

## The Structure and Performance of Economy of Pakistan (Comparative Study between Democratic and Non-Democratic Governments)

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### Abstract

*Does economic growth need Democracy? Or is it the non democratic rule that may pave the way to produce economic prosperity in the country like Pakistan? These queries have developed many arguments, which after decades emerge no nearer to being resolved. This study takes a nearer gaze at the contentions behind these inquiries and tries to clarify the linkages of Democracy/ Non-Democratic rule with economic growth. Precisely this paper is an attempt to investigate the Economic performance in Pakistan while considering the role of democratic Government and non-democratic Government in comparison. More traditional methods of comparative institutional analysis are used to understand the mechanisms through which Democracy or Autocracy either helps or hinders the process of development and growth. The results revealed and concluded that overall performance/ growth of economy of Pakistan is far better in Non-Democratic Government than the Democratic rule.*

**Key Words:** Economic Performance, Growth, Democracy, Non-Democratic Government.

### 1. Introduction

#### 1.1 Overview

The debates on Democracy and growth have freshly bought additional importance as the global extension of Democracy has been welcomed via pushback from continent with immense economic energy, such as China and Russia in Latin America, the new left are furthermore reshaping attitudes on Democracy. At the same time, the global economic disaster of 2008-2009 has caused several to doubt the viability of the floating market model and to allege the lack for a more powerful government role. In the present international weather, assertions are occasionally made that neither free markets nor democracy are essential to the accomplishment of economic goals, and that authoritarian forms even work better. In the economies like Pakistan and Bangladesh the democratic and non democratic governments always play an impact on the economic and financial performances. This research is an attempt to investigate the Economic performance in Pakistan while considering the role of democratic Government and non-democratic Governments in comparison. Yearly data is used from 1980 to 2010 of economic performance which includes GDP (market price), GDP per capita, Direct Tax, Indirect Tax, Inflation Rate, Exchange Rate, Unemployment rate, Export, Import, Net Export, FDI, Expenditure on Health, and Real wages. Compare Mean Technique / independent sample t-test is applied to investigate the economic performance during the democratic and non-democratic Governments.

## **1.2 Research Objective**

The objective of this research is to investigate the impact of Democratic Government or Autocratic (Non-democratic) Government on economic growth of Pakistan by examining the factors that help in measuring the countries performance in different Governmental Regime. This study utilizes GDP market price, GDP per capita and other different variables to conclude that which state of Government is found better than the other in Pakistan.

## **2. Literature Review**

The fundamental dynamics of political institutions, fiscal aftermath and performance has accompanied social scientists since the days of Adam Smith. Over time, it has become commonly recognized that economic performance is causally linked to the political and institutional setting of economic activities. However, corpus of recent studies has shown that bridge between economic growth and democracy is much complex and confused, and intellectuals sliced on the matter that either democratic authorities has superior impact on economic performance than Non-democratic(authoritarian) regimes or is it other way around. After ambiguous and inconclusive results of numerous studies, supporters of the democracy endorses growth and hypotheses emphasized that it delivers eagerness to people to work and invest, and paves the way for the efficient allocation of resources and profit maximizing achievement in a conditions of freedom and security. It is a mutual understanding that democracy is a luxury, which arrives at a price within terms of subsequent slower growing national living standards. However, various modern cross section studies possess located evidence that scarcity of civil and political liberties are negatively correlated with commercial growth of an economy.

Shen (2002) discovered that mean democracy enhance the stride of growth. Roderick (2000) put forward that democracies supply higher and better value growth through different ways. (Lipset, 1959; Fukuyama, 1993; Barro, 1999), presented an empirical check to display that democracy have an affirmative result on growth through the conduit of investment. The other researchers stated that democracy raises investment, which in turn spurs economic growth. A growing number of democracy activists and scholars have devised the development-democracy hypotheses and come to conclude that the presence of an effective state and economical development is a prerequisite for high quality democracy (Rose & Shin, 2001; Carothers, 2002). Huntington (1968) explained that the occurrence of democracy is positively affiliated with the practice of human privileges and political freedom. The long run result of democratization is to elaborate and enhance one-by-one freedom.

Bardhan (1999) contends democracy is ideologically more hospitable to the rule of law, what is actually significant for enterprise to thrive is predictability rather than legal accountability. In the past, a lot authoritarian regimes were more successful than democracies at supplying relative predictable contracts. Barro (1996) explains that there is important correlation between democracy, which ensures political freedom and economic growth. Hence, this leads to powerful correlation between economic sovereignty and growth. But, clearly there are the instances that democratic regimes have misused human privileges as Pourgerami (1998) postulated that the price of more political freedom is necessarily a retardation of growth and that sudden retardations effect in a loss of freedom. On the other hand, authoritarian and non democratic governments supply high qualifications of order and security.

Democracy opposing theories assert that democracy harm the tempo of economic growth in various ways, create uneven countrywide wages movements and some time a hindrance in getting coercive and quick economic growth for a country. Sirowy and Alex (1990) assessed the fifteen empirical investigations and discovered that eleven out of fifteen shown no or conditional connections between democracy and economic growth. The three surveys of the empirical study with contradicting conclusion are one by Sirowy and Alex (1990) is in favor of a negative relationship between democracy and development, but the other, by Bhagwati (1995) concluded that there is a positive relationship between these two, while, Przeworski and Fernando (1993) are not clear on the matter that whether democracy fosters or obstructs economic growth.

In the more latest empirical work Haan and Siermann (1996) make a judgment that political regimes do not differ in impact on the growth of per capita incomes. Polterovich and Popov (2007) found that democratizing nations have fewer tools to promote expansion than autocracies. Democracies are especially susceptible to populist stresses for immediate utilization, unproductive grants, autarchic trade principles and other particularistic claims that democracies hamper long-run investment and growth. On the other hand, authoritarian rulers who had the capability to oppose such pressures are rather than be self-aggrandizing, plundering the excess of the economy. In fact, historically, authoritarian regimes arrive in distinct types, some drawing from legitimacy some from supplying alignment and steadiness.

Bettcher and Shkolnikov (2009) asserted that democracies are more probable to experience smaller rates of economic growth because it leads to an expanded role for superior categories that inhibit effective allocation of resources resulting in growth. Menocal (2007) stressed on the fact of 'real' democracy is said to be accomplished in political regimes that foster development, financial equality and communal justice. Other analysts have documented, for instance Schmitter (2005) that there is nothing inherent within the nature of a democratic system that automatically command towards certain outcomes. Olson, Sarna, and Swamy (2000) have shown that political unsteadiness weakens the growth. The recent Human Development Report contends that there is no relation between democracy and growth (UNDP, 2006).

In most of the under developed countries the alternatives for growth suitably, lie in between a military dictatorship and a left-wing citizen dictatorship (Dick, 1974). Democracy exerts a positive impact on economic growth by engaging its positive consequence upon liberty (Abrams and Lewis, 1995). Quibria (2006) also confirmed that a positive association of democracy with another attribute i.e. poverty reduction. Barro (1996) measured the positive association of good governance with economic growth. It was identified that the quality of governance and fiscal policies describe a fairly valued component of the variation in growth rates across countries. Benavot (1996) contended that the connection between economic and political development is curvilinear than linear, at a smaller grades of economic development, there is a powerful affirmative connection with democracy but at a higher grades (i.e., after a particular threshold point), the power of the association declines appreciably and finally becomes negative.

Williamson and Haggard (1994) analyzed and concluded that democratic authorities are poorer than non-democratic ones at carrying out reform. The evidence indicates that the democratic-authoritarian with distinction itself fails towards explaining economic prosperity and endure its political fallout (World Bank. 2006). Mulligan, Gil, and Martin (2004) found that democracy is alike to the average non-democracy in terms of using on retirement benefits, welfare, unemployment and health. Some supporters to the compatibility outlook contend that a democratic government is best matched to foster maintained and equitable economic development. According to them democratic procedures and the reality of public liberties and political privileges develop the situation most favorable for economic development. But, as Curle (1964) highlighted that trend for greater grades of growth are related with competitive models of governments, no matters whether there is a democracy in the country or the country has the non democratic regime.

### 3. Research Methodology

#### 3.1 Description of Data

To investigate the structure and growth/ performance of the economy of Pakistan in the democratic and non-democratic regimes, the data for the period of 1980 – 2010 is used. The variables involved for the investigations for measuring the performance of the economy of Pakistan includes GDP Market Price, GDP Per Capita, Direct Taxes and Indirect Taxes, Exchange Rates and Unemployment Rates, Exports and Imports, Net Exports, FDI, Government Expenditures on Health and Real Wages for both the democratic and non-democratic regimes.

#### 3.2 Econometrical Models and Econometrical Test

To do the comparison between democratic and non-democratic regimes in connection with the structure, growth and performance of economy, the following econometrical model is used, while independent T-test is applied for investigating following models.

GDP mp Democratic – GDP mp Non Democratic $\neq 0$	Equation 1
GDP per capita Democratic – GDP per capita Non Democratic $\neq 0$	Equation 2
Direct Taxes Democratic – Direct taxes Non Democratic $\neq 0$	Equation 3
Indirect Taxes Democratic – Indirect Taxes Non Democratic $\neq 0$	Equation 4
Inflation Rate Democratic – Inflation Rate Non Democratic $\neq 0$	Equation 5
Exchange Rate Democratic – Exchange Rate Non Democratic $\neq 0$	Equation 6
Unemployment Rate Democratic – Unemployment Rate Non Democratic $\neq 0$	Equation 7
Net Exports Democratic – Net Exports Non Democratic $\neq 0$	Equation 8
FDI Democratic – FDI Non Democratic $\neq 0$	Equation 9
Exp. on Health Democratic – Exp. on Health Non Democratic $\neq 0$	Equation 10
Exp. on Education Democratic – Exp. on Education Non Democratic $\neq 0$	Equation 11

Real Wages Democratic – Real Wages Non Democratic  $\neq 0$  Equation 12

Scores for Law and Order – Scores for Law and Order

Conditions Democratic      Conditions Non Democratic  $\neq 0$  Equation 13

#### 4. Findings & Results

The primary focus of this paper is to investigate the growth/ performance of economy of Pakistan by pondering over main economical players during democratic and non democratic regimes. The Table 1 is the precise summary of the investigations, which includes that the GDP market price ( $4063040.83_{\text{Demo}} > 1539671.58_{\text{NonDemo}}$  at  $P < 0.05$ ), GDP per capita ( $25137.35_{\text{Demo}} > 12417.58_{\text{NonDemo}}$  at  $P < 0.05$ ), and Expenditures on health ( $63056.6906_{\text{Demo}} > 10421.9758_{\text{NonDemo}}$  at  $P < 0.05$ ) were found significantly better in democratic rules than the non-democratic governments. While, indirect taxes, FDI and Avg. wages per month were better during democratic governments than non democratic rules but the differences were not significant. The non democratic government was also found better than the democratic regimes in few cases which include direct taxes ( $2.5529_{\text{NonDemo}} < 2.9094_{\text{Demo}}$  at  $P > 0.05$ ), inflations rate ( $6.0167_{\text{NonDemo}} < 9.6217_{\text{Demo}}$  at  $P > 0.05$ ), Exchange rates ( $27.8000_{\text{NonDemo}} < 42.7956_{\text{Demo}}$  at  $P > 0.05$ ), unemployment rates, and ( $4.9292_{\text{NonDemo}} < 5.7556_{\text{Demo}}$  at  $P > 0.05$ ). The expenditure on educations ( $98564.2319_{\text{NonDemo}} > 69055.8750_{\text{Demo}}$  at  $P < 0.05$ ), Net export ( $50302.75 < -325575.11_{\text{Demo}}$  at  $P < 0.05$ ) and law and order conditions ( $4.98732_{\text{NonDemo}} > 1.0029_{\text{Demo}}$  at  $P < 0.05$ ) are also found significantly better during the non democratic regimes than the democratic rule.

#### 5. Conclusion & Discussion

The empirical investigation of the Economic growth or performance during different Governmental regimes concludes that the overall Performance and Structure of Economy of Pakistan is better in the Non- Democratic Government as most of the driving players of economy shows better performance in Non-Democratic regimes than the Democratic rule. Though in contrast, various studies analyzed and concluded that there is a positive correlation between Growth and political competitiveness i.e. democracy. Similar to the finding of this paper there are also several studies which have confirmed and analyzed that the democratic authorities are poorer than non-democratic ones at carrying out reform (Williamson & Haggard, 1994). Similar to this many other Researchers believe that the economical growth lies somewhere around the military dictatorship in the under developed nations (Dick, 1974; Schmitte, 2005). Several researchers also found that there is a negative or no relationship between Economic Growth/ performance and Democracy (Sirowy & Alex, 1990). Moreover, Democracy with distinction itself fails towards explaining economic prosperity and endures its political fallout (World Bank, 2006).

In the both cases, whether the non democratic regimes pave the way for growth in economy or democracy has the positive relations with the economical growth, the relationship was only prominent in long-term. The long-term economic performance of countries relies upon the establishment and good governance, no matters if the good governance is an exercise of democratic authority or a non democratic rule. Only good governance may enable an economy to produce strong markets, private scheme, and a competitive business environment, and they are all inside a framework of rule of law.

#### 6. Policy Implications

The Findings of this paper suggest that there is a need for relentless efforts on the part of authorities and people to start and/or accelerate a method of setting up preconditions for the emergence of good governance. This paper provides a base for establishing credible policies in Pakistan. A well-functioning democracy, with its checks and balances and periodic elections may provide a satisfactory framework for credible polices or else non democratic regimes are always more fruitful for a nation like Pakistan.

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**TABLE 1:**

Economical Players / Indicators	Mean		Mean Difference	Sig value (2-tailed)
	Democratic	Non- Democratic		
<b>GDP market price</b>	4063040.83*	1539671.58	2523369.25	0.020
<b>GDP per capita</b>	25137.35*	12417.58	12719.77	0.049
<b>Direct Taxes</b>	2.9094	2.5529*	0.3565	0.172
<b>Indirect Taxes</b>	7.8703*	8.3801	-0.5098	0.451
<b>Inflation Rate</b>	9.6217	6.0167*	3.605	0.120
<b>Exchange Rate</b>	42.7956	27.8000*	14.99556	0.560
<b>Unemployment Rate</b>	5.7556	4.9292*	0.8264	0.208
<b>Net exports</b>	-325575.11	-50302.75*	-275272.36	0.028
<b>FDI</b>	80323.51*	10454.60	69868.91	0.340
<b>Expenditure on Health</b>	63056.6906*	10421.9758	52634.7148	0.019
<b>Expenditure on Education</b>	69055.8750	98564.2319*	29508.3569	0.039
<b>Avg. Wages per month</b>	15566.00*	13467.00	2099.00	0.139
<b>Scores for good Law and Order conditions</b>	1.0029	4.98732*	3.98442	0.009