

# **Exports, Government Size and Economic Growth (Evidence from Iran as a developing oil-export based economy)**

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## **Abstract**

In this study, I investigate the short run and long run effects of government size and exports on the economic growth of Iran as a developing oil export based economy for the period of 1974 to 2008. For this purpose I use the bounds testing approach to cointegration and error correction models, developed within an autoregressive distributed lag (ARDL) framework. A modified form of Ram's (1986) model has been applied to include both government size and exports as determinants of economic growth in addition to labor force and capital. I use total exports, oil exports and non-oil exports respectively in three different equations to assess their effects on economic growth. Moreover, according to Armey curve(1995) in each of the equations I test the existence of non-linear relationship between government size and economic growth. My findings show that in all of the equations both in long run and short run the Armey curve is valid for Iranian economy, indicating that both a very big size and a too small size of government are harmful for growth and Iranian government should adjust its size (to have smaller size, compared to the average size over the period of this study) for obtaining higher rates of growth. The results show that total exports, the amount of oil exports in terms of barrels and oil prices could affect the economic growth positively and significantly both in short run and long run. However because of the weaknesses of the Iranian non-oil sectors, the non-oil exports could not have significant effects on growth in the long run. As a result of this study in the short run, Iran should try to attract foreign technologies and investments to develop the capacity and ability of its oil production. In the short run this can be a reliable factor for having the stable economy in comparison with relying on uncertain oil prices. In

the long run Iran should use the oil revenues to improve its economic structure and invest on some non-oil sectors to diversify its non-oil exports. This can create new resources for government revenues and will reduce the dependence of the economy on Oil exports.