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ROLE OF FISCAL POLICY IN EMPLOYMENT GENERATION IN PAKISTAN

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***ABSTRACT*:** This research paper is designed to examine the impact of fiscal policy on employment generation in Pakistan by applying OLS technique. Data on GDP growth, total tax revenue and non-tax revenues, current expenditures, development expenditure, total expenditure, fiscal deficit has been gained from various sources like economic survey of Pakistan and State bank of Pakistan etc. Our empirical results show that development expenditures, current expenditure, total expenditure and fiscal deficit have significant relation with employment generation with positive coefficients while GDP growth, total expenditure and non-tax revenue have negative relation with employment generation. The reduction in total expenditure and fiscal deficit is recommended for better outcomes of fiscal policy in Pakistan.

Keywords: Fiscal policy, total revenue, fiscal deficit, OLS, GDP growth'

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1. INTRODUCTION

Employment generation is getting extraordinary importance from researchers and policy makers because of the certainty that employment rate plays an active role in the increase of social, political and economic wellbeing of nations. Fiscal trade and monetary policies has a vital role to recover the level of employment generation. Among above described macro level plans, fiscal policy is main government policy to monitor the economy towards more rapidly employment generation. Fiscal policy is the policy shaped by government to preserve its level of spending and affect the economy of the country. The Fiscal policy may be expansionary or contractionary dependent on the country's economic condition. Fiscal policy of the current period reveals the model of the economy in the future time period. Government expenditure and taxes used fiscal policies to regulate and increase employment generation.

So, low rates of inflation and switch of the equilibrium of payments have succeeded, at the same time as investment and GDP growth have continued stationary over a lengthy period. Directed on Pakistan's fiscal deficit and the immediate developments in the macroeconomic between 1999 and 2002, this paper makes a determination to determine whether there is a situation for discount of IMF conditionality and receipt of more expansionary fiscal policy to monitor greater

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development and original investment expenditure in teaching to improvement employment over development growth.

1.2. Main research question

Our main research problem is that: “Is fiscal policy play some important role on employment generation in Pakistan”?

1.3 Objectives of study

1. To study the impact of Fiscal policy on employment generation in Pakistan.
2. To study relationship between fiscal policy and employment generation.
3. To suggest measures to use fiscal policy for employment generation.

2. LITERATURE REVIEW

Different economist discussed the fiscal policy and shows that there is a strong involvement between Fiscal policy, unemployment and growth. Fatas *et al*. (1998) concluded that impact at asset was not affected with increasing government expenditure. Turnvosky (2002) suggest that government investment may bring better results than government consumption. Gale and Orszag (2003) concluded that government faces the budget deficit its expenditure automatically decreases. This decrease leads to unemployment in country. Baldocci *et al*. (2003) write in his paper that factor product was four times well organized to promote economic growth as compared to investment in poor countries. Dong Fu *et al*. (2003) analysed several

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fiscal indicator and get conclusion that scarcity come out to be the most incompatible indicator while tax revenue was the steadiest indicator of fiscal policy. Amjad (2005) has main concern with government to reduce poverty from country. Government should pay attention to public sector development plan to start more employments. McCracken (2006) recognized inverse relationship between government size and growth. He also recognized that income taxes having the most damaging impact. Ogbole *et al*. (2007) studied the effect of regulation and deregulation phase on Nigerian economy. He concluded that GDP is higher in deregulation periods than regulation period. Kalle Kukk (2007) results showed that there is no influence on economic development in short run. But it shows significant effect in long run on economy development. Shaheen and Turner (2008) proved that government expenditures shocks had progressive impact in short run but opposite in long run. Leigh and Nill (2008) found the positive relationship between government expenditures and employment level. When government increased its expenditure than employment opportunities also obtained. Farmer (2009) suggested that if private expenditures are replaced with government expenditure then it would be very effective and employment can be established at its full level. Babalola and Aminu (2010) suggested that government should increase its expenditure on school, health and economic services to increase economic progress. Plotnikov and Farmer

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(2011) found that expansionary fiscal policy increases econo economic growth and reduce unemployment in short run.

3. RESEARCH METHODOLOY

Time series data is taken from 2006 to 2016. This data is used to find the relationship between fiscal policy and employment generation. The data is taken from Economic Survey of Pakistan. Following variables are selected for this research study.

3.1 Total Expenditure

Government expenditure consists of all government consumption, investment, and transfer payments. Government made expenditure to produce further gain. These two types of government spending, on final consumption and on gross capital creation, together establish one of the major mechanisms of gross domestic product. These governments spending, on final consumption and on gross capital creation, together establish one of the major mechanisms of gross domestic product.

3.2 Current expenditure

Current expenditure is expenditure on goods and services disbursed within the current year.

3.3 Development expenditure

Development expenditure is not working expenditure but increased the investment expenditure.

3.4 Gross Domestic Product

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GDP is the final value of goods and services produced in a country within a year. .It is based on annual report GDP can be planned by using two approaches:

- Income method and expenditure method. By income method GDP is calculated by adding up total reward to employees, gross profit of business firms and tax less any grants.
- The expenditure method is more shared method and it is planned by adding total consumption, investment, government expenditure and net export (export-import)

3.5 Total revenue

Total revenue means the total tax revenue and non-tax revenue. This shows the government fiscal policies are going to be positive or not.

3.6 Non-Tax Revenue

Tax revenue is the income that is expanded by governments through taxation. Just as there are changed types of tax, the form in which tax revenue is composed also varies; additionally, the organization that gathers the tax may not be part of central government, but may be a third party authorized to collect tax which they themselves will use.

3.7 Fiscal Deficit

A fiscal deficit happens when a government's total expenditures beat the revenue that it produces, eliminating money from borrowings. Deficit varies from debt, which is an build-up of yearly deficits.

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3.7 Dependent Variable

3.7.1 Employment Generation

Dependent variable that is used in this study is employment generation.

i. Total government expenditure has positive relationship with employment generation.

ii. GDP also have positive relationship with employment generation.

iii.Third independent variable is tax revenue which has negative relation with employment generation.

3.8 Econometric Model

We develop analytical model with our dependent variables (employment generation) and independent variable (gdp, total government expenditure, tax revenue).this model is develop to see the relations between dependent variable on independent variable. After using this model, will make this study able to analyse how far fiscal is effective for employment generation.

$$Emp = \beta_0 + \beta_1\ RGDP + \beta_2\ FD + \beta_3\ TE + \beta_4\ CE + \beta_5\ DE + \beta_6\ TR + B_7\ NTR + E$$

EMP = employment generation

RGDP = Real Gross domestic product

FD = Fiscal deficit

TE = Total expenditure

CE = Current expenditure

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DE = Development expenditure

TR = Tax revenue

NTR = Non-tax revenue

B_0= intercept of slope

$B_{1,}$ B2, B3, B4, B5, B6, B7 = coefficient of employment generation

e = error term

4. EMPRICAL ANALYSIS

4.1 Regression Analysis

. As we have eight variables so it is useful to use multiple regressions. In regression analysis we draw null and alternative hypothesis and use t-statistics to accept or reject null hypothesis.

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Table: .1 Regressions results

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.724	4.213		1.833	.208
	Real GDP Growth	-.035	.118	-.123	-.292	.798
	Fiscal deficit	.329	.425	1.225	.775	.519
	Total Exp	-.785	.436	-1.880	-1.798	.214
	Current Exp	.316	.401	.623	.787	.514
	Development Exp	.621	.319	.999	1.944	.191
	Total Rev	.391	.332	.761	1.177	.360
	Non-Tax Rev	-.457	.226	-.800	-2.019	.181

Dependent Variable: Employment level

Ho = fiscal policy has positive effect on employment generation

H1 = fiscal policy has negative effect on employment generation

Table 1 shows the constant values B, which is 7.724 t-statistics is 1.833 and significant is .208.Real GDP growth is -1.23 which is negative term, t-statistics is also negative -.292 at .798 significant level. Fiscal deficit is at 1.225 which I positive and t-statistics is .775 at .519 significant levels. Total expenditure is also in negative term-1.880, t-statistics is -1.789 at .214 significant levels. Current expenditure is .623 while t-statistics is .787 at .514 significance. Development

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expenditure also have positive value .999, t-statistics is 1.944 at .191 significance. Total revenue are.761 t-statistics is 1.177 at .360 significant levels. On-tax revenue also in negative term -.800, t-statistics is-2.019 at significance level is .181.

4.2 ANOVA Results

Table 2 ANOVA RESULTS [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.481	7	.212	3.191	.259[b]
	Residual	.133	2	.066		
	Total	1.613	9			

a. Dependent Variable: Employment level

b. Predictors: (Constant), Non-Tax, development, current, Real GDP Growth, Total Rev, total, Fiscal deficit

According to ANOVA table 2 null hypothesis(H_0) is rejected and accepted alternate hypothesis (H_1). That regression is significant. Coefficients are not zero. Alternate hypothesis that fiscal policy has negative effect on employment generation is accepted. Our results are significant.

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4.3 R^2 and ADJ R^2

Table 4.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.958[a]	.918	.630	.25746

a. Predictors: (Constant), Non-Tax, development, current, Real GDP Growth, Total Rev, total, Fiscal deficit

Table 3 is model summary, which shows value of R is .958, R^2 is .918.After adjusting its value become .630, while its std. error of the estimate is .25746. The R^2 value of 0.91 means that explanatory variables together account for about 91% of the variation in the employment generation, a fairly high amount of explanatory variables. Since the R^2 at 1 means, the model is good.

5 CONCLUSIONS

We can conclude that fiscal policy is most critical issue at both experimental and theoretical levels. Most of the components of fiscal policy show significant impact on employment generation. We collected the data time series over the period of 2006-2016 and assessed the model by using ordinary least square (OLS) method. The results show that fiscal policy shows no effect on employment generation in Pakistan. Real GDP growth, total expenditure and non-tax revenue shows negative relation with employment generation. As we know that taxes are not

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properly use for productive purpose. Therefore, we can say that Pakistan should work for increasing its expenditure. Our findings show that fiscal policy is not effected in Pakistan. Moreover, strict conditions are attached with work for increasing its total revenue and total expenditure. The relationship of fiscal policy with employment generation was found to be significant and positive. This is in contradiction of our hypothesis. The reason of positive relationship between employment generation and fiscal policy in case of Pakistan is due to increase its fiscal deficit. As fiscal deficit increases it have direct impact on employment generation. Pakistan is fronting so many problems. Government costs much of its revenue on war against terrorism, security and political disbursements. Due to this purpose fiscal deficit are more than development expenditures. That’s why fiscal deficit shows positive relationship with employment generation.

The second Real GDP growth had shown negative relationship with employment. This is supporting our hypothesis. This means that fiscal policy is very important for employment generation in Pakistan. Our third variable total expenditure has shown significant but negative relationship with employment. Which shows that expenditures are not spend for productive purposes. Current and development expenditure has positive relation with employment generation. This is against our hypothesis, showing that these expenditures have no effect on

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employment generation. Total revenue has positive relation with dependent variable, which rejects our null hypothesis. Our last variable is non-tax revenue it has shown negative relationship with employment. This finding has not supporting our hypothesis.

6 POLICY RECOMMENDATIONS

Government should follow expansionary fiscal policy for the development purpose so that the employment opportunities may be created. The current expenditure and development expenditures must be shifted towards productive side. Government should have to assign major portion of its budget in the important zones like infrastructure, education, health and agriculture. Subsidies should be provided to those sectors which are not showing growth, due to this, these sectors will show development and employment will be generated. Fiscal policy is an actual way to eliminate unemployment from Pakistan. So the government should have to build the Infrastructure, improve law & order situation, maintain political stability and to solve the energy crisis. In this way there will be a good environment for creating employment opportunities.

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