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The Analysis of the Effect of Government Size on HDI in OIC Countries: (GWR Approach)

S. H. Moazenjamshidi
Ph.D. Student in Economic Sciences, University of Isfahan, Iran
M. Moghimi
M.A. Student in Development and Planning, University of Isfahan, Iran
N. A. Akbari*
Associate Professor in Economic Development, University of Isfahan, Iran

Extended abstract

1- Introduction

The role of government in the economy has always been a matter of argument between the economists. There are many different theories about the government size and its effect on economic growth and development. While some of these theories believe in negative effects of larger governments on economic efficiency and growth, others assume that government plays a significant role in economic development in away that a larger government is like an engine for more powerful economic development. Large government size however, is one of the most important features of less-developed (LDCs) and developing countries around the world, so that in such countries different economic sectors are directly administrated and financed through government budgets and governments of such countries usually have large budget deficits.

2- Theoretical bases

Regarding different economic schools viewpoint we can understand the complementary role government and market play in an economy.As long as government activities are limited to providing and protecting individual rights, protecting people and their properties and enforcing voluntary contracts between individuals, market mechanisms will dominate the economy and all rents will distribute through competing forces.On the other hand the possibility of existing economic rent will encourage the economic growth. If government activities go far from these limitations, however, the rents would not distribute. Considering this view, we can define two major roles for governments:

a) Supportive government: Provides rules and laws in a way that different people with different interests are protected against each other and against the government.

b) Productive government: In this kind of government transferring productive activities from private sector to public sector increases the possibility of externality related costs and reduces decision making costs,in return.

*Corresponding Author: Tel: + 98 913 113 0432 E-mail: nemata44@yahoo.com

3- Discussion

Economic development, or rather the lack of economic development, is a serious problem in many countries throughout the world. This has led to various economic and social conflicts in most of them. In away that developing countries are known to have features such as: law levels of income, inadequate housing, poor health, limited or no education, high infant mortality, low life and work expectancy, low or poor economic reliability, low private investment, high inflation rates, high rates of unemployment, low economic productivity, inappropriate transportation and unequal distribution of income.Economic development differs from economic growth. Economic development is the continuous increase in society's overall level of welfare over time, whereas economic growth is the continuous increase in the economy's ability to produce goods and services over time. Development entails a modern infrastructure (both physical and institutional), and a move away from low value added sectors such as agriculture and natural resource extraction. As we can understand from their characteristics, developing countries lack these infrastructural requirements. All these has caused a major gap between these countries and developed ones. To remove this gap the only thing to do is to build and generate these infrastructures and to build them high capital accumulation and national will power is needed. Doing this, however, is almost impossible for the private sector. Most of these projects need high amounts of capital and are mostly long term projects with rather social than financial returns. Here we can understand the necessity of government intervention as the only factor which can remove this gap through a big push.

So if we use the government share of GDP (G/GDP) as a measure for government size and HDI as a measure for economic development, we expect that governments through their expenditures which are aimed to affect HDI indices can improve the level of developmentin their countries.

4- Conclusion

The results of the model disqualify the regular econometric techniques for this kind of data with locational aspects. Therefore, it's necessary to apply spatial econometric methods one of which is geographical weighted technique. This method is completely consistent with the data. The results of both classic and GWR model show the significant and positive effect of the per capita government size on human development in the case countries.

5- Suggestions

- Regarding the positive and significant effect of government size on HDI, governments and policymakers can improve the countries social and economic development status by directing their expenditures to affect HDI indices.
- It is a good idea to investigate the effect of government expenditures on different HDI indices separately.

Keywords: Government size, Human development, Geographical weighted regression (GWR), OIC countries, spatial econometrics.