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The Influence of Political and Economic Institutions on Economic Growth in Petroleum Countries Based on Government Size (Game Theory Approach)

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International experience shows that economic prosperity varies from country to country. In order to find the factors that strengthen or weaken economic growth, economics have emphasized the relationship between economic prosperity and political and economic institutions. Political and economic institutions can range from inclusive institutions to abstractive institutions. Inclusive institutions provide the ground that will lead to economic growth; while abstractive institutions cannot produce such growth. On the other hand, the size of government and the way it finances provides the structuring of political and economic institutions close to one of the two sides of the institutional spectrum. This will create intensifying or disruptive cycles for economic growth and development. Economic studies through Army curve show increasing the size of government to certain point has had a positive effect on economic growth. Then from that point onwards, increasing the government size considered as the main and disruptive obstacles to growth (Fallahi and Montazeri, 2014). In oil countries, the size of government tends to exceed the optimal level and it provides through oil revenues. A study of oil countries shows that despite the similarities, these countries have chosen different policies in relation to government size. While in some oil countries the political and economic institutions formed in way that achieving economic growth seems like a smooth path for economic policymakers; in some other oil countries the same institutions have been formed that have made it difficult to achieve development goals (Ati, 2001).

The purpose of this article is to show governors may have the incentives to undermine economic growth deliberately, contrary to popular belief that they are striving for development. Different scenarios design and analyze to show how the incentives and policy preferences of politicians regarding the size of government can lead to inefficient economic institutions to reduce economic growth. It also assumes that the level of capital accumulation of entrepreneurs, as their chosen strategy, indicate the economic growth.The games are long-term and repetitive. In the process of these games, the elites in the first decision-making node, based on their online profile strategy, adopt the policy of determining the size of the government. The next decision-making node belongs to the entrepreneurs who, in response to the policy chosen by the government, choose the level of their capital reserves. In other words, an entrepreneur increases his capital reserves when he has rewarded for his previous investments by a government-controlled economic system.

The results show that in the first scenario, despite any initial distribution of capital accumulation, there is a complete Markov equilibrium that at all times includes the level of optimal government investment expenditure. The equilibrium under the first scenario is the second best equilibrium. Its position seems to have improved from the first best equilibrium (without government intervention), because the presence of government investment expenditures in the production function has improved the ultimate efficiency of capital in the private sector. In this scenario, if political and economic institutions are inclusive, increasing the share of oil in the budget means a proportional increase in government spending and an increase in investing spending on infrastructure and the development of economic infrastructure. On the other hand, if the political and economic institutions in the oil country are abstractive, increasing the share of oil in the government budget means expanding the amount of rent flowing in the economy. By growing power of rent-seeking groups in these types of institutions, the level of investment expenditure decreases over time compared to consumption expenditures.

In the second scenario, the conflict of interests between political elites and other social groups caused more distortion than in the previous scenario. In this scenario, it assumed that the government monopolizes import and based on this, the economic activities of elites depend on the type of allocation of foreign exchange resources and proximity to the government. Hence, the elasticity of government production has been greater than government investment expenditures, which leads to increased government size in the economy. As the share of consumption expenditures increases, so even with the optimal choice of government investment, the government size induce by institutions of society .The effect of political competition on government size determination also assesses. The important result of this game under the third scenario is that with the increase of oil share in the budget, government investment expenditures will be at a lower level. In general, the motive of political alternatives in determining government size causes elites to place government spending behind the peak of the Army curve. The goal of the elites in this case is to try to consolidate their political power. At the same time, government spending, more than the optimal Army curve, causes more disruption and slows economic growth. It generally argues that in the presence of political competition, political risks increased and may lead to more disruptive policies.