RELATIONSHIP BETWEEN ECONOMIC FREEDOM AND ECONOMIC GROWTH IN PAKISTAN

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ABSTRACT- *The objective of this research paper is to investigate the relationship between economic freedom and economic growth in Pakistan, by using a time series data of 23 years from1995-2017. We took economic freedom as a dependent variable, while economic growth, Population Growth, political stability and Export, Gross capital formation and employed labor force as independent variable. We used Auto-regressive distributive lagged ARDL and ECM models and ADF and Bound Test to check stationary and determine short run and long run relationship between variables. The empirical results revealed that political instability has a negative impact on economic freedom of Pakistan. While economic growth and employed labor force are positively related to economic freedom. As economic freedom is the key component of economic development, it must be focused to enhance economic freedom of Pakistan.*

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1: INTRODUCTION

1.1 Background of the study:

Economic freedom is defined as the opportunity for the individuals to live and prosper within the nation, without much intervention by the government. While economic growth defined as the rise in productive capacity of any economy, the ability to make more products as well as services over time, but it does not include the effect of inflation. economic growth which is usually measured by Gross Domestic Product(output) of that country. As GDP includes all products and services produced within the country, whether being sold in domestic market or foreign market, but GDP does not include the unpaid social services like child care, working at home, etc. Countries having higher GDP, will creates highly favorable conditions for private businesses and more opportunities of employment, which results in higher level of incomes, so the consumers having higher incomes, have enough money to buy freely more products of their own choices, so the level of economic freedom of that country will increase. So economic freedom and economic growth moves side by side for the development of any economy. Economic liberty is the vital component of nation's empowerment. It is the core policy to give freedom to the citizens to decide themselves how to spend their lives, as economic freedom provides accurate method for economic empowerment and growth. Nations which have low level of restrictions on private economic activities tends to have higher economic growth, than the nations which have restrictive economic policies. But no country offers full freedom to its citizens, who are allowed to exercise their rights within given legal environment. According to 2018 index of Economic Freedom defined by The Heritage Foundation, Pakistan's score 54.4 economic freedom, ranking it as 131st freest

country in the world. Among the Asia-Pacific region, Pakistan is ranked 31st among 43 countries. Pakistan's total population is 193.6 million, while the unemployment rate and inflation rate are 5.9% and 2.9% respectively, such a high level of inflation and unemployment are the basic hurdles in the economic growth of Pakistan. But Pakistan overall score in economic freedom has been increased by 1.6 points, due to the improvement in fiscal freedom, but still trade freedom is restricted with different kinds of taxes.

1.2 Categories of Economic Freedom:

The economic freedom of Pakistan has been grouped into 4 categories:

► **Rule of Law:** It comprises three sub-components: Property rights, Judicial effectiveness and Government integrity.

► **Government Size:** It contains Tax burden, Government spending and fiscal health.

► **Regulatory Efficiency:** It contains labor freedom, business freedom and monetary freedom.

►**Open Markets:** It includes following three sub-components: Trade freedom, Investment freedom and Financial freedom

1.3 Economic freedom in Pakistan:

The issue of economic liberty was a matter of little interest among the economists in past, but currently the concept of economic freedom had gained more attention because of the introduction of indexes that ranked the countries according to their scales, running from least free to freest. Since the time of independence, Pakistan is always lagged behind in economic freedom, due to consistent political conflicts, chaos, terrorism and ethnic rifts. Furthermore, Pakistan was established for economic prosperity of its people but freedom of people was restricted due to dictatorial rule, and failure of political

government to function in accordance with the wishes of people. The repeated interruption of political process in 1960s caused separation of East Pakistan and imposition of martial laws and political upheavals make roots of democracy as well as economic freedom.

1.4 Objectives of Research:

Main objectives of this study are stated as under: -

● To observe the impact of economic growth on economic freedom in Pakistan.

● To investigate the short run link between economic freedom and economic growth.

● To investigate the long run association between economic freedom and economic growth.

●To suggest the policy initiatives to improve economic freedom in Pakistan.

1.5 Scope of the study:

The scope of this study is to discuss how much freedom is essential for the economic growth of the developing countries like Pakistan. This research study can be helpful for the other researchers in examining how freedom along with political stability leads to economic development. It can also be beneficial for the policy makers in framing policies to generate economic freedom in the country.

2: LITERATURE REVIEW:

Pitlik (2002) stated that economic liberalization enhances the economic growth. He suggested that countries in which liberalization move on a smooth track are expected to have a better growth performance than nations which observe unstable liberalization policies. This study suggested that higher instability slower growth process and as such economic freedom.

Awan (2012) stated that economic freedom originates from political freedom. As political freedom could not have enjoyed by the people of Pakistan due to interruption in political process and long rule of dictatorial regimes, economic freedom could not have flourished and the people could not enjoy the benefits of economic freedom. There are still many laws existing that do not allow free transactions, free capital mobility, rights of minority shareholders and safety of capital and assets.

Santhirasegaram (2007) investigated whether free economic and political policies enhance economic growth in less developed countries, by using data of five years from 2000-2004. He used least square Method and found strong negative effect of political freedom on the economic progress.

Ramzi (2013) investigated the impact of free trade and economic independence on economic growth by using the data of 17 Middle East and East Asian countries for the time period of 10 years from 2000-2009. The results of panel data study revealed that the trade openness and the whole index of economic freedom was completely and significantly associated with economic development. But when the index of economic freedom decomposed into five categories, then the index of size of government and the index of access to financial services was negatively associated with economic growth.

Cavalic (2014) stated that economic independences are significantly connected with the overall affluence of society. He said that improvement of political and other liberties is crucial for the development of democratic systems in the Islamic countries where Islam is a single largest religion. This research states that economic freedom in Islamic countries significantly lag behind the rest of the world. The study was conducted on the basis of a small

sample of 10 Muslim nations for the time period of 15 years from 2000-2015. The study revealed that very few Islamic nations are able to maintain adequate level of economic independence for its residents.

Haydaroglu (2015) studied relationship between protection of property rights and economic development in OECD countries by using the time series data of 2007-2014. The results show that there is a significant effect on economic development in these nations, an increase in rights to hold property increases the economic progress, so in those countries, where the security of rights to hold property is more, there is fast economic development.

Hussain and Haque (2016) examined the effect of economic independence on Gross Domestic Product (GDP) growth rate. The results show the strong positive impact of free trade, financial freedom, labor freedom, business freedom and fiscal freedom on economic development.

Ali and Saif (2017) examined relationship between Foreign Direct Investment(FDI), Energy Utilization (EC), Free Trade (FT) and Agriculture production with GDP in Pakistan. They used time series data from 1976-2015. The results of study show that in Pakistan, Agriculture, Trade Openness, energy utilization and Foreign Direct Investment are major determinants of GDP growth. In long run, there was a significant impact of Agriculture, Free Trade and energy utilization on economic development, but Foreign Direct investment (FDI) showed adverse effect on economic development.

Anwar et al (2017) examined the influence of economic independence on the economic progress in the selected South Asian nations. This study covered the time period of 1995-2014 by using PMG panel data technique for the estimation of results. So the general outcomes of this study suggested that the South Asian countries need to achieve sustainable economic growth by

attaining peak level of economic freedom. As economic freedom is one of the main triggers of prosperity and growth, so government should lessen their interference to guarantee people's right. Government should improve trade openness and should provide monetary freedom and curb corruption to improve the level of economic growth.

3: THEORETICAL FRAMEWORK

3.1 Defining the Economic Freedom:

Economic freedom is defined as the opportunity for the individuals to live and prosper within the nation, without much intervention by the government. A precise idea of economic freedom is necessary not only for ranking the countries according to the scale, but more importantly, for developing new significant results concerning how economic freedom affects economic growth. Easton and Walker (1997) said that economic freedom is positively related to income and consider it as a main determinant of total factor productivity in the production function.

3.2 Hayekian concept of Economic Freedom:

Hayek in his concept of "The Constitution of Liberty" stated that freedom depends on the prevention of coercion, violence, fraud and deception, except for the use of coercion by the government for the sole purpose of enforcing basic rules intended to secure the best condition under which individuals may give his activities a coherent and rational pattern. He further stated that economic freedom should be understood as freedom under governmental law, and not in the absence of all governmental actions. The principle according to which freedom is evaluated is the "Rule of Law", which includes three principles:

1. Certainty of Law.

2. Generality of Law.

3. Equality of Law.

Certainty of law is the most important requirement for economic activities, as individuals are allowed to make long term plans, which are not subjected to sudden changes by the law. The generality of law means that law never concerns to particular individuals and should be abstract from specific circumstances of time and place. Equality of law means that all legal rules apply to everyone, to those in power, those who lay them down and those who apply them. It means state is limited in the same manner as any private parson.

3.3. Adam Smith Theory of Development:

Adam Smith presented theory of economic development in his book "Wealth of Nation", saying that free-market economies are the most productive and beneficial to their societies. He further argues that the economic system based on individual self-interest led by an invisible hand, which would achieve the greatest good for all. He supported the idea of free and independent actions. According to him if every individual member of the society is left to peruse his economic interest, he will maximize the output to the best of his ability. As freedom of action brings out the best of an individual which increases society's wealth and progress. He opposed any government intervention in industry and commerce. He further advocated the principles of Laissez-Faire, as state should not impose any restriction on freedom of an individual. He believed that there is a set of rules on the rights of justice and perhaps even of morality, which are known by all men.

3.4 Keynes' Political Theory:

John Maynard Keynes was a political economist having wide vision and he believed that governments have power to solve some of the greatest ills

of capitalism. Keynes refused either to believe in communism or in ultra-wisdom of unrestrained free market. Instead, he occupied a middle course, believing that governments could, with a judicious injection of money here and a rise regulation there, smooth out the peaks and troughs to which all economies seem fatefully prone. Keynes believed that what chiefly holds back countries is corruption, knee-jerk policies and short-sightedness, but that if these three ills are corrected, then humanity can look forward to an age of incredible and lasting wealth.

3.5 Hypothesis of the study:

H_0 = Economic growth is not positively associated with economic freedom in Pakistan.

H_1 = Economic growth is positively related to economic freedom in Pakistan.

4: RESEARCH METHODOLOGY:

4.1 Importance of Research Methodology:

Research methodology is the organized investigation of the procedures used in the field of research. It is actually the abstract analysis of the methods as well as the principles related with the field of information.

4.2 Nature of Study:

Basically there are two types of research; Qualitative study and Quantitative study. Both types are equally valuable, but this research is quantitative in nature, as it includes numerical data on which different tests are performed to check the association between dependent and independent variables.

4.3 Types of Data and Sources:

We used secondary data in this research study and economic freedom index has been used as a dependent variable. while economic growth, political

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stability, gross capital formation, exports and population growth (as a proxy of employed labor force) are used as independent variables.

4.4. Sample of study:

The sampling period of this study is spread over 23 years from 1995-2017. It is time series data.

4.5 Selected Variables and their definitions:

The selected variables are the followings:-

● Economic Freedom (EFI)   _____ Dependent variable

● Economic Growth (ECOGRTH) _____Independent variable

● Political Stability (PS)_____ Independent variable

● Exports (EX)--- Independent variable

● Population Growth (PG) _____ Independent variable

● Gross Capital Formation (GCF)_____ _ Independent variable

4.5.1: Economic Growth:

The economic growth of Pakistan or any other country is measured by its percentage change in its GDP growth rate. GDP is the defined as the prices of all the products and services produced in a state during a given period of time.

4.5.2: Economic Freedom index:

The index of economic freedom is overall composed of 10 indices, which includes:

4.5.1 Labor Freedom:

The chances and the opportunities to get employed is essential for the economic freedom of any country. On the same account, the authority for the businesses to terminate the unnecessary workers, is also important for increasing the productivity and enhancing profit.

4.5.2 Business Freedom:

Freedom to carry out entrepreneurial activities is one of the important component of economic liberty. Some countries have simple procedure of obtaining business license. While in some countries, the procedure of obtaining business license requires never-ending visits to administration offices, thus results in creating harsh business environment.

4.5.3 Trade Freedom:

Trade independence is actually the estimate of the appearance or nonappearance of trade barriers on the imports and exports of the products and services.

4.5.4 Fiscal health:

Fiscal health indicates the taxes, debts and government spending on public development projects. Fiscal health of any nation is clearly indicated by its budget allocated to social welfare projects.

4.5.5 Monetary Freedom:

Monetary freedom involves stable currency as a standard of exchange. Monetary policies of the government directly influence the value of the currency and business transaction without any restriction.

4.5.6 Financial Freedom:

Efficient financial system is essential for enhancing the long term savings and investments of the individuals and the businesses. An open banking system and other financial services provides more benefits to investors and entrepreneurs as well.

4.5.7 Government Spending:

Government spending refers to the money spend on public sector, which is financed by taxation.

4.5.8 Property Rights:

The surety to have secure property rights will always motivate entrepreneurial activities, because it gives the confidence to the citizens to save their incomes and invest it in their businesses. The presence of effective law and order in the economy also assure the citizens that their properties and savings are safe from stealing.

4.5.9 Investment Freedom:

The freedom to invest provides endless opportunities to increase the productivity and to create new jobs. Economies that have restrictions on investments, may have lower level of entrepreneurial activities.

4.5.10 Tax Burden:

All governments impose taxes in the form of income tax, payroll, sales tax and excise taxes. High tax rates reduces the individual's and firm's opportunities to achieve their goals in the market economy.

4.5.11 Judicial Effectiveness:

An effective judicial system is essential for protecting the rights of all the citizens against the powerful bodies. Fair judicial system is the basic requirement for the developing countries.

4.5.12 Government integrity:

Government integrity stands for the honest of government and the trust of the public on its government, so the government must be honest in fulfilling its duties to protect the interest of its citizens.

4.3 3: Exports:

The products and services manufactured domestically and then sold to other countries are called Exports. These are the sources of foreign exchange earnings.

4.4: Gross Capital Formation:

Gross capital formation is used to calculate the GDP of any country. It is defined as the net rise in the capital stock of any nation within a given time period.

4.5: Political Stability:

Political stability refers to the balanced normal political conditions of any country. If a country is politically stabled, then it increases the chances of foreign investments and economic development.

4.6: Population Growth:

Population growth is used as an alternative variable to indicate the employed labor force. The employed population is defined as the people who have ability and are willing to work.

4.7 Analytical Technique:

We will use the following analytical techniques: -

1. ADF Unit Root Test.
2. Bound Test.
3. ARDL Model.
4. Error Correction Model.

5: DATA ANALYSIS

5.1 Descriptive Statistics:

The econometric model of the study is as under: -

$$EFL = \beta o + \beta_1 (ECOGRTH) + \beta_2(PS) + \beta_3(PG) + \beta_4(EX) + \beta_5(GCF) + et.$$

Where: -

EFI = Economic Freedom Index

ECOGRTH = Economic Growth

PS = Political Stability

Ex = Exports

GCF = Gross Capital Formation

PG = Population Growth as a Proxy of Employed Labor Force

et =Error term

Table 1: Results of Descriptive statistics:

	EFI	ECOGRTH	PS	EX	GCF	PG
Mean	55.51	4.1226	-1.941	13.845	16.909	2.1639
Median	55.60	4.400	-2.0300	13.9700	16.758	2.0877
Maximum	58.40	7.6700	-1.100	16.900	19.332	2.522
Minimum	52.80	1.0100	-2.8100	8.240	14.120	1.954
Std. Dev.	1.5182	1.76775	0.655	2.367	1.5896	0.1708
Skewness	-0.066	0.1401	0.1682	-0.713	0.0403	1.045
Kurtosis	2.523	2.441	1.351	2.923	1.8404	2.6734
Jarqua-Bera	0.234	0.3744	2.7123	1.954	1.2948	4.2890
Probability	0.889	0.829	0.2576	0.376	0.523	0.1171

Table 1 shows the descriptive statistics of the selected variables. It describes the size of the variable by showing the total number of variables included in the model, their average, maximum and minimum values, skewness and probability. The mean of economic freedom index is 55.51 with standard deviation of 1.5182. The average value of economic growth (ECOGRTH) is 4.1226 with the standard deviation of 1.76775. the mean of

political stability (PS) and Exports (Ex) are -1.941 and 13.845 with the standard deviations of 0.655 and 2.367. Similarly, the average values of gross capital formation (GCF) and population growth (PG) are 16.909 and 2.1639 with the standard deviations of 1.5896 and 0.1708. If we consider the skewness of variables, all the variables are little bit skewed. Economic Growth (ECOGRTH), political stability (PS), gross capital formation (GCF) and Population Growth (PG) rate are positively skewed while economic freedom index (EFI) and exports (EX) are negatively skewed. As for Kurtosis is concerned, it measures the degree of flatness or peakness of frequency curve relative to normal distribution. The values of Kurtosis indicate that all the variables are platy-kurtic. The Jarque-Bera test of normality is a goodness of fit test, it provides the joint hypothesis of Skeweness and Kurtosis. A normal distribution should have zero skewness and a Kurtosis of three, if the values of Jarque-Bera test is far from zero, then it indicates that data do not have normal distribution. According to the Jarque-Bera test, the residual of almost all the variables are normally distributed.

5.2 Correlation Analysis:

The results of correlation analysis are shown in Table 2.

Table 2: Results of Correlation matrix:

	EFI	ECOGRTH	PS	EX	GCF	PG
EFI	1	-0.040	0.041	0.1538	0.440	0.2131
ECOGRTH	-0.040	1	0.072	-0.076	0.127	-0.297
PS	-0.041	0.072	1	0.73	0.409	0.751
EX	0.153	-0.076	0.734	1	0.395	0.671
GCF	0.440	0.127	0.409	0.395	1	0.281
PG	0.213	-0.297	0.751	0.671	0.281	1

Interpretation of Results:

Correlation matrix is used to estimate the strength of association between the variables. This table indicates the positive and negative relationship between variables. Economic freedom, exports, gross capital formation and population growth are significantly correlated with economic freedom, except economic growth and political stability. The variable economic freedom is positively correlated with exports, gross capital formation and population growth. While economic growth and political stability are negatively correlated with economic freedom. the correlation between the same variables like EFI and EFI are highly and positively correlated with each other. It means EFI depends 100% on EFI, and economic growth depend 100% on economic growth, and all other variables also. The degree of association between economic freedom and economic growth is 0.040, which indicates that the correlation is weak because r < |0.30|. degree of association between economic growth and gross capital formation is 0.44, so the correlation is moderate, because |0.30| < r < |0.70|. This degree of association indicates weak, moderate or strong relationship between the variables.

5.3 ADF Test:

Table 3: Results of ADF Test:

	Level		1st Difference		2nd Difference		Order of Integration
	Intercept	Inter & Trend	Intercept	Inter & Trend	Intercept	Inter & Trend	
EFI	**-3.34**	-3.335	-4.988	-4.84	-5.422	-5.49	1(0)
	0.025*	0.08*	0.007*	0.004*	0.004*	0.001*	
PS	-1.13	-1.29	**-4.34**	-4.34	-6.24	-6.11	1(1)
	0.68*	0.86*	**0.003***	0.001*	0.0001*	0.0005*	
PG	**-3.26**	-4.11	-1.69	-1.25	-3.42	-3.57	1(0)
	0.03*	0.02*	0.41*	0.85*	0.02*	0.06*	
GCF	-1.81	-1.96	**-4.58**	-4.49	-8.08	-7.85	1(1)
	0.36*	0.58*	**0.001***	0.009*	0.000*	0.000*	
EX	0.05*	-1.62	**-4.217**	-4.25	-7.39	-7.22	1(1)
	0.95*	0.74*	**0.003***	0.001*	0.000*	0.0001*	
ECO GRTH	-2.18	-2.24	**-4.27**	-4.233	-8.02	-7.89	1(1)
	0.217*	0.44*	**0.003***	0.01*	0.00*	0.000*	

The ADF test of stationarity is firstly used to examine the stationarity of the selected variables. Dickey and Fuller (1979, 1981) created a process to properly analyzed the series. Which is known as Dickey Fuller (DF) test for unit root, but Dickey and Fuller extended their test process by constructing on extra lagged terms of dependent variables to eradicate autocorrelation, this test is known as ADF test.

The results in table 3 show that the variable economic freedom index (EFI) is integrated at level. Its coefficient value is -3.34 with 0.025 probability value. The political stability (PS) is stationer at first difference and its coefficient value is -4.34 with 0.003 probability value. While economic growth (ECOGRTH) is integrated at first difference and its coefficient value is -4.27 with 0.003 probability value. Exports (EX) is stationer at first difference and its coefficient value is -4.217 with its probability value 0.003. The population growth (PG) (as a proxy variable of employed labor force) is stationer at level and its coefficient value is -3.26 and its probability value is 0.03. Lastly, gross capital formation (GCF) is integrated at first difference with the coefficient value -4.58and its probability value is 0.001.

5.4 Auto-Regressive Distributed Lag (ARDL) Approach:

Pesearn *et al.,* (1996) introduced ARDL estimation method to study the association among different variables. In this study, the ARDL approach has been applied. The technique has been due to having small size of the data and it and it is valid when the selected variables are integrated at different levels.

5.4 Bound test Result:

Bound test is crucial to check the existence of long run relationship between selected variables.

Table 4: Results of Bound Test

Test Statistics	Value	Significance	1(0)	I(1)
		10%	2.08	3
F-Statistics	19.13	5%	2.39	3.38
K	5	2.5%	2.7	3.73
		1%	3.06	4.15

In table 4, we can see the critical values of upper bound I(1) and lower bound I(0). In the table, the value of F-statistics is 19.13 and it is more than upper bound, so the null hypothesis is rejected and alternate hypothesis is accepted, which states that there exists a long run relationship among the variables.

5.5 Long Run Relationship of ARDL:

Table: 5. Results of Long Run ARDL test.

Long Run Coefficients				
Original Dep. Variable: EFI				
Selected Model: ARDL (2, 2, 2, 1, 1, 2)				
Sample: 1995-2017				
Included Observation: 21				
Variable	**Coefficient**	**Std. Error**	**T-Statistics**	**Prob.**
ECOGRTH	0.346473	0.120964	2.864262	0.0352
PS	-4.8520852	1.499670	-3.235434	0.0231
EX	0.437601	0.124363	3.518740	0.0169
GCF	0.366354	0.189981	1.928371	0.1117
PG	11.520996	3.780327	3.047619	0.0285

C	6.868709	15.508203	0.442908	0.6763

Source, Author's Calculation through E-views 9.5

In table 5, we concluded that the value of co-efficient of Economic Growth (ECOGRTH) is 0.346473, which means that one unit rise in economic growth, increase the economic freedom index 34 percent, so its effect is positively significant. The value of co-efficient of political stability is -4.852082, which means there exist a negative and significant effect of political stability on economic freedom. Similarly, the coefficient value of exports (EX) is 0.43760, which indicates there exist a positive and significant impact of exports on economic freedom index. The co-efficient value of Gross Capital Formal (GCF) is 0.366354, but its probability value is 0.1117, which means there exist a positive and insignificant impact of gross capital formation (GCF) on economic freedom index (EFI). The co-efficient value of population growth (PG) as a proxy of employed labor force is 11.52996, which means the population growth has a significant and positive impact on economic freedom.

5.6 Error Correction Model-Short Run Relationship:

Table: 6. ECM Model- Short Run relationship

Dependent Variable: EFI				
Sample: 1995-2017				
Included Observation: 21				
Variables	Co-efficient	Std. Error	F-Statistics	Prob.
D(EFI(-1))	1.011572	0.098266	10.29424	0.0001
D(ECOGRTH)	0.024558	0.075952	0.323338	0.7595
D(ECOGRTH) (-1)	-0.6985214	0.082859	-8.430246	0.0004
D(PS)	-2.728772	0.506830	-5.383999	0.0030
D(PS(-1))	5.702334	0.596728	9.555208	0.0002

D(EX)	0.220720	0.110563	1.996339	0.1024
D(GCF)	0.320526	0.097125	3.300156	0.0215
(D(PG)	147.516660	12.445581	11.852935	0.0001
D(PG-(-1)	-228.4974	16.753363	-13.638898	0.0000
Coint eq = EFI – (0.3465*) COGRTH – 4.8521* PS = 0.4376*, EX + 0.3664* GCF + 11.5210* PG + 6.8687				
R. Squared = 0.944		D. W. Stat = 2.43		
Adj. R. Squared = 0.77		F – Statistics = 5.714		
Prob (F-Statistics) = 0.03				

Source, Author's Calculation through E-views 9.5

Table 6 shows the short run relationship, which shows the strong significant association among dependent and independent variables. According to the results, the value of R^2 is 0.94 and the value of Adj.R^2 is 0.77, its means 77% variation in dependent variable is due to independent variables after adjustments. The value of D.W is 2.4 that indicates negative autocorrelation. While the value of regression coefficient of ECOGRTH is 0.024, it means it is positively and insignificantly related to EFI in short run. The value of coefficient of PS is -2.72, which indicates it is negatively and significantly related to EFI. The coefficient value of EX is 0.22, and it is positively and insignificantly related to EFI. The value of coefficient of GCF is 0.320, it is positively and significantly related to EFI. The value of coefficient of PG as a proxy of employed labor force is 147, it is positively and significantly related to economic freedom.

5.7 Stability Test:

The Cumulative Sum Recursive Residuals (CUSUM) Model is applied to examine the stability of the coefficients.
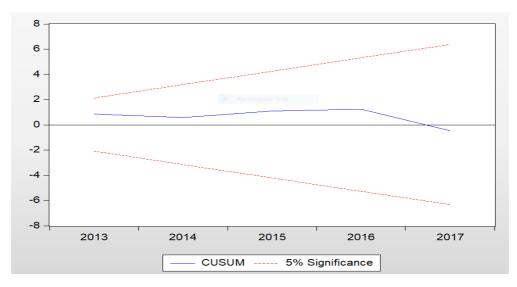
Fig: Results of stability test

The straight lines indicate critical bounds at 5% significance level. The results demonstrate that coefficient in the model is stable as the display of CUSUM statistics lies between critical bounds, which indicates the stability of the model in both, short run and long run.

6: FINDINGS OF STUDY:

The results of autoregressive distributive lagged model indicates that all variables, both in short run and long run, are positively associated to the economic freedom in Pakistan, except political stability. The overall influence of independent variables is statistically significant. The value of R^2 is 0.94, that means 94 percent variation in economic freedom is due to independent variables of the model. The probability of F-statistics is 0.03, which indicates the overall effect of independent variables on dependent variable. Pakistan need to improve economic growth along with sustainable political policies, to

reduce poverty that would ultimately generate economic freedom in the country.

7: CONCLUSIONS

From the above discussion, we can conclude that political stability and economic freedom are necessary for economic growth. Pakistan should follow independent socio-economic and political policies and ensure the people's rights to create congenial environment and expedite economic activities. Increase in per capita income and price stability and security of life and property will enable people to spend their lives according to their choices and widen their options. At the moment, the people of Pakistan are not enjoying economic freedom due to coercive policies of the government, high external debt and external intervention in the country.

8. Policy Recommendations:

On the basis of findings and conclusions we would like to make the following policy recommendations: -

● Policy makers should make effective rules to stop corruption,which is the main cause of political instability that leads to reduced economic freedom in the country.

● The Government of Pakistan should promote exports through fiscal incentives to generate job opportunities. It will reduce unemployment and generate economic freedom.

● The government should encourage the production of value-added products that increases the chances of exports and fetch high prices in international market.

● The government should slash harsh regulations restricting the freedom of business men and provide level playing field to players. There should not be monopoly of any sector in the economy.

● Further the capital formation and economic growth are related. Investment should be made in technology-oriented projects in order accelerate growth process. The choices of people should be increased.

● Investment should be made in capital formation both in rural and urban areas, to enhance economic freedom.

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