- Thesis Title: **"Fiscal Decentralization, Provincial Economic Growth and Spillover Effects: A Spatial Panel Data Analysis"**

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ABSTRACT

This study examines the spatial dependence, direct and indirect effects of fiscal decentralization on the provinces economic growth of Pakistan. Due to spatial dependence, spatial econometric technique is applied on the augmented growth of Mankiw, et al. (1992) by incorporating the fiscal decentralization variable in the theoretical framework. The empirical analysis is based on the spatial panel data set which used from 1990 to 2011 of provinces. Model is selected on basis of specific to general and general to specific approach, and decided two-way fixed effects Spatial Durbin model (SDM) is appropriate for our data. We have estimated the SDM by maximum likelihood (bias corrected and random effect) estimation technique, otherwise, if we applied OLS and ignore the spillover effect which make our estimated parameters biased and inconsistent. Results show that revenue decentralization has positive while expenditure decentralization has negative effect to provincial economic growth. Spillover effects are found to be significant in case of revenue decentralization and insignificant in case of expenditure. Negative and insignificant spillover effect of expenditure decentralization is due to weak institutions, lack of intra governmental competition and absence of political vision which may increase the level of corruption and less accountability. On the basis of econometric analysis, it may be suggested that federal government should transfer the resources to provinces as determined in 18th amendment, and it is the responsibility of provincial government to train their officials in the area of professional ethics, technical and administrative skills by different programs.