Investigating Correlation between State Expenditure & Economic Growth in Iran

Salaheddin Vakili Qasryan, Nina Sharifi, Freyedon Ahmadi*
Department of Management, Payame Noor University, PO BOX 19395 - 3697, Tehran, Iran
*E-mail address: freyedon@yahoo.com

ABSTRACT

The impact that government's expenditures have on economic growth has attracted huge amount of attention among economic experts. Theoretically, if state sector is less efficient than private sector, due to bulkier size of the government will lead to slower economic growth. However, if government would be capable of providing public rudimentary goods as private sector would not be able to do that, will aid rapid growth of economy. Economic experts define government's main duties as providing safe and secure society, health, and education. For some its responsibilities goes further and necessitates state interference in economy for the sake of keeping it balanced. Nevertheless, for some others, state interference is considered to be restricting and meddlesome in terms of being free to choose and call it the state's inefficiency. According to these experts, government will lose in this case. In Iran economy, government has the major portion and proportionally it has witnessed a gradual increase in its expenditure. Additionally, a necessary growth in public services has forced government to become an economical parameter and in some cases embark on to be productive. Nowadays, states have tried to manipulate different countries' economy due to the volume of national product which is accomplished in private sector and giving direction in a varied method in this regard. Furthermore, accomplishing this process is an inevitable condition for developing countries' economy in an organized way with an efficient planning. In parallel with huge economical efforts that are made countrywide, government's role is progressing too and one can see the trace of government over market and economy procedure. You cannot find government and private as separate entities in economy but, in most of the societies there is a mixed economic trend. The outstanding feature of this study is to estimate active long and short term relationship between different government expenditure
elements and economy growth. This will remarkably assist short and long term planning of government expenditure for obtaining more optimal economy growth.

**Keywords:** State Expenditure; Economic Growth; Iran

1. **STATEMENT OF THE PROBLEM**

The connection between economic growth and government expenditure, or in broader sense, the size of private sector, is a significant analytical issue. A general view suggests that public expenditure influence physical infrastructure or human capital drastically and eventually affect economic growth. State cooperation with public sector may directly or indirectly impacts production increase. The nature of impact of public expenditure on growth depends on its composition so that despite abundant experimental studies, there is no meaningful correlation between public expenditure and economy growth either in a negative way or in a positive way. In this case, the result varies based on country or region, analyzing method, and categorizing public expenditure. This correlation is particularly of importance in developing countries, specifically for those countries which have undergone changes and increase in different levels of public expenditure. Studying this feature (correlation) in Iran is of great significance due to: 1. Iran is considered as one of the developing countries, and 2. Iran has experienced growth in different levels of public expenditure in different points of time. Thus, being aware of the impact of such expenditure on economy growth seems essential and vital due to the fact that optimally directing this expenditure that have positive affect on economy growth and eliminating expenses that have negative affect, and separating the neutral ones are necessary. What is more, thanks to current Iran economy and according to constitutional rules- 44th principle of Iran, one of the key goals of the government's planning is to get public sector involved more and lessening state's responsibilities. As a result, estimating efficiency of government expenditure in recent years as current expenses and investment expenditure are so important.

**Main Questions:**

1. Is there any meaningful relationship between government expenditure and economy growth in Iran in that specific period of time- investigated period?
2. Is there any meaningful relationship between government expenditure and private investment in Iran in that specific period of time- investigated period?
3. What are the expenditures that have positive and negative influence on economy growth?

**Significance of the Study**

Since public sector is influenced by government expenditure and eventually impacts economic growth; therefore, conducting a research that not only makes a distinction between government expenditure and each section's expenses on economy growth but also deals with indirect impact of the expenditures on economy growth through public sector, seems necessary.
Research Hypotheses

1. There is a meaningful and positive correlation between government expenditure and economy growth in Iran in that specific period of time- investigated period.

2. There is a meaningful and negative correlation between government expenditure and private sector investment in Iran in that specific period of time- investigated period.

3. There is a meaningful and positive relationship between government construction spending and economy growth, and there is a meaningful and negative relationship between government current expenditure and economy growth in Iran in that specific period of time- investigated period.

Purposes of the Study

1. Estimating the rate of government expenditure's impact on economy growth in Iran during the study's proposed period of time.

2. Making distinction among different government's expenditures and categorizing them into economic growth increasing expenditures and economic growth decreasing expenditures during the study's proposed period of time.

3. Providing appropriate suggestions and guidelines for state expenditures in short, middle, and long term schedules.

2. METHOD

The method to be used in this study is Counteraction which is based on Auto Regressive Distributed Lag Method for time-series variables.

Data collection Procedure

The following study is a library-based one. This paper collects its data from different authentic sources e.g. Central Bank of Iran, Iran Census Center, Iran. Management and Planning Organization, and some data published by the bureau of economy statistics of ministry of economic and properties issues.

Review of the Pertinent Literature Definition & Its Nature:

The concept of "state" had not come into vogue until 16th century. It was appeared in Machiavelli (1469-1527) scientific discussions. It was a strange concept to Greeks. They used the term "Polis" instead. "Polis" means city or state. In these Greek cities-states equality in law and society has been accentuated, and sovereignty and information were ignored. As Catleen put it is better to call them "city-gatherings" rather than state. Rome "cities", also, supported those who enjoyed civilized laws and duties. Therefore, Greek and Roman cities-states were coherent gatherings of some groups of people that were alive because of slaves' unfair exploitation.

The concept of new state was not found even in the middle ages. During this period the dominant political thought revolved around emperor and princess' reign. At the end of this era, gradually, a tinge of the notion of state was coming into existence. However, it was blurred, and it was applied that common people were not the owners of the government but it
was king's property. **State** was synonymous with stable sovereignty; though, there was a little presence of social organizations. During the course of history, the concept of state has gone through numerous phases: from setting principles and directions to finding its natural identity of pure and simple power and establishment.

In public's everyday conversations, state is used in different contexts. For instance, the elements comprising the U.S.A Federation are recognized as states. Additionally, there are some notions such as state contribution, state regulations or state education while, in fact, state contribution is governmental regulations and the like. State is not sovereignty. It is the executor of state. State is different from society, gatherings or nation as well. Moreover, the term state is used synonymously with country. And sometimes for avoiding ambiguity caused by common people use of state, the composition of country-government is preferred. After analyzing the concept of state and achieving its practical definition, its most obvious difference with the concept of sovereignty will be recognized.

It may be surprising that political experts and researchers have no similar opinion about the definition of state (government). This inconsistency is due to diversity of thoughts in terms of the nature of state that impress definitions. While some of the experts of the field, principally, consider state as a classified structure; for some others, it is far more than classified structure and represents the whole society. Yet, for some other, it is the power system or welfare system. There are some who consider it as a factor for guaranteeing social life while others believe that it is an ethical structure that is legally organized. Some believe that it is the nation or society itself and some insist on its structural characteristic whereas some others accentuate its applied characteristic.

There was a contradiction about civil society or state. For example, Greek sophists, the originators of European political philosophy, considered it as arbitrary one. However, later authorities such as Plato and Aristotle did not agree upon this. Aristotle suggested that "Polis" is essential and necessary and it emerges from human beings 'instincts'. It is a product and climax of human need for social life and it is an integral part of different aspect of human growth. According to Aristotle, someone living out of polis is either inferior or superior to it and is an abnormal human. New Idealists of 18th and 19th century like Rousseau, Kant, Hegel, Green, and so on were somehow for this idea. They perceived state as a moral entity which is inevitable for human perfect growth.

Althusius and Grothius shared the same idea and confirmed that state is a public construction for human welfare. This very idea was crucial for emergence of the concept of welfare government which was suited to abundant societies.

On the other hand, there were some thought claiming that state restricts the natural liberty of a person and in the best possible status it is an essential evil.

One of the outstanding figures of this idea is Herbert Spencer (1820-1903), an English philosopher, who defined state as "Common Corporation of reciprocal insurance", and you must be free in terms of its membership. He made effort to prove that government can permit its citizens to be free from citizenship and not to undergo citizenship responsibilities.

At the other extreme, philosophical anarchists such as Prodon (1809-1865) and Krupetkin (1842-1921) believed that state is absolute evil. They thought that existence of state would rarely aid common people; hence, its destruction would lessen human torture. It is worth to mention that Machiavelli and Trieshke labelled state as power system in some regards. All in all, we can enumerate numerous characteristics:
1. Excluding power for enforcing violence
2. Exclusive right and qualification for exercising policy in and out of country
3. Exclusive right for enacting rules and regulations
4. Organizing forces along borders and providing security either nationally or internationally
5. Exclusive right of taxation and custom rights and providing national budget.

The Concept and Definition of the Economy of State

Generally, state is a legal and political notion. Those who see it as an economical concept are wrong. State is merely related to economy. These people, in deed, defined its roles and functions not the state itself. As a result, economical definition for state is not a comprehensive and inclusive one, even for its functions and roles.

Materialists, especially communists, deal with economical aspect of a state. They do not see economy as pure state, but they consider economy as the most brilliant feature of a state. They believe that this aspect overshadows the other aspects. Each state is the reigning level for stabilizing its economical reign by making use of political tools. Here, state's political role is, according to Jean Dabben, the main role which, in turn, is a handy determinant for economical aspect. As socialists put, legal rights include the building which protect economy. This clearly shows economical viewpoint of Marxists' socialists.

Generally, advocates of economical concept of state do not deny its political and legal characteristics. They assume that policy and law work for economy, because they perceive economy as the starting point for government's duty and responsibilities and label it as its main attribute. Therefore, one cannot deny the economical concept of state, but you ought to verify this justification and truth that state has a very strong economical notion. In Marxists' views the end for a state is economical one. They claim that state is formed for a class distinction economy.

If economical role of the government determines its duty and function, therefore, defining state as an absolute economical concept is not correct. As John Locke (1632-1704) said: "the goal of state is to attain peace, providing calm, developing safe, and providing welfare of the society. This is a prominent feature of a state. Karl Marx (1818-1883) said: "Basically, state is a Capitalist's tool or a Capitalist's organ, and an instrument for the struggles of different classes of society. A tool which enslave layers of society under exploitation and obligation."

Lenin (1870-1924) in his treatise on government and revolution defined state in this way: "it is the result of contradiction of different classes of a society and their hostility. State's existence brings about incurability of incurable enmities in itself". State is the tool for the oppressed layers of society. It is a power raised from society and superordinate’s society and has gone far from it. Two of the distinguishing features of a state is first: categorizing followers according to lands-division, and second: setting armored forces. Existence of armored forces implies a gap among different social classes. Preventing all people from being armored implicate existence of hostile layers among people.

Nevertheless, it should be admitted that state, intrinsically, cannot be an absolute economical notion provided that what was going on through the abovementioned definitions were correct. But, that is a power or according to...
Lenin is a tool in the hands of one specific class of society or different ones that may be used for a special economical aim.

**Studying Theories & Economical Schools with an Emphasis on Mercantilism State Status**

Mercantilism is a name referred back to economical thoughts during 1500-1700. Although theoretical discussions of Mercantilism was common among all developing economies of Western Europe, its main discussions were formed in England and France. During the course of history, and due to evolutions in economic activities, society got new forms. Feudalism established a novel economic, social and political behavior that led to business growth, civilizations, and developing new nations different from feudal views. Individual activities were less under the control of Feudal traditions and church framework. Manufacturing needed goods for market were getting importance.

Land, workforce, and invest were dealt with. These paved the way for industry revolution. While theoretical framework of economy were established through scholasticism by church authorities, Mercantilist theories were the basis for merchants' business. Merchant's writers tried to strengthen theoretical framework which were correlated deeply with economical policies' issues.

During Mercantilism era not only the quantity but also the quality of the theoretical basics of the economy, and had witnessed a drastic growth. From 1650 to 1750 these basics turned to qualitative aspects and most of the analytical notion were influenced until the publication of "Nation's Wealth" by Adam Smith in 1776.

**Theoretical Review of the Literature**

The first conducted survey about growth of expenditure was done by, German economical political expert, Adolf Wagner (1835-1917). Wagner found out that due to industrialization of the economic system, the complexities found in market's elements, growth of urbanism, population growth in urban areas, existence of contracts and trade regulations have caused, eventually, the emergence of jurisdiction, organized organizations to control and observe the aforementioned factors. As a result, state's interference in such issues seemed essential and this brought about an increase in state's expenditures. This analysis found that the main reason for this increase was the shift from traditionalism to industrialization.

In this regard, there are some variables such as: employed workforce, the women proportion in market, population growth and its age pyramid, and the degree of urban life. These are variables for evaluating what Wagner believed.

In other words, according to the above experiment, there is a correlation between government expenditure and the abovementioned factors.

Through Wagner lenses, services such as education, culture, health, and welfare had remarkable income elasticity. As per cattie income grows, the relative size of public sector economy will do the same. In other words, growth in gross national production proportionally will lead to public expenditure growth. This was examined in some European countries, American countries, and Japan.

Like Wagner, Masgerio (1969) accentuated the variable role of state in the process of economy development. Unlike Wagner, he considered per cattie income as a criterion for economy growth. He believes forces that make economy industrialized or developed may
cause a renewal or development in this expenditures. Masgerio enumerated various factors that impact growth of expenditure such as: economy, democracy, culture, technology, social, and political factors.

Peacock Wiseman theory (1961) entitled "the ratchet theory of government growth". In this theory, it is assumed that temporal critical condition causes a growth in expenditure and they will be remained in a level higher than before crisis.

Bamul theory that is called Scandinavian theory of inflation and he calls it a kind of disease in which profit in state sector is much less than private sector. There is an identical increase in wages in both private and state sector which leads to an increase in price of goods and state services. As a result, nominal portion of state expenditure to total amount of gross national production will be increased.

Studies done in other countries (Empirical Viewpoint)

Kweka and Murrissi did a study about the impact of public expenditure using time-series data in Tanzania. They came to this conclusion that between 1965 and 1996 in Tanzania, an increase in physical investment expenditure had a negative impact on growth while consumption expenditure had a positive one which was closely related to growth in private consumption. According to their result the effect of public investment on was tiny on growth. They could not come to a meaningful result regarding the effect of human workforce expenditure. Totally, they concluded that in that period of time public investment in Tanzania has not been fruitful.

Landau (1982) divided state's expenditure into investment, consumption, army, education, and transferred payments in 65 developing countries in two periods of 4years and 7years by making use of common squares minimum method. He concluded that consumption expenditure dramatically lessen growth and investment expenditure had a weak positive effect on economy growth. He measured economy growth in gross national production per catia.

In his study, government size and economy growth, Rati applied time-series data and cross-section in 1960s and 1970s and examined the effect of government expenditure in 115 countries including Iran. In this pattern, there is a function of two sectors production (government and private sector). Functions of production in each sector depend upon the production factors existing in each sector. However, in private sector one, the production of government sector works as an organization. The result of these minimum squares demonstrated that there is a positive influence of state expenditure on economy growth.

Diamond (1989) in his article, the growth of government expenditure tries to study influential determinants of state expenditure. He adopted Denison growth accounting framework and provided some equation in which growth rate is a dependent variable. This variable is explained by other variables such as state expenditure or its elements, private investment, and workforce's growth rate. The data used in this was collected from 42 developing countries including Iran during 1980-1985. The results showed a negative correlation between total expenses and economic growth.

Yel Den (2002) did an investigation in terms of releasing, and financial surpass of economy in Turkey. The researcher made an important conclusion that providing shortage of budget by distributing loan tickets will be a crucial factor for employment and production. This process causes price inflation and intervenes industry sector to flourish. Moreover, in the case that profit rate of national credits is high, and financial shortage as well, monetary weakening policy leads to production decrease and increase in private sector incomes.

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Milero Rusick (2003) has conducted a research in which the relationship between financial structure of the U.S state and local government with economy growth. The empirical results stated that when there is an increase in companies' taxes or when social care expenditures and transferred payments decreasing the amount of budget will help economy growth. As a result, relying less on the sale taxes and relying more on income taxes of the companies is more compatible with economic growth.

Abdizadeh and Yusefi (1998): the setting of the study is Canada. Its subject deals with influential determinants on Canadian Government expenditure growth which resulted in: there is a high degree of correlation between "the rate of economy openness" and the proportion of government expenditure to GNP. There is a positive correlation between ' bailment rate' and the proportion of state expenditure to GNP. A positive correlation can be seen between the rate of unemployment with time interval and state expenditure. This rate of unemployment represents economic problems.

David Lindauer and Anne Vellenchik theoretically and empirically investigated developing countries state expenditures including trends, causes, and consequences. Then they compared these countries with industrialized ones in terms of state expenditures in gross national production. They also studied the reasons for this growth and the effects of such a growth on economic growth.

Based on the empirical study done by these two experts between 'O.E.C.D.' countries and developing ones, they concluded that the proportion of state expenditure in GDP in 'O.E.C.D' countries between 1980-1985 has increased regularly and in any specific period of time their proportion of expenses was more than developing countries. There were various viewpoints regarding government expenditures and economic growth in this study. Gould (1985), Saunders (1985), and smith (1981) came to an almost positive correlation between state expenditure and economic growth. Ram (1985) related per catia income growth and state expenditure growth. He designed a growth equation in which received service of the public sector was included as data in production operation of private sector. His equation of economic growth dealt with the growth of per catia income, population growth, and the growth of state expenditures.

Research conducted in Iran

Mirzamohammadi (1369) in his M.A. thesis tried to investigate the impact of state expenditure on economy growth during 1959-1988 in Iran. First, he dealt with the role of government in economy in terms of theoretical basics and then he elaborated on economic purposes and government tools for achieving these objectives. In the second chapter, different economic sectors and their operation with regard to state expenditure and public budget and national expenditure have been considered. In the third chapter, state expenditure examined economic growth.

In this very third chapter, necessary economical models are designed and estimated in order to investigate the abovementioned relationships. He tried to see the impact of consumption and investment expenses of state sector on the growth of different economic sectors such as agriculture and public.

Economic pattern used in this thesis has no strong theoretical framework since it considers added value of each sector as a function of explanatory variables such as state consumption, investment expenditure, non-oil national production, and added value of that sector with a 1-year interval.
The following models have been gathered, drawn, and estimated:

\[
\begin{align*}
\text{AGRP} &= F(\text{GDPWO, GCON, GCAPFF, AGRPT}) \\
\text{INDP} &= F(\text{GDPWO, GCON, GCAPFF, INDPT}) \\
\text{SERP} &= F(\text{GDPWO, GCON, GCAPFF, SERPT})
\end{align*}
\]

The independent variables of SERP, INDP, and AGRP stand for added values of agriculture sector, industry, and public respectively. The explanatory variables are GDPWO, GCON, and GCAPFF. They are state investment expenditures. SERP, INDP, and AGRP are added value of agricultural, industry, and public with a 1-year interval. The results show in agriculture sector consumption, investment expenses have no impact on the sector added value. With regard to industry sector, the coefficient of expenditure is meaningless. However, coefficient of state investment expenditures are positive and rational. For the third factor, public, the consumption, public expenses are positive and reasonable.

The negative point seen in this thesis is that instead of entering investment and consumption expenditure into account, he must include the allocated consumption and investment expenses by government to each sector as an explanatory variable.

Because consumption and investment expenses that have been allocated to other sectors are hidden in GCOW, GCAPFF. Therefore, the net effect of consumption and investment expenditures on added value have not been taken into consideration.

Nili and Amid (1999) applied Barro and Cub-Douglas Model of production function in which state merely produces public goods and ‘G’ variable is included as state expenditure. Then, they investigate the effect of government expenditure on economy growth. In the study, the correlation between state construction expenses model that was a positive correlation. In terms of current expenses it should be mentioned that the current expenditures of education, higher education, and health care have positive impact on economy growth, but the others have negative impact in it.

Moradi (1380) also has conducted a study in which Barro Model has been used and the impact of government expenditure on production was positive and equaled to 26%.

Sharifi Nouroddin and Alizadeh, Mohammad (2002), in a research scrutinized state expenditure effect on Golestan Province economy through social accounting matrices. The applied social and accounting matrix in this survey is an estimated one, and used for local accounts of Golestan Province. The result demonstrated that state expenditure in public services and vehicles have caused more dynamism in local economy in comparison with the other sectors. What is more, current expenses of state makes more added value compared to construction expenses. Sameti et al. (2003) in a survey entitled directing current and construction expenditures of state to obtain optimal economic growth in Iran with an emphasis on separation of consumption function of different income groups and compiling concurrent equation system. They concluded that construction expenditure has more effect on Iranian economy in comparison with current expenses. After separating function of consumption into different one-tenths of income, also, they came to this conclusion that the increasing coefficient of construction expenses is bigger than when there is no separation.

Moreover, Jahangard (2003) in his study which dealt with foreseeing Iran economy growth in the 4th development plan, based on Barro Model, has figured out the coefficient of
current expenses of government on production which was positive and equaled to 31% by applying auto-regression pattern during 1969-2002.

Taghavi and Sanie Danesh (1996) worked on 1971-1991 and tried to explain the reasons why the volume of state activities in Iran economy has seen fluctuations. The main hypothesis of the paper is how oil income fluctuations in Iran affect the budget and its elements from 1971-1991.

Sameti (1993) paid attention to state economic activities in three different perspectives. First, from the viewpoint of budget. Second, state corporation budget. And third, from jurisdiction (regulatory) view. In the first step, government economic activities has been assessed which led to, totally, inappropriate state economic activities. Then, to identify negative and positive points of state economic activities, each of state budget and State Corporation budget elements have come under close scrutiny.

**Economic Interpretation of the Results:**

According to the results which have been provided in the mentioned tables, the followings are of significance:

1. Private investment has a meaningful and positive impact on the economy growth in the short run.
2. State investment also has a meaningful and positive impact on the economy growth in the short run.
3. State human capital expenditure has a negative impact on economic growth, though, meaningless in short run.
4. State consumption expenditure has a negative and meaningful impact on economy growth. However, estimating coefficients of the chosen model in long run show absolute meaningfulness of explanatory variables. Private investment and state investment and state human capital expenditure in long run will have a positive and meaningful impact on economy growth. However, state consumption expenses has a negative and meaningful impact on economy growth.
5. These coefficients have long-term interpretations. Private investment in long run has come to 1.0543. That is, with 1% percent increase in private investment. On average, economic growth will advance 1.0543%.
6. The coefficient of state investment is 6.7609. This means that, with any 1% increase in state investment, economy growth will flourish 6.7609 on average in long run.
7. The coefficient of state human capital expenses is 12.1002. That is, with any 1% increase of this field, economy will grow at least 12.1002 on average in long run.
8. The coefficient of state consumption expenses is -2.9674. This means that, with any 1% increase of this field, economy growth will decrease at least 2.9674 On average in long run.
9. comparing the coefficient of state investment expenditures and the coefficient of state human capital expenses, one can witness the effect of the latter case on economy growth is almost two times more than physical capital expenditure.

If private investment, the expenditure of state investment, the expenditure of state human capital, and consumption expenses increased 1% concurrently, economic growth will have an increase of 15.7082 on average in long term.
14.6539 of this belongs to the increase in state mentioned fields. Therefore, the total effect of state expenditure on economic growth would be positive and 14.6539. The calculation shows it:

\[
\frac{1}{0.0543} - \frac{6}{0.7609} + \frac{12}{1.002} - \frac{2}{0.9674} + \frac{1}{0.2398} + \frac{15}{0.7082} - \frac{15}{0.7082} + \frac{1}{0.0543} - 14.6539
\]

10. The growing coefficient of state construction expenditure in short run is positive. However, it is not a meaningful one.
11. The growing coefficient of state current expenses in short run is negative and meaningful one. In long run the coefficient of construction and current expenditures are both meaningful. The coefficient of construction expenses is positive and meaningful and for current ones is negative and meaningful.
12. These coefficients can be long termly interpreted, too. Growth of construction expenditure coefficient in long run is 1.5875. That is, with any 1% increase in Construction expenses, economy growth in long run, on average, will be 1.5875 increased.
13. When one compares the coefficient of construction expenditure and state investment, one can see the effect of state investment expenditure on economic growth is much more than construction expenses (about 4 times).
14. When one compares the coefficient of construction expenditure and state investment, one can see the effect of human capital expenditure on economic growth is much more than human capital expenses (about 8 times).
15. The coefficient of growth of current expenditure is 0.28511. That is, with any 1% increase in current expenditure, the economy growth, in long run, will be 0.28511 decreased.
16. There is a negative and meaningful relation between state investment and private investment either long term, or short term; so that, a 1% growth in state investment expenditure, on average, in long run, will lessen private investment 0.62584. Although state investment expenditure has a negative and meaningful impact on private investment, when you have a glimpse at their coefficients in economic growth model, you will see that the effects of state investment expenditure has much more influential role in Iran economy growth in that period compared to private sector (6 times). This may be caused by state numerous investment that leaves no place for private sector participation.

Theory of "Crowding Out" supports this result. This theory claims that state investment will not permit the private sector to have a role in economy. That is, indeed, state investment will exclude private sector.

The abovementioned calculations is: \(-1.0760 + 0.45076 = -0.62584\).

3. CONCLUSIONS

1. Giving citizen state's stock, undoubtedly, will highly impact countries' budget. Therefore, it is clear that government confine its priorities to budget, control, and management. Government devotes its allocated credits to develop and strengthen non-governmental sectors and receiving service from private and cooperative sectors.
2. State must not directly interfere in lessening price rates, as private sector is looking for more profit and it is possible to see a temporary increase of prices in fundamental sections. Thus it seems necessary to open up an opportunity for market to get to a balanced price in a competitive condition. Obviously, thanks to production growth of private sector, and expenditure decrease the prices will be going down.

3. Enabling private sector through giving bank loans and credits, and leaving out hampering rules and regulations

4. Enacting rules and regulations that guarantee and simplify investment either nationally or internationally, and providing investment insurance

5. Providing a warm competitive situation for private sector activities

6. Encouraging people to invest by advertising and acculturating via T.V and education and other instructional and cultural organizations. Iran economy needs investment and entrepreneurs that requires Iran to provide the suitable environment by enacting rules and regulations and making the society accept welcome it with open arms. Unfortunately, people have negative attitude towards the word "capitalist". They assume those who have capital are those who have plundered the nation. Undoubtedly, one of the vital duties of the authorities is to propagate a novel idea to annihilate such thoughts.

References


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