

SHAGUFTA SHABBAR

Institute of Business Administration, Pakistan

QAZI MASOOD AHMED

IBA, Pakistan

FAROOQ PASHA

State Bank of Pakistan, Pakistan

A JUXTAPOSITION OF TAX EXPENDITURES AND DIRECT EXPENDITURES: CASE STUDY OF THE MANUFACTURING SECTOR OF PAKISTAN

Abstract:

Augmentation of investment is a primary goal for any government. To attain that objective it can resort to either tax or direct expenditures. In order to analyze which is a more efficient method in the case of Pakistan, the current study uses data from the country's Manufacturing Sector. The time series data set since 1972 to 2013 is used. Bounds testing approach to cointegration used in the structure of Autoregressive Distributed Lag is employed for understanding the behavior of the different variables, applying Neo-Classical Investment theory. The results show the importance of tax expenditure policy, in the short run, through the cost of capital, as a determinant to boost private investment in the economy, under circumstances of low inflation. On the other hand, in high inflation periods, the direct expenditure is found to be more potent. The empirical evidence shows a strong role of direct expenditure in influencing both the short-run and the long-run behavior of investment in the economy.

Keywords:

Investment, cost of capital, tax expenditure, ARDL, manufacturing sector, Pakistan.

JEL Classification: H25, H54, E22