Gross domestic product (GDP),total labor force (TLF),Total government expenditure as a percentage of GDP (TGEP),Total government Revenue as a percentage of GDP (TGRP), Private investment (PINV),Consumer price index (CPI) and Money Supply (M2) .Time series data is used in the study for the period of 1972-2009 that is obtained from Economic surveys of Pakistan and Hand book of fifty years of statistics of Pakistan. During this period different fiscal and monetary sector reforms have been made so quite helpful in understanding the true dynamics behind growth and employment.

Empirical Analysis:

The purpose of this study is to find out the impact of macroeconomic policies (mainly monetary and fiscal) on growth and employment in Pakistan economy. The empirical relationship between economic variables is mostly determined by using econometrics techniques and the techniques are considered as most efficient techniques for empirical analysis. Determining the impact off macroeconomic policies on growth and employment level in any economy is a complex job that is why many of the researchers have under taken research in this area by using different econometrics techniques and different proxy variables..

Results and discussions

Johansen Co-integration test

To determine the impact of macroeconomic policies (mainly monetary and fiscal) on growth and employment in Pakistan, I have used Johansen Co-integration approach. in the first step ,I have selected the appropriate lag length for co-integration test by using Akaike and Schwarz information criteria ,then in the second step, I have investigated the number of co-integrating vectors by applying the likelihood ratio test that is based on the Eigen values of stochastic matrix

Eigen values	Likelihood Ratio	5 percent critical value	1 percent critical value	Hypothesized No. of CE (s)
0.792503	149.4278	94.15	103.18	None **
0.615158	92.81281	68.52	76.07	At most 1 **
0.565809	58.43557	47.21	54.46	at most 2 **
0.390030	28.40186	29.68	35.65	At most 3

The above model shows that long run equilibrium exist Long run results

Variables	coefficients	Standard errors	t-statistic
TGRP	-0.05876	0.02362	-2.48810
TGEP	0.011815	0.00630	1.87539
PINV	-2.20E-07	1.9E-07	-1.15789
LM2	0.103721	0.10510	0.09868
LCPI	0.340570	0.11163	3.05088
C	2.286896		

The results of long run effects of fiscal and monetary policies on total labor force as a proxy for employment are given in above table. Table contains four columns. The estimates of the coefficients are given in column 2, while standard Error and the t-ratios are interpreted in column 3 and 4 respectively.

Long run results shows that total labor force as a proxy for employment level in the economy and total government revenue as a percentage of GDP has negative and significant relation, the result confirms the theoretical background the by imposing more taxes government can collect more revenues but it discourages the employment trend in the economy as less investment is made by observing high taxes. Total government expenditures as a percentage of GDP (TGEP) is the second proxy variable for the fiscal policy effect on employment the result shows that TGEP has a positive and significant effect on total labor force. As enhancement in the government expenditures towards mega projects and on infrastructure building causes increase in employment in the economy. Third variable in the model is private investment, the coefficient has negative sign shows the negative relation between the total labor force and private investment but result is insignificant also, the economic reason behind the result is that private investment is mainly done in capital intensive methods of production which discourages the employment trend in the economy. Fourth variable in the model is money supply i.e. M2 a monetary policy variable, the result shows that 1 percent increase in money supply will leads to increase 10 percent total labor force the relationship is positive but insignificant.

Last variable in the model is consumer price index as a proxy for inflation coefficient is positive and highly significant, as higher prices means more profit for the businesses and eventually these profits will convert into new investment as inducement of higher profit thus more jobs will be created and total labor force will increase the results are also supported by Neo classical theory of income and employment.

Short run Results Error Correction model 1

Variables	coefficients	Standard error	t-statistics
Speed of adjustment	-0.136807	0.12764	-1.07183
D(LTLF(-1))	-0.178513	0.20972	-0.85119
D(TGRP(-1))	0.003777	0.00447	0.84442
D(TGEP(-1))	-0.003794	0.00300	-1.26487
D(PINV(-1))	8.41E-08	1.9E-07	0.44072
D(LM2(-1))	-0.113988	0.12916	-0.88253
D(LCPI(-1))	0.331396	0.18240	1.81690
C	0.005515	0.01852	0.29777
R-Squared	0.207122		
Adj.R-Squared	-0.0673336		
F-Statistic	0.754657		

For the short run analysis of the policy variables we have used Error correction model , the coefficient of speed of adjustment have negative sign which is the indication of adjustment of equilibrium towards long run equilibrium .results of the model shows that 13 percent point adjustment is made towards long run equilibrium if any disturbance occur in short run.

Long run results model 2 Employment and fiscal policy

Eigen values	Likelihood Ratio	5 percent critical value	1 percent critical value	Hypothesized No. of CE (s)
0.779517	111.6561	68.52	76.07	None **
0.520355	57.2264	47.21	54.46	At most 1 **
0.462384	30.77691	29.68	35.65	at most 2 **
0.208281	8.434932	15.41	20.04	At most 3

Above model shows that long run equilibrium exist

variables	coefficients	Standard errors	t-statistic
TGRP	-0.047009	0.02311	-2.03414
TGEP	0.002326	0.00656	0.35457
PINV	-5.34E-07	3.7E-07	-1.44324
LCPI	0.507902	0.13767	3.68927
C	2.681438		

Results of the long run effects of fiscal policy variables on total labor force (TLF) i.e. proxy for employment level in the economy. Results of the model shows that total government revenue as a percentage of GDP have negative relationship with TLF while the coefficient is significant as well as in the previous model. The results shows that higher taxes although increase revenue of the Government but reduce the employment level via less investment by observing less profits. Total government expenditures as a percentage of GDP has positive impact on total labor force in the above model, as more Government expenditures leads to more employment in the economy.

Private investment has found to be negative related with total labor force as according to previous model. While the results of the last variable in the model i.e. consumer price index which is used to find out the impact of inflation on employment level, results shows that by increasing 1 percent CPI total labor force is increased by 50 percent coefficient of CPI is also significant

Short run Results : Error Correction model 2

Variables	coefficient	Standard error	t-statistics
Speed of adjustment	-0.292524	0.17721	-1.65069
D(LTLF(-1))	-0.031577	0.22108	-0.14283
D(TGRP(-1))	0.004509	0.00410	1.09950
D(TGEP(-1))	-0.002969	0.00270	-1.10052
D(PINV(-1))	1.54E-07	1.8E-07	0.85271
D(LCPI(-1))	0.361652	0.81179	1.98940
C	-0.01857	0.01595	-0.68063
R-Squared	0.214569		
Adj.R-Squared	-0.018151		
F-Statistic	0.922006		

In the above model the coefficient of speed of adjustment has negative sign which is the indication of adjustment of equilibrium towards long run equilibrium .results of the model shows that 29 percent point adjustment is made towards long run equilibrium if any disturbance occur in short run.

Long run Results Model 3: Employment and Monetary policy

Eigen values	Likelihood Ratio	5 percent critical value	1 percent critical value	Hypothesized No. of CE (s)
0.460955	48.88579	47.21	54.46	None *
0.394033	26.63940	29.68	35.65	At most 1
0.212311	8.60	59.08	15.41	at most 2
0.000400	0.014419	3.76	6.65	At most 3

variables	coefficients	Standard errors	t-statistic
PINV	-2.21E-08	7.1E-08	-0.31127
LM2	0.281383	0.08162	3.44747
LCPI	0.054304	0.06267	0.86650
C	0.848950		

Our third model for determining the long run relationship of total labor force as a proxy for employment is with monetary policy variable in which we have taken M2 money supply as a major policy variable along with private investment and CPI to capture the policy effects of SBP, the results of our analysis Shows that increase private investment cause decrease in total labor force i.e. negative relationship but is insignificant. Result of the second important variable M2 shows that increasing money supply cause increase in total labor force in other words increase in employment. Underlying mechanism behind is when money supply is increased it cause rate of interest to go down which cause induce investment to increase and eventually the employment level in the economy. The result is highly significant as well. The last variable in the model is again CPI neo classical theory states that by observing high prices more investment and output is produce which cause employment level to increase the same results are produced in our analysis i.e. by increasing price level in the economy the labor force is increased by almost 6 percent, but the coefficient of the variable is insignificant.

Short run Results Error Correction model 3

variables	coefficient	Standard error	t-statistics
Speed of adjustment	-0.302850	0.12969	-2.33521
D(LTLF(-1))	-0.061836	0.017350	-0.35640
D(PINV(-1))	1.21E-07	1.3E-07	0.92788
D(LM2(-1))	0.040687	0.11060	0.36788
D(LCPI(-1))	0.315988	0.13112	2.40999
C	-0.009095	0.01729	-0.52592
R-Squared	0.248100		
Adj.R-Squared	0.122784		
F-Statistic	1.979788		

In the above model the coefficient of speed of adjustment has negative sign which is the indication of adjustment of equilibrium towards long run equilibrium .results of the model shows that 30 percent point adjustment is made towards long run equilibrium if any disturbance occur in short run.

Long run results model 4: Economic growth fiscal and monetary policy

Eigen values	Likelihood Ratio	5 percent critical value	1 percent critical value	Hypothesized No. of CE (s)
0.855928	175.3258	124.24	133.57	None **
0.629608	105.5778	94.15	103.18	At most 1 **
0.569508	69.82289	68.52	76.07	at most 2 *
0.412246	39.48117	47.21	54.46	At most 3

variables	coefficients	Standard errors	t-statistic
LTLF	2.207682	0.80106	2.75595
TGRP	0.102129	0.03905	2.61533
TGEP	-0.037264	0.01212	-3.07458
PINV	2.05E-07	2.3E-07	0.89130
LM2	0.591707	0.17109	3.45845
LCPI	0.365148	0.242445	1.50607
C	2.108596		

Above results shows that TLF as a proxy for employment level in the economy have positive and significant effect on GDP of the economy as more employment cause more output, economy's productive capacity will increase and eventually economic growth.

Second variable the above model is total government revenue as a percentage of GDP , the variable is found to be significantly and positively related with GDP .As more revenues from direct and indirect taxes and more non tax revenues of the government will stable the financial position of the government, government will reduce the borrowing from SBP .Government will be able to fiancé more mega projects like infrastructure building and development expenditures this all become the cause of increase in economic growth. Third variable in our model is total government expenditure as a percentage of GDP which is found to be negatively related with GDP while the results are significant. The economic interpretation of the result can be provided that when Government spends more on non development expenditures like defense expenditures which do not increase the productive capacity of the economy and cause reduction in economic growth. Forth variable in the middle is private investment which has positive but insignificant effect on GDP of the economy. As Investment=change in capital stock according to Harrod-domar model the more investment the economy means more productivity of the economy and high economic growth. Investment plays six macroeconomic roles according to Piana(2001)

1. It contributes to current demands for capital goods.
2. It increase the production base and hence the future productive capacity.
3. It modernizes the production process and improves cost effectiveness.
4. It leads to higher productivity.
5. It allows for the production of new and improved products
6. It incorporates innovations and quality standards.

Fifth variable in the model is money supply M2, the results shows that 1 percent increase in money supply cause 59 percent increase in GDP. So the coefficient has positive and highly significant. As increase in money supply at a given price level cause increase in aggregate demand via investment due to reduction in rate of interest, which eventually increase output of the economy.

Sixth and last variable in the model is CPI i.e. taken as proxy for inflation in the model, the results shows that CPI has positive but insignificant effect on GDP as up to a certain limit inflation is harmful for the economic growth.

Short run Results Error Correction model 4

variables	coefficient	Standard error	t-statistics
Speed of adjustment	-0.001699	0.06208	-0.02737
D(LGDP(-1))	-0.052081	0.22876	-0.22767
D(LTLF(-1))	-1.371297	0.34941	-3.92460
D(TGRP(-1))	-0.011144	0.00941	-1.18402
D(TGEP(-1))	0.006668	0.00507	1.31469
D(PINV(-1))	1.88E-07	3.3E-07	0.57133
D(LM2(-1))	0.193740	0.22084	0.87729
D(LCPI(-1))	0.069038	0.35926	0.19217
C	0.0138559	0.03652	3.79382
R-Squared	0.688467		
Adj.R-Squared	0.563854		
F-Statistic	5.524845		

In the above model, the coefficient of speed of adjustment has negative sign which is the indication of adjustment of equilibrium towards long run equilibrium .results of the model shows that 0.001 percent point adjustment is made towards long run equilibrium if any disturbance occur in short run.

Long run results model 5: Economic growth and monetary policy

Eigen values	Likelihood Ratio	5 percent critical value	1 percent critical value	Hypothesized No. of CE (s)
0.727284	101.1798	68.52	76.09	None **
0.476029	54.40414	47.21	54.46	At most 1 *
0.385114	31.13667	29.68	35.65	at most 2 *
0.211386	13.6292	15.41	20.04	At most 3

variables	coefficients	Standard errors	t-statistic
LTLF	1.038701	0.46754	2.22163
PINV	8.51E-08	1.1E-07	0.773636
LM2	0.750103	0.11174	6.71293
LCPI	0.709456	0.14348	4.94463
C	0.418272		

The results of long run effects of monetary policy variables on GDP are given in above table. total labor force and private investment has positive and significant and significant effect on GDP of the economy while same is the result of money supply and consumer price index both the variables have positive and highly significant effect on economic growth

Short run Results Error Correction model 5

variables	coefficient	Standard error	t-statistics
Speed of adjustment	0.006413	0.12683	0.05056
D(LGDP(-1))	0.121817	0.19408	0.62747
D(LTLF(-1))	-1.170451	0.42531	-2.75201
D(PINV(-1))	-3.62E-07	3.5E-07	-1.03485
D(LM2(-1))	0.109522	0.26280	0.41674
D(LCPI(-1))	0.733988	0.33756	2.17442
C	0.073119	0.04018	1.81966
R-Squared	0.530098		
Adj.R-Squared	0.390868		
F-Statistic	3.807347		

In the above model the coefficient of speed of adjustment has negative sign which is the indication of adjustment of equilibrium towards long run equilibrium .results of the model shows that 0.006 percent point adjustment is made towards long run equilibrium if any disturbance occur in short run.

Long run results model 6: Economic growth and fiscal policy

Eigen values	Likelihood Ratio	5 percent critical value	1 percent critical value	Hypothesized No. of CE (s)
0.822369	146.7528	94.15	103.18	None **
0.629832	84.54305	68.52	76.07	At most 1 **
0.525709	48.76631	47.21	54.46	At most 2 *
0.320729	21.91269	29.68	35.65	At most 3

variables	coefficients	Standard errors	t-statistic
LTLF	3.626031	1.43125	2.74307
TGRP	0.143444	0.05110	2.80712
TGEP	-0.030029	0.01654	-1.81553
PINV	1.18E-06	5.5E-07	2.14545
LCPI	0.032698	0.51740	0.06319
C	-2.949512		

Last model in our empirical analysis is impact of fiscal policy variables on economic growth of the economy. Results of the analysis shows that total government expenditures as a percentage of GDP and has positive and significant impact on GDP .Total government expenditure as a percentage of GDP has shown negative but insignificant impact on GDP. Private investment is significant and has positive effect on GDP as more investment means more capital and productive capacity of the economy.CPI again is found to be positively but insignificantly related with GDP in present model.

Short run Results Error Correction model 6

Variables	coefficient	Standard error	t-statistics
Speed of adjustment	-0.068941	0.07522	-0.91647
D(LGDP(-1))	0.004238	0.24129	0.01756
D(LTLF(-1))	-1.408372	0.36109	-3.90033
D(TGRP(-1))	-0.007821	0.00945	-0.82742
D(TGEP(-1))	0.004330	0.00482	0.89767
D(PINV(-1))	1.30E-07	3.3E-07	0.39522
D(LCPI(-1))	0.046877	0.38160	0.12284
C	0.149493	0.03496	4.27671
R-Squared	0.662741		
Adj.R-Squared	0.545998		
F-Statistic	5.676909		

In the above model the coefficient of speed of adjustment has negative sign which is the indication of adjustment of equilibrium towards long run equilibrium .results of the model shows that 6 percent point adjustment is made towards long run equilibrium if any disturbance occur in short run.

Conclusion and Policy Recommendations

The study explores the possible effects of fiscal and monetary policies on economic growth and employment in Pakistan. Several researchers have analyzed the individual effect of fiscal or monetary policy on either growth or employment, but in present study both the policies have been taken to find out the true dynamics of these polices

in determining growth and employment. Our results suggest that both fiscal and monetary policy variables e.g. money supply government spending, government expenditures. Consumer price index and private investment have profound and effect on growth and employment. In the end of the study on the basis of our analysis following recommendations are made for policy implication. Money supply should be allowed to grow according to the real output of the economy If taxes are to be imposed than focus must be on direct taxes and on widening the tax base and by lowering tax evasion

Tax concession should be given to investors so that investment the economy be increased which will eventually cause growth and employment to increase.

Recommendations for employment generation:

- Government should enhance economic growth rate up to a optimum level to create jobs in the economy.
- Credit facilities are provided through micro finance banks to create self employment. here SBP can play its role by announcing its easy credit policy
- Government should enhance its spending on infrastructure building and on Mega projects in this way the employment will boost up but this can be done only by reducing defense and non development expenditures

References

- Abbas, S. (2014). Trade liberalization and its economic impact on developing and least developed countries. *Journal of International Trade Law and Policy*, 13(3), 215–221.
- Alesina, A., & Dollar, D. (2000). Who gives foreign aid to whom and why? *Journal of Economic Growth*, 5(1), 33–63.
- Angeles, L., & Neanidis, K. C. (2009). Aid effectiveness: The role of the local elite. *Journal of Development Economics*, 90(1), 120–134.
- Arellano, M., & Bond, S. R. (1991). Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *Review of Economic Studies*, 58(2), 277–297.
- Boone, P. (1996). Politics and the effectiveness of foreign aid. *European Economic Review*, 40(2), 289–329.
- Brumm, H. J. (2003). Aid, policies, and growth: Bauer was right. *Cato Journal*, 23(2), 167–174.
- Burnside, C., & Dollar, D. (2000). Aid, policies, and growth. *American Economic Review*, 90(4), 847–868.
- Chenery, H. B., & Strout, A. M. (1966). Foreign assistance and economic development. *American Economic Review*, 56(4), 679–733.
- Clemens, M. A., Radelet, S., Bhavnani, R. R., & Bazzi, S. (2012). Counting chickens when they hatch: Timing and the effects of aid on growth. *Economic Journal*, 122(561), 590–617.
- Collier, P., & Dollar, D. (2002). Aid allocation and poverty reduction. *European Economic Review*, 46(8), 1475–1500.
- Collier, P., & Hoeffler, A. (2004). Aid, policy and growth in post-conflict societies. *European Economic Review*, 48(5), 1125–1145.
- Crenshaw, E. M., Ameen, A. Z., & Christenson, M. (1997). Population dynamics and economic development: Age-specific population growth rates and economic growth in developing countries, 1965 to 1990. *American Sociological Review*, 62(6), 974–984. *Aid, Macroeconomic Policy Environment and Growth: Evidence from Asia 99*
- Dalgaard, C.-J., & Hansen, H. (2001). On aid, growth and good policies. *Journal of Development Studies*, 37(6), 17–41.
- Dalgaard, C.-J., Hansen, H., & Tarp, F. (2004). On the empirics of foreign aid and growth. *Economic Journal*, 114(496), F191–F216.
- Denkabe, P. (2004). Policy, aid, and growth: A threshold hypothesis. *Journal of African Finance and Economic Development*, 6, 1–21.
- Easterly, W., Levine, R., & Roodman, D. (2003). *New data, new doubts: A comment on Burnside and Dollar's 'aid, policies, and growth' (2000)* (Working Paper No. 9846). Cambridge, MA: National Bureau of Economic Research.
- Faridi, Z. M., Malik, S. M., & Bashir, F. (2011). Transportation, telecommunication and economic development in Pakistan. *Interdisciplinary Journal of Research in Business*, 1(7), 45–52.
- Feeny, S. (2005). The impact of foreign aid on economic growth in Papua New Guinea. *Journal of Development Studies*, 41(6), 1092–1117.

- Fischer, S. (1993). The role of macroeconomic factors in growth. *Journal of Monetary Economics*, 32(3), 485–512.
- Hansen, H., & Tarp, F. (2001). Aid and growth regressions. *Journal of Development Economics*, 64(2), 547–570.
- Hansen, L. P. (1982). Large sample properties of generalized method of moment's estimators. *Econometrica*, 50(4), 1029–1054.
- Hermes, N., & Lensink, R. (2001). Changing the conditions for development aid: A new paradigm? *Journal of Development Studies*, 37(6), 1–16.
- Karras, G. (2006). Foreign aid and long-run economic growth: Empirical evidence for a panel of developing countries. *Journal of International Development*, 18(1), 15–28.
- Law, S. H., & Singh, N. (2014). Does too much finance harm economic growth? *Journal of Banking and Finance*, 41, 36–44.
- Loayza, N., & Fajnzylber, P. (2005). *Economic growth in Latin America and the Caribbean: Stylized facts, explanations, and forecasts*. Washington, DC: World Bank. Saima Liaqat, Hafiz Khalil Ahmad, Temesgen K ifle, and Mohammad Alauddin 100 Minoiu, C., & Reddy, S. G. (2010). Development aid and economic growth: A positive long-run relation. *Quarterly Review of Economics and Finance*, 50(1), 27–39.
- Moreira, S. B. (2005). Evaluating the impact of foreign aid on economic growth: A cross-country study. *Journal of Economic Development*, 30(2), 25–48.
- Myrdal, G. (1972). *Asian drama: An inquiry into the poverty of nations* (Vol. 1). New York: Pantheon.
- Rajan, R. G., & Subramanian, A. (2008). Aid and growth: What does the cross-country evidence really show? *Review of Economics and Statistics*, 90(4), 643–665.
- Ram, R. (2004). Recipient country's 'policies' and the effect of foreign aid on economic growth in developing countries: Additional evidence. *Journal of International Development*, 16(2), 201–211.
- Rodríguez, F., & Rodrik, D. (2000). Trade policy and economic growth: A skeptic's guide to the cross-national evidence. *NBER Macroeconomics Annual*, 15(1), 261–325.
- Roller, L. H., & Waverman, L. (2001). Telecommunications infrastructure and economic development: A simultaneous approach. *American Economic Review*, 91(4), 909–923.
- Sachs, J. D., & Warner, A. (1995). Economic reform and the process of global integration. *Brookings Papers on Economic Activity*, 26(1), 1–118.
- Salisu, A. A., & Ogwumike, F. O. (2010). Aid, macroeconomic policy environment and growth: Evidence from sub-Saharan Africa. *Journal of Economics Theory*, 4(2), 59–64.
- Solow, R. M. (1956). A contribution to the theory of economic growth. *Quarterly Journal of Economics*, 70(1), 65–94.
- Yusuf, T. (2012). Foreign financial aid, government policies and economic growth: