

## **An Evil in Policy Making for Developing Nations: Bureaucracy or Uncertainty**

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**Abstract:** This study empirically analyzes the relationship and impact of bureaucracy and uncertainty on economic policies. In order to meet objective of this study, Panel data was collected from 1980 to 2013 for 83 developing countries. Different panel co-integration techniques have been applied to test hypotheses. Different panel unit root test have been used to check the stationarity. After taking first difference, variables become stationary. Hypothesis of the study were tested using Pedroni Residual Co-Integration Test and results indicated that long run relationship exist among the variables. Afterwards, we practice Vector Error Correction, to measure short run dynamics and deviation from equilibrium in the end. It was obvious from results that long run relationship exists with both bureaucracy and uncertainty. Finally, to check the strength and nature of relationship between the variables Fully Modified Ordinary Least Square (FMOLS) and Dynamic Ordinary Least Squares (DOLS) technique were performed. It is concluded that Bureaucracy and uncertainty are co-integrated with economic policies in developing nation.

**Keywords:** Bureaucracy, macroeconomic policy, political institutions, Panel Data, Fiscal Policy.

**JEL Classification:** D73, E62, F13, O17.

### **1. Introduction**

Political economy plays an important role for the economist to understand the process of policymaking. In many recent researches, shows that the economic policymaking in democracy political system is a result of legislative process and in autocracy are a decision made by dictator. In both of this system, political actors do not directly implement the policy but rather through the bureaucracy. In both democratic and autocratic regimes, rulers used a bureaucracy to implement policy.

Institutions such as social and political factors are critically important for economic performance (north 1990). Political factors such as inefficient bureaucracy and uncertainty related to democracy and autocracy influenced the public policies. In the process of economic growth, the performance of state institutions is highly considered in recent research. This study will consider the performance of the central government bureaucracy and political regimes. Knack and Keefer (1995) found that institutional quality indices had significantly affect the growth in per capita GDP and also has positive relationship and Mauro found the same results by using index of bureaucratic efficiency.

Macroeconomic policies are not only the determinant of economic development rather the institutional factors such as rule of law, political system and bureaucracy has also effect the economic performance. Mauro (1995), Hall and Jones (1999), Rodrik et al (2004) and Easterly (2005) proposed that institutional indicators had significant influence on economic growth and development. While to develop the policy, there is no a standard rule for each country. Countries should develop the capacity to designed and implement good policies by considering their country specific and world factors. Therefore, in the end, each country has to make ground for policymaking process. Political institutions provide the base to political actors to make policies to determine the public policies.

Giavazzi and Tabellini (2005) examined the association between economic liberalization and political institutions and found the significant and positive relationship between them. This relationship could be occurred on both side but political factors more effect the economic liberalization. Person (2005) also measured variation in trade reforms due to democracy. He examined the different forms of democracy through the Wacziarg and Welch index and an index of property rights protection. Political regime of good democracy also had

positive impact on trade liberalization. (Banerji and Ghanem, 1997 and Milner and Kubota, 2005). A few recent studies had also found that a country, which has better institutions, creates more trade flows (Dollar and Kray, (2003), Berkowitz et al, (2006) and Levchenko, (2007).

Government performance and institutional quality has matters a lot for economic growth and development. There is also some evidence that political instability has negative impact on economic activities. Alesina et al. (1996) found that as government collapses depresses economic growth. Barro (1991) also examined a negative relationship between economic growth and political instability. In a study of state entrepreneurialism in China, Duckett (2001) argued that in the process of economic development any government should paid more consideration to lower levels and also to the institutional and social departments where officials work and implement policies for public purpose.

According to recent literature, bureaucracy and uncertainty both can be effect to economic performance either in positive or negative way. Political stability provide base for rulers to make policies for public purposes. The bureaucracy carries out government administration, as minsters are at the top of administration but actually bureaucracy act as an adviser to ministers and bear the burden of sate administration. So the role of bureaucracy becomes more important in developing countries.

Recently political economics is becoming important for economic development. The policymaking process is a result of link between political institutions and policy results. Institutions do not have direct impact on outcomes but rather through the process by which policies are implemented. To make a sustainable policy and its results, we should have a good knowledge about the country political process to implement policy. Many theoretical and empirical evidences are available related to this issue but in this study, particularly investigate the impact of bureaucracy and uncertainty regarding political system i.e. autocracy and democracy on economic policies in developing countries. There are three core objectives of this study. First, is to

investigate the impact of bureaucracy and uncertainty on financial policy in developing countries. Second, is to investigate the impact of bureaucracy and uncertainty on fiscal policy in developing countries. Third, is to investigate the impact of bureaucracy and uncertainty on trade policy in developing countries.

## 2. Literature review

Alesina and Perotti, (1995) critically analyzed the literature of political-institutional determinants of the fiscal policy related to accumulate public debt and facing fiscal imbalances in OECD countries. Economies of the countries were similar while their institutions were quite different. Alesina and Perotti (1995) suggested that OECD countries faced political and economic instability in the post 1973 period. Budgetary institution influenced the fiscal policies. The author suggested that the two institutional reforms are needed: one is to change in the legislation regarding budget formation and the second is electoral laws. Budget formation contains balanced budget, procedure for budget approval and central bank independence

Edward et al., (2000) discussed the relationship between political institution and trade policy. They developed the model to analyze the role of legislatures in democracies. Trade policy and political regime type based on legislation in democratic state and composed of democracy and autocracy during the period from 1960 to 1990. Democratic states showed more open trade relation than mixed pairs. Democracies are better able to lower their trade barriers. The bilateral trade model was used to consider the variation between democracies and autocracies, not within the political regime. The empirical results indicated that the trade between two countries composed on democracy and autocracy (mixed pairs) was roughly 15% to 20% less than the state composed on democracies.

Kenneth (2002) analyzed the relationship between trade and bureaucracy efficiency. Southeast Asian countries made political development to increase trade. Bureaucracy was measured by three data survey set. The first data set compiled by Business international (BI). Second data set was taken from the Business Environment Risk Intelligence (BERI) and third taken from international country risk guide (ICRG). The OLS and 2SLS estimation technique were used. Results showed that better trade policies could lead to better bureaucracy efficiency through effective domestic factor market. There was empirically weak evidence that effective bureaucracy lead

to more trade but for poor evidence was the result of some missing institutional features in the model.

Hyden et al., (2003) analyzed the indicators of good governance to generate a systematic data for 16 developing countries. In this study, the focus was on bureaucracy. This study analyzed the function of bureaucracy in terms of governance and kind of bureaucratic structure was adopted by the countries to process policies. The hiring of civil service is much influenced by the political leadership. Transparency and accountability in bureaucracy are related to performance, which will affect the economics outcomes.

Satyanath and Subramanian, (2004) examined the determinants which may affect macroeconomics stability in long run. The authors found that democratic political institutions had strong impact on macroeconomics stability and on monetary and fiscal policy. OLS estimation technique was used to Cross country regression data from the period of 1960 to 2000. Results showed that democracy is an important determinant of policy variable. It had a substantial impact on instability and on monetary policy but not had clear-cut impact on fiscal policy.

Persson (2005) found that different form of democracy has strong impact on structural policies. Empirical work has done to analyze the relationship by using cross-sectional and panel data from 1960 to 2000. GMM methodology was implemented along with others techniques. Results showed that if reforms in democracies are legislative, comparative and lasting than it will seem to increase the results of structural policies, which lead to economic development. Whereas if reforms in democracies are executive and short term it will seems not have positive effect on structural policies. Political economics and development economics taught us institutional reforms lead to economic development.

Anwar (2006) examined that Political governance indirectly related to economic growth. International financial institution should take in to account the performance of the economy as well as the political governance of the country. Bureaucratic interest plays an important role to get aid from international financial institution. Tobit estimation and various specification techniques were used to find the political determinants, which play important role to lending from international financial institution.

Anitha (2007) analyzed the role of bureaucracy from history perspective. In recent research the role of bureaucracy is discussed with administrative structure. The author analyzed the bureaucracy by focusing on institutional factors and human resource. Because these factor have impact on efficiency of bureaucracy. Individual's abilities and qualities had also influenced by environment. In this paper, different institutional factors were discussed. Results showed that the efficiency of the institution depend on the appointment of individuals with the right functioning of rules.

Huang (2009) examines that forces which insist governments to made reforms in policies to improve financial development by using the study of Abiad and Mody (2005). AM includes three different innovation one of them is democracy to measure the institutional quality. Political environment is important to approve or rejected any policy change. Pesaran (2006) used common correlated effect pooled (CCEP) estimator for a large heterogeneous panel. The results reveal that the economic and political structure have positive influenced on policy making whereas the democracy tends to have negatively to policy reform.

Tanwir and Fennell (2010) examined the role of bureaucracy in Pakistan by using the qualitative data. In Pakistan, the interference of politicians was a hurdle to the effectiveness of bureaucracy. A total number of 33 interviews had been conducted to the senior bureaucrats. The results showed that there is highly unequal power sharing among political parties and bureaucracy. Administration reforms of 1973 improved the role of bureaucracy.

Haider et al., (2011) proposed the theoretical framework for the understanding of economic performance during different regimes. Some researchers analyzed the economic performance empirically but not provided the strong theoretical evidence to understand the mechanism under different political regimes. Empirical modelling had also done by using data from 1950 to 2011 for Pakistan particularly. Markov-regime switching technique had been employed. Results showed that macroeconomics variables such as inflation, growth and bureaucratic corruption lead to improvements during autocratic regime due to good governance as compared to democratic regime.

Papaconstantinou et al., (2013) hypothesized the impact of bureaucracy and corruption on economic development. The data of European Union (EU) countries had collected for the period from 1996 to 2006. Neo- classical approach of ‘beta convergence’ and Markov Conditional Bootstrap estimation techniques were used. Results showed that the bureaucracy and corruption had negative impact on economic development.

Ahmed and Khan, (2014) analyzed the role of political economy particularly the role of institutions towards economic growth. Fiscal policy was highly affected by political institution in Pakistan. The political economy structure is designed in such a way that protects the interest of elite group and the dominance province within the federation. The author concluded by using the different facts and figures that fiscal policy is heavily depend on the civil bureaucracy due to the autocrat nature of Pakistan political economy.

### **3. Model Specification**

This study constructed three models to explain the relationship between bureaucracy, uncertainty and economic policies.



**Model: 1**

$$ECP_{it} = \alpha + \beta_1 BUR_{it} + \beta_2 UC_{it} + \epsilon_{it} \dots \dots \dots$$

(1)

Where,

ECP = economic policies

BUR = Bureaucracy

UC = Uncertainty

Further economic policies are discussed in three ways:

**Model: 2**

$$Finp_{it} = \alpha + \beta_1 BUR_{it} + \beta_2 UC_{it} + \epsilon_{it} \dots \dots \dots$$

(2)

Where,

$FP_{it}$  is a financial policy measured by Domestic credit to private sector by banks (% of GDP)

$BUR_{it}$  denotes bureaucracy used proxy  $xrreg$ ,

$UCit$  denotes uncertainty measured by  $polity2$  (regime switching)

$\varepsilon_{it}$  is an error term

**Model: 3**

$$FP_{it} = \alpha + \beta_1 BUR_{it} + \beta_2 UCit + \varepsilon_{it} \dots \dots \dots (3)$$

Where,

$FP_{it}$  is a fiscal policy measured by Tax revenue (% of GDP)

$BUR_{it}$  denotes bureaucracy used proxy  $xrreg$

$UCit$  denotes uncertainty measured by  $polity2$  (regime switching)

$\varepsilon_{it}$  is an error term.

**Model: 4**

$$TP_{it} = \alpha + \beta_1 BUR_{it} + \beta_2 UCit + \varepsilon_{it} \dots \dots \dots (4)$$

Where,

$TP_{it}$  is a trade policy measured by Trade (% of GDP)

$BUR_{it}$  denotes bureaucracy used proxy  $xrreg$

$UCit$  denotes uncertainty measured by  $polity2$  (regime switching)

$\varepsilon_{it}$  is an error term.

The institution of bureaucracy has carried out state responsibilities and function. Administration of the government is under the control of bureaucracy. Therefore, government and administration are mainly operated by permanent officers and that officers recruited by some

other independent body. This study used Regulation of Chief Executive Recruitment (xrreg) which is defined as a polity has institutionalized procedures for transferring executive power.

According to this study, Uncertainty is refers to as political regimes such as democracy and autocracy. Switching from one political system to another is matters a lot to economic policies. The polity variable score is calculated by subtracting the autocracy score from the democracy score. It ranges from + 10 to 10, representing + 10 strong democracy and 10 to strong autocracy.

Financial policy is used to regularize the financial system through markets and institutions such as banks and financial identities in order to keep the financial stability and efficiency. This study used domestic credit to private sector by banks to measure the financial policy. Depository Corporation delivered financial help to the private sector in form of loans, purchases of no equity securities, and trade credits.

Fiscal policy is used to monitor the government revenue collection and expenditure. The main source for government to collect revenue is taxes. Tax is imposed by the state on the public to fulfil the requirement of finance. Tax revenue is defined as necessary payments to the state for public commitments. Whereas fines, punishment charges, and most social security contributions are not the part of tax revenue. Refunds of mistakenly collects tax is consider as negative tax revenue.

In general trade is an exchange of services, capital and goods crossway to international borders. In developed states or in emerging economics, trade is one of the most significant shares, which contribute in GDP of the country. Trade contained both exports and imports of goods and services and it is measured as a share of gross domestic product.

### **3.2 Data Sources**

Annual data for the period of 1980 to 2013 for 83 developing countries has been used in this study. Some of the developing nations have not been included due to the unavailability of data. Data regarding

bureaucracy used Regulation of Chief Executive Recruitment (xrreg) and uncertainty used polity2 are gathered by the Integrated Network for Societal Conflict Research (INSCR). Polity IV: regime authority characteristics and transitions dataset has been used. Data regarding other variables, financial policy used Domestic credit to private sector by banks (percentage of GDP), trade policy used proxy trade (percentage of GDP) and fiscal policy used proxy tax revenue (% of GDP) gathered by World Bank database, World development indicators (WDI).

## 4. Methodology

### 4.1 Unit Root Tests

To check the stationarity of data, panel unit root tests have been used. Panel unit root test is different from the unit root test because panel based unit root tests have higher power than the individual time series based unit root test. There are two main types of panel unit root test. One is called common unit root process; it is performed when the determinant parameters are common across cross section. Levin, Lin and Chu (1992, 2002), used this assumption. The other is individual unit root test. It is performed when determinant parameters move freely across cross section. Pesaran and Shin (1997), Harris and Tzavalis (1999), Maddala and Wu (1999), Hadri, C. Guermat and J. Whittaker (2003) used this assumption. In literature, during the past two decades time series has been integrated in econometric research. Here, we perform unit root process for panel data.

Levin, Lin, and Chu (2002) proposed a test to check unit root in 1993 but it is published in 2002. The null hypothesis is  $\rho_i = 0$  for  $i = 1, \dots, N$  with an alternative hypothesis is  $-1 < \rho_i$  for  $i = 1, \dots, N$ . The assumption is the serial correlation coefficient  $\rho$  is identical across all the cross section used on Frisch-Waugh Theorem to a linear regression. LM, Pesaran and Shin (1997 and 2003) proposed panel unit root test for two

group-mean by using heterogeneous alternatives. Augmented Dickey-Fuller (ADF, 1984) test is based on residual by following the concept of Kao (1999) to check the of unit roots in panel data. ADF Panel unit root test statistics have normal limiting distributions. We can be summarized ADF equation as follows:

Phillips–Perron test used non-parametric transformation of t-statistics by using original DF regression under the null hypothesis  $\rho = 0$  in  $\Delta y_t = \rho y_{t-1} + u_t$ , where  $\Delta$  is the first difference operator. The Phillips–Perron test reports the issue that the process generating data for  $y_t$  might have a higher order of autocorrelation to meet this issue by introducing lags of  $\Delta y_t$  as regressors in the test equation.

## **4.2 Pedroni Residual Test**

Pedroni (1999) proposed the technique of residual-based panel co-integration tests based on more than one independent variable. He suggested several residual-based test of null hypothesis of no co-integration panel test statistics. Pedroni (1999) proposed seven panel co-integration tests of statistics. Out of seven test statistics, last three are grounded on between dimensions and first four are based on within dimension. The Null hypothesis for panel co-integration, within dimension may be written as:

## **4.3 Vector Error Correction Model**

VECM technique is used when a set of variables have one or more co-integration vector. If a set of variables are all of order one than ordinary regression analysis is not appropriate. VECM can be adjusted for deviation from equilibrium and short run changes in variables by using Johansen's technique. Vector Error Correction Model are a category that represent multiple time series models that show convergence to equilibrium. It estimates the effect that brings changes in dependent variable due to independent variable. Vector Error Correction Model take into account the relationship between the variable, which are integrated but should be stationary. The test takes no co-integration as null hypothesis are created on structural changing aspects and did not apply any limitation of common factor.

#### **4.4 Fully Modified Ordinary Least Square**

FMOLS estimation was originally introduced to estimate the long run co-integrated relationship by philips and hansen (1990). The benefit of the model, it is corrected for serial correlation and endogeneity present in the predictor. OLS estimator give biased result for co-integrated panel data so pedroni (1999) proposed the group mean FMOLS estimator. It also provides consistent estimates of  $\beta$  parameters even for small sample size.

#### 4.5 Dynamic Ordinary Least Square

Stock and Watson (1994) proposed a parametric estimation for co-integrated panels called dynamic ordinary least squares (DOLS) method. It includes lags and leads term of the repressors to correct the serial correlation and endogeneity. It also provides consistent estimates for  $\beta$  parameters.

### 5. Results

This was panel data based study; the data was for five variables from 1980 to 2013. Table 1 presents the results; value of t-statistic and p-value of above discussed panel unit root test. . It is revealed from results P-values computed for variables were greater than 0.05, implies that null hypothesis is accepted which mean that at level variables are non-stationary. However, after taking first difference the variables are found stationary, because p-value found less than level of significance. If data is stationary we can apply further tests, without stationarity of data we cannot apply further techniques.

**Table 1: Panel Unit Root Test**

Variables	Common Unit Root	Individual Unit Root		
	Levin, Lin & Chu (LLC)	Im, Pesaran and Shin (IPS)	ADF-Fisher chi-square	PP- Fisher chi-square
BUR	-1.1611 0.1153	-1.6027 0.1046	0.0200 0.2005	0.9400 0.1045
$\Delta$ BUR	-6.7468 0.0000	-12.7179 0.0000	209.5720 0.0000	400.0900 0.0000
UC	-1.4117 0.7429	-1.1587 0.1154	1.3417 0.1945	1.1011 0.2101
$\Delta$ UC	-38.4322 0.0000	-24.8959 0.0000	601.489 0.0000	1058.13 0.0000
Finp	2.7965 0.9979	2.8587 0.9979	160.267 0.6109	131.378 0.9780

$\Delta$ Finp	-17.9825 0.0000	-23.1383 0.0000	860.322 0.0000	1452.87 0.0000
FP	0.2840 0.6118	0.1705 0.1298	1.320 0.1803	1.427 0.230
$\Delta$ FP	-31.4095 0.0000	-42.5233 0.0000	1461.04 0.0000	2114.35 0.0000
TP	-1.4486 0.1833	0.9087 0.1282	1.150 0.4047	1.102 0.4312
$\Delta$ TP	-28.4071 0.0000	32.0045 0.0000	1221.61 0.0000	1920.59 0.0000

Source: Author's own compilation.

From Table 2, it is obvious that there are seven different test statistic are computed. Majority of test showing that p-value is less than our specified level of significance i.e.  $\alpha=0.05$  which leads us to reject our null hypothesis rather accept it. Hence we may conclude that there exist long term relationship among bureaucracy, uncertainty and economic policies.

**Table 2: Pedroni Residual Co-integration test bureaucracy and uncertainty as independent variable (within-dimension)**

Panel Statistics	Finp	FP	TP
Panel v-	1.1931 0.1164	-4.3914 1.0000	-2.5581 0.9947
Panel $\rho$ -	-2.2750 0.0115	-5.0724 0.0000	-3.7866 0.0001
Panel PP-	-3.5614 0.0002	-6.2751 0.0000	-5.1691 0.0000
Panel ADF-	0.3435 0.6344	-3.6452 0.0001	-2.9191 0.0018
<b>Between Dimension</b>			



Group $\rho$ -	0.6671 0.7477	-3.5297 0.0002	-2.8344 0.0023
Group pp-	- 1.9506 0.0255	-7.9278 0.0000	-7.2241 0.0000
Group ADF-	2.8785 0.0098	-2.7236 0.0032	-4.8023 0.0000

Source: Author’s own compilation

Vector Error Correction Estimates has been performed to measure short run dynamics and deviation from equilibrium in the long run. Bureaucracy and uncertainty has shown convergence in all economic policies and negative sign shows convergence towards equilibrium. T-statistics shows in [ ]. For all economics policies, short run relationship was observed.

- 0.14% of convergence towards equilibrium in financial policy
- 0.19% of convergence towards equilibrium in fiscal policy
- 9 % of convergence towards equilibrium in trade policy

**Table 3 Error Correction Model:**

Variables	Finp	FP	TP
Error Correction Term (ECT)	-0.0014 [-1.7037]	-0.0019 [-2.0772]	-0.0877 [-2.5338]

Source: Author’s own compilation

From the above results, the long run relationship among variables; however, it did not calculate regression co-efficient. To find the long - run elasticity and to estimate the regression co-efficient, Fully Modified Ordinary Least Square (FMOLS) technique is performed here. FMOLS results of four models are presented here:

**Table 4: Fully Modified Ordinary Least Squares (FMOLS) for financial policy**

Independent variable	Co-efficient	t-statistics	Prob
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C	17.9157	4.5776	0.0000***
BUR	-3.4435	-1.9695	0.0490**
UC	-0.4997	-2.2303	0.0258**

\*\*\*, \*\*, \* shows level of significance at 1%, 5%, 10% respectively.

Source: Author's own compilation

Table 4 showing results of FMOLS for relationship between bureaucracy, uncertainty and financial policy. Results shows that bureaucracy has negative impact on financial policy, as bureaucracy increased by 1 unit, financial policy will decrease by 3.4 units and also this impact is significant at  $\alpha = 0.05$  Furthermore 1 unit increase in Uncertainty (UC), financial policy will decrease by .49 units. t-statistics 2.2303 with p-value 0.0258 which tells that uncertainty is playing significant role in explaining variation in financial policy and impact is also significant at  $\alpha = 0.05$ .

**Table 5: Fully Modified Ordinary Least Squares (FMOLS) for fiscal policy**

Independent variable	Co-efficient	t-statistics	Prob
C	14.8127	12.4634	0.0000
BUR	-0.0472	-1.8891	0.0929*
UC	-0.1856	2.7283	0.0064***

\*\*\*, \*\*, \* shows level of significance at 1%, 5%, 10% respectively.

Source: Author's own compilation

It is obvious from Table 5 that 1 unit increase in Bureaucracy (BUR), fiscal policy will decrease by 0.05 units. Furthermore, this effect is significant, as t-statistic -1.8891 with P-Value 0.0929. Bureaucracy found significant at  $\alpha = 0.10$  which tells that Bureaucracy is playing significant role in explaining fiscal policy. 1 unit increase in Uncertainty (UC), fiscal policy will decrease by 0.18 units. t-statistics 2.7283 with p-value 0.0064 shows that uncertainty plays an important role in explaining variation in fiscal policy at 1% level of significance.

It is obvious from Table 6 that relationship between bureaucracy (BUR) and trade policy found negative, if bureaucracy increased by 1 unit, trade policy decreased by 5.0 units. However this relationship is found insignificant at  $\alpha = 0.05$  but found significant at  $\alpha = 0.10$  because p-value is 0.0613. 1 unit increase in Uncertainty (UC), trade policy will decrease by 1.2 units. t-statistics 3.5549 with p-value 0.0004 shows the relationship is significant at  $\alpha = 0.01$  which means uncertainty plays an important role in explaining variation in trade policy. It also has negative relationship.

**Table 6: Fully Modified Ordinary Least Squares (FMOLS) for trade policy**

Independent variable	Co-efficient	t-statistics	Prob
C	81.3807	13.5902	0.0000
BUR	-5.0076	-1.8717	0.0613*
UC	-1.2194	3.5549	0.0004***

\*\*\*, \*\*, \* shows level of significance at 1%, 5%, 10% respectively.

Source: Author's own compilation.

As we discussed in earlier section that the variables are long run co-integrated, so Panel Dynamic Ordinary Least Squares model is appropriate. Panel DOLS is very efficient and sophisticated model for panel data. The co-efficient obtained by this method are known to be long run estimates.

**Table 7: DOLS for financial policy**

Independent variable	Co-efficient	t-statistics	Prob
C	18.8019	4.3718	0.0000
BUR	-1.0902	-2.9036	0.0007***
UC	-0.4691	-3.0154	0.0034***

\*\*\*, \*\*, \* shows level of significance at 1%, 5%, 10% respectively.

Source: Author's own compilation.

Table 7 showing the results of panel DOLS of financial policy. It is obvious from the results that bureaucracy has negative impact on financial policy, estimated co-efficient has negative sign. Furthermore, if bureaucracy increased by 1 unit then financial policy goes down by 1.1 units. The impact is significant at  $\alpha = 0.01$  similarly, uncertainty also has negative impact on financial policy. 1 unit increase in uncertainty, financial policy will decrease by 0.46 units. T-statistics is -3.0154 and p-value is 0.0034 found significant at  $\alpha = 0.01$ . There is negative relationship between financial policy and uncertainty.

**Table 8: DOLS for fiscal policy**

Independent variable	Co-efficient	t-statistics	Prob
C	14.6531	11.2183	0.0000
BUR	-0.0312	-2.0531	0.0077***
UC	-0.1728	-2.3564	0.0185**

\*\*\*, \*\*, \* shows level of significance at 1%, 5%, 10% respectively.

Source: Author's own compilation.

Table 8 showing the results of panel DOLS of fiscal policy. It is obvious from the results that bureaucracy has negative impact on fiscal policy estimated co-efficient has negative sign. Furthermore, if bureaucracy increased by 1 unit then fiscal policy goes down by 0.03 units. P-value is 0.0077 which shows significant at  $\alpha = 0.01$  similarly, uncertainty also has negative impact on fiscal policy. 1 unit increase in uncertainty, fiscal policy will decrease by 0.17 units. T-statistics is -2.3564 and p-value is 0.0185 shows that uncertainty and fiscal policy has negative relationship.

**Table 9: DOLS for trade policy**

Independent variable	Co-efficient	t-statistics	Prob
C	79.8183	12.1314	0.0000
BUR	-4.3275	-2.9875	0.0006***
UC	-1.2478	3.3773	0.0007***

\*\*\*, \*\*, \* shows level of significance at 1%, 5%, 10% respectively.

Source: Author's own compilation.

Table 9 shows the results of panel DOLS of trade policy. It is obvious from the results that bureaucracy has negative impact on trade policy, estimated co-efficient has negative sign. Furthermore, if bureaucracy increased by 1 unit then trade policy goes down by 4.3 units. it is significant at  $\alpha = 0.01$  Similarly, uncertainty has negative impact on fiscal policy. 1 unit increase in uncertainty, trade policy will decrease by 1.2 units. T-statistics 3.3773 and p-value 0.0007 shows significant at  $\alpha = 0.01$  that uncertainty plays an important role in explaining variation in trade policy.

## **6. Conclusions and Recommendations**

The main purpose of this study is to analyze the relationship and impact of bureaucracy and uncertainty on economic policies. In order to meet objective of this study, Panel data was collected from 1980 to 2013 for different economic variables: Bureaucracy, Uncertainty, Fiscal policy, financial policy, and trade policy.

The findings indicate that these two variables have significant impact on economic policies. Political economy plays an important role for Policymaking in developing countries. Uncertainty regarding political regime i.e. democracy and autocracy has strong impact on fiscal policy because political instability lead to poor economic performance. Poor economic outcomes were the results of weak governance and poor quality of institutions, which creates hurdles in policymaking (Haider et al., 2011).

This study found significant impact of bureaucracy and uncertainty on economic policies, both in short run and long run relationship. Results of this study suggested that the political system of any country plays significant role to implement economic policies. Other macro-economic variables can be included with political economic variables to find the evils that directly related to economic policies. The consistent political system of a country can be helpful for the better results of economic policies.

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