Business or Politics: Exploring the Determinants of Policy Mix in South Asia

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Abstract

This study explores the determinants of policy mix in South Asia from 2000 to 2022, by using panel least squares and fixed/random effect models. We have used defense spending, health and education expenditures, corruption levels, and financial development, whereas policy mix, monetary freedom and fiscal freedom have been used as dependent variables. In South Asian nations, defense spending have statistically insignificant and adverse affect on policy mix. Conversely, higher investments in health and education show a notable positive impact on the policy mix, contributing to overall well-being and economic stability. Corruption levels and financial development do not significantly correlate with the policy mix. Our study also uncovers distinct relationships between these independent variables and fiscal and monetary freedom. Defense expenditures negatively affect fiscal freedom, while health and education spending plays a positive role. A well-educated and healthy workforce significantly enhances fiscal freedom. Corruption levels have no significant linear relationship with fiscal freedom, but financial development creates a trade-off between financial stability and fiscal freedom. Interestingly, defense expenditures positively affect monetary freedom, highlighting their role in creating a secure environment for investments. Education spending also positively impacts monetary freedom. Corruption levels do not significantly correlate with monetary freedom, but financial development negatively affects it, indicating a trade-off between financial development and monetary freedom. To enhance policy mix and economic and monetary stability in South Asia, we recommend strategically allocating more resources to the health and education sectors. Careful assessment and possible reallocation of defense budgets can reduce the fiscal burden and promote efficient resource utilization. Balancing defense spending with economic priorities can maximize its positive impact on monetary freedom, stimulating economic growth in the region.

Keywords: policy mix, monetary freedom, fiscal freedom, defense spending, health and education expenditures

1. Introduction

Business or politics are two fundamental tools to run a country, as they have a direct impact on the political, social, and economic environment. The continuous discussion about how business and politics affect society is a matter of significant importance and interest. The relationship between these two spheres has wide-ranging effects on society's well-being, policy development, and economic growth. Politics and business are separate fields with their own goals, drives, and ways of doing things. Politics is concerned with governing and forming public policy, whereas business aims to maximize profits and produce economic value (Frieden, 1991; Saha and Darnton, 2005). The lines between these fields, nevertheless, are frequently blurred as corporations try to sway politicians and politicians make decisions that affect business. Important considerations about authority, responsibility, and the degree to which economic interests influence political decisions are raised by this intricate interaction. Understanding how business and politics interact is essential for appreciating the dynamics of contemporary societies and guaranteeing a fair and equal distribution of opportunities and resources. Therefore, there is a dire need to provide insight into the potential synergies, tensions, and trade-offs that occur when these two domains collide by probing the complexities of the interaction between business and politics (Ali, 2015; Glavas and Mish, 2015; Abubakar et al., 2020). A nation's corporate and political landscapes are significantly shaped by its fiscal and monetary policies. While monetary policy entails regulating the money supply and interest rates to manage inflation and foster economic growth, fiscal policy refers to the government's use of taxes and expenditures to impact the broader economy (Hameed & Amen, 2011; Imoisi et al., 2013; Ali & Ahmad, 2014; Ali, 2022). These political tactics have broad ramifications for both politics and

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industry. On the one hand, changes in tax rates, government investment in infrastructure, or the provision of subsidies and incentives can all have a direct influence on how businesses operate. Such actions can promote investment, increase economic activity, and foster a successful corporate climate. Fiscal policy choices, on the other hand, can also impose costs on firms, such as higher tax responsibilities or regulatory restrictions, which may obstruct expansion and profitability. Public policy formation and execution are intricate processes impacted by a variety of elements, such as commercial interests and political concerns (Adejare, 2014;

Ali, 2018; Alesina et al., 2018; Ali et al., 2023). Understanding the factors that influence policy mix is essential to understanding governance and decision-making processes.

The policy mix refers to the integration of a country's fiscal and monetary policies to maximize growth while minimizing unemployment and inflation. Fiscal policy entails government spending and revenue collection, while monetary policy involves the control of the money supply (Abubakar et al., 2020; Ali, 2022). During the Great Depression, the laissez-faire approach proved ineffective, and government spending as a tool to influence macroeconomic variables emerged as a new field of study (Friedman, 1968; Ali & Bibi, 2017; Alesina et al., 2018). Keynes (1936) argues that government spending and taxation changes have an impact on aggregate demand and economic growth. Targeted economic growth can be attained by financing and implementing various projects through borrowed money, and the private sector cannot solely expand the economy. Therefore, government involvement and influence are necessary to stimulate economic growth. Borrowing money for economic expansion has been implemented in various economies since World War II (Al-Shatti, 2014). However, the effectiveness of fiscal policy in achieving growth by borrowing can lead to inflation and crowding out of private investment (Mankiw, 2000). The monetary policy impacts the future expectations for economic activity, inflation, exchange rate, investment, and consumption (Hameed & Amen, 2011). People's financial and economic decisions are influenced by monetary policy (Anwar et al., 2016; Ali & Audi, 2023).

Coordination of fiscal and monetary policies is essential to achieving desired socioeconomic as well as political goals (Schaechter et al., 2012; Leeper and Leith, 2016; Bianchi and Ilut, 2017). Mishkin (2021) mentions that two policies should work together to ensure that there is no conflict and to provide maximum aggregate and individual benefits. But discretion and responsiveness are important for the effectiveness and stabilization of the policy mix, as fiscal policy is more persistent in developing countries whereas monetary policy is more persistent in developed countries. Whereas, this is the nature of the political environment and institutional factors (e.g. the degree of central bank independence and non-development expenditures) that can affect the policy mix's effectiveness in developing countries (Siklos, 2021).

2. Literature Review

The main goals of every economy are to attain stable growth, price stability, high employment, current account balance, reduced budget deficit, and decreased income inequality. These goals can be accomplished through the implementation of various government programs, which include trade, fiscal, and monetary policy. However, due to variations in the socioeconomic and political structure and seasonal conditions, their effects and efficacy vary from nation to nation (Aknc & Tüncer, 2018). Following its cultural diversity, national resources, and strategic location, for centuries South Asia has been a center of political and economic activities in the world (Ahmed, 2021). Although this region is the home of the world's fastest-growing economies (India, Pakistan, Bangladesh), the region has struggled to maintain a stable policy mix, which is essential for sustainable economic growth and development. The policy mix consists of monetary and fiscal policies, and it is influenced by a variety of factors, i.e. business activities, military spending, and non-development expenditures. A stable policy mix that balances the interests of various stakeholders, including businesses, governments, and the military. Several studies (Khandker and Koolwal, 2017; Kapoor and Ranganathan, 2018) have highlighted the impact of business activities on policy formulation in South Asia. Political motives (military and non-development expenditure) have a serious impact on the policy mix (Abid & Afzal, 2020). According to the World Bank (2020) and Stockholm International Peace Research Institute (2020) India and Pakistan have 2.9 percent and 4 percent of GDP military expenditure respectively.

Non-development expenditures comprising subsidies, pensions, and salaries limit the fiscal and monetary institutions to work effectively (Ahsan et al., 2018).

The policy mix is working as a heart to achieve higher economic growth and social welfare with lower income inequality and unemployment rates. There is an extensive amount of literature (Oudiz et al., 1984; Schaechter et al., 2012; Leeper and Leith, 2016; Bianchi and Ilut, 2017; Pisani-Ferry, 2017; Bianchi and Melosi, 2019' Bianchi et al., 2020) that describe, it is proper implementation and coordination of monetary and fiscal policy which can lead to sustained development and economic growth, whereas, unbalanced policy mix creates long-lasting negative consequences. Kaur et al. (2021) find that a stable policy mix helps the South Asian economies to recover from the negative shocks of COVID-19. Jha et al. (2019), Azam and Khan (2019), and Rashid et al. (2021) find that a stable policy mix helps to reduce poverty, income inequalities, budget deficits, foreign and domestic debt, etc. Dridi and Shabandri (2019) and Hussain et al. (2021) highlight that policy mix not only promotes long-run economic growth but nations' trust, social status, and political scenario are also dependent on it. Being the most populated part of the world having a more versatile socioeconomic, religious, and political environment, South Asian counties are also caught in different environmental issues i.e. air pollution, water scarcity, and climate change (Bhattacharya et al., 2018; World Bank, 2019).

The policy mix is equally important for policymakers, economists, and financial analysts because it provides the best combination of monetary and fiscal policy to attain higher economic growth (Carvalho et al., 2018; Mankiw, 2019; Blanchard, 2019; Audi et al., 2022). Policy mix provides practical coordination of monetary and fiscal policies to socioeconomic goals e.g. during a recession expansionary policy mix (cut in tax and rise in government expenditures, with low rate of interest) stimulates aggregate demand and promotes economic growth (Taylor & Wieland, 2016; Blanchard, 2019; Mankiw, 2019). Whereas, during a boom contractionary policy mix (rise in taxes and cut in government expenditures with rise in interest rate) helps to control inflation (Taylor and Wieland, 2016; Blanchard, 2019; Mankiw, 2019). Monetary policy can be ineffective during a recession when the interest rate is already at its lowest level (Romer & Romer, 2017; Mishkin, 2021). Under such conditions with the help of fiscal government spending can be increased to promote investment and thereby stimulate economic growth (Romer and Romer, 2017; Mishkin, 2021). Fiscal policy can be ineffective and does not simulate demand when the interest rate is too high. Under such conditions by lowering interest monetary policy can increase borrowing and investment (Romer & Romer, 2017; Mishkin, 2021; Audi & Ali, 2023). Hence, proper coordination between fiscal and monetary policy is necessary to attain sustainable economic growth.

Theoretical and empirical literature have highlighted different determinants of policy mix e.g. institutional setup, political factors, and economic environment (Ali & Rehman, 2015; Ali & Senturk, 2019; Mishkin, 2021). Economic instability i.e. unemployment and high inflation impact the choice of policy for the policymakers, like in recession to stimulate economic growth, and reduction in unemployment can be attained by expansionary policy will be preferred (Audi & Ali, 2016; Taylor & Wieland, 2016). Political factors, such as the ideological orientation of policymakers and the preferences of interest groups, also influence the policy mix (Ashraf & Ali, 2018; Dreher et al., 2020). Institutional setup, such as the division of power between different branches of government, also affects the policy mix (Audi & Ali, 2017; Schoenmaker & Wierts, 2018).

Independent economic activities have been considered one of the important indicators of policy mix. Stiglitz (2010) mentions that the deregulation of financial markets in the 1980s and 1990s, became the big cause of the financial crisis of 2008, as every policy during that period was to safeguard business interests. Military & and non-development expenditures have a direct impact on policy mix, Deger and Sen (1983) find that high military expenditures can hurt economic growth in developing countries. Non-development expenditures, such as subsidies and social programs, can also have an impact on the policy mix. In a study of the impact of subsidies on economic growth, Aghion et al. (2015) find that poorly designed subsidies can lead to inefficiencies in the allocation of resources, which can hinder economic growth. Rodrik (2000) and Asiedu (2002) find that political instability can lead to inconsistent policies, which can be detrimental to economic growth. Mauro (1998) and Wei (2000) find that corruption can lead to inefficient policies that further depress economic growth.

3. The Model

Based on extensive review of literature, the functional form of the model becomes as:

$MIX_{it} = F(MIEX_{it}, HEEX_{it}, EDEX_{it}, CORR_{it}, FIND_{it})$ (1)

PM= Policy mix (fiscal freedom, monetary freedom)
MIEX= Defense Expenditures
HEEX= Health Expenditures
EDEX= Education Expenditures
COR= Level of Corruption (Corruption Perception Index)
FIND= Financial Development
i= Set of Selected Countries (Pakistan, India, Sir Lanka, Bangladesh)
t= Selected time Period (2000-2022)

$FF_{it} = F(MIEX_{it}, HEEX_{it}, EDEX_{it}, CORR_{it}, FIND_{it})$ (2)

FF= Fiscal Freedom

$MF_{it} = F(MIEX_{it}, HEEX_{it}, EDEX_{it}, CORR_{it}, FIND_{it})$ (3)

MF= Monetary Freedom

To examine the responsieveness of dependent variable to independent varaibles, the econometric model can be written as:

$$MIX_{it} = \beta_0 + \beta_1 MIEX_{it} + \beta_2 HEEX_{it} + \beta_3 EDEX_{it} + \beta_4 CORR_{it} + \beta_5 FIND_{it} + U_{it} \quad (4)$$

$$FF_{it} = \alpha_0 + \alpha_1 MIEX_{it} + \alpha_2 HEEX_{it} + \alpha_3 EDEX_{it} + \alpha_4 CORR_{it} + \alpha_5 FIND_{it} + e_{it} \quad (5)$$

$$MF_{it} = \gamma_0 + \gamma_1 MIEX_{it} + \gamma_2 HEEX_{it} + \gamma_3 EDEX_{it} + \gamma_4 CORR_{it} + \gamma_5 FIND_{it} + v_{it} \quad (6)$$

all the variables are explained above except:

$\beta_0, \alpha_0, \gamma_0$ =intercept coefficients
$\beta_{i's}, \alpha_{i's}, \gamma_{i's}$= slope coefficients
U, e, v = error terms (white noise)

To examine the impact of explanatory variables on dependent variable, this study has applied panel least squares, fixed effect and random effect models.

4. Empirical Results and Discussion

The empirical analysis is comprised of descriptive statistics, correlation matrix, panel least squares, and fixed and random effect models. The estimated descriptive statistics have been given in the table 1, the results of the descriptive statistics show reasonable properties for the further empirical analysis.

Table 1: Descriptive Statistics

	MIX	FF	MF	MIEX	HEEX	EDEX	CORR	FIND
Mean	105.079	77.43467	71.17002	2.590352	30.37905	12.94443	39.81298	34.41066
Median	105.818	77.00000	71.10000	2.648662	26.53371	12.06337	42.96268	33.87842
Maximum	113.844	85.00000	80.80000	5.033873	55.08138	21.00000	60.63830	54.57172
Minimum	92.4896	66.00000	56.80000	1.059530	15.61410	8.270790	5.820106	14.68225
Std. Dev.	4.61642	4.402614	4.673613	0.996955	11.10667	2.878269	15.52835	11.79829
Skewness	-0.3068	0.108890	-0.23463	0.043129	0.637764	0.561359	-0.382649	-0.03874
Kurtosis	2.41687	2.408923	2.952695	2.050890	2.142773	2.718158	1.891476	1.890503
Jarque-Bera	2.74763	1.521070	0.852748	3.481622	9.053607	5.136410	6.955612	4.741786
Probability	0.25313	0.467416	0.652872	0.175378	0.010815	0.076673	0.030875	0.093397
Sum	9667.30	7123.990	6547.641	238.3124	2794.873	1190.887	3662.794	3165.781
Sum Sq. Dev.	1939.33	1763.854	1987.682	90.44663	11225.59	753.8831	21942.79	12667.18
Observations	92	92	92	92	92	92	92	92

The estiamed results of correlation matrix have been given in table 2, 3, and 4. The correlation results provide intriguing insights into the complex relationships between defense expenditure and various aspects of governance, politics, and business. Notably, there exists a positive association between defense expenditure and fiscal freedom, monetary freedom, and the policy mix, which can be

primarily seen as political influences. Specifically, a strong positive correlation between defense expenditure and monetary freedom implies that nations with greater monetary autonomy tend to allocate more resources to their military capabilities, potentially reflecting a government's ability to independently fund defense initiatives. A positive link between defense spending and fiscal freedom is similarly indicative of the role of political choices, where nations embracing fiscal liberty may prioritize defense investments. Furthermore, the positive correlation with the policy mix underscores the political aspect of defense, highlighting that countries with diverse and comprehensive policy mixes may be more inclined to allocate resources to military endeavors. On the other hand, there are also negative relationships, particularly with business-related factors. The relationship between defense spending and financial development is inverse, meaning that more defense spending may be linked to lower financial sector development. This relationship may be caused by government interference or by pushing out private investments. This emphasizes the possible trade-off between funding for the military and economic expansion. Defense spending tends to show negative connections with business and economic growth, despite its good correlation with political freedom. This highlights the complex and sometimes conflicting forces that influence a country's financial objectives. These results offer insightful information on the complex interactions between defense spending and several facets of economic development and governance. The overall results of all models show that most of the explanatory variables have a significant correlation with the dependent variables. The results explain that the selected explanatory variables for the regression model have a low and moderate correlation with each other. Hence, there is no issue of multicollinearity among the selected explanatory variables.

Table 2: Correlation Matrix for Policy Mix Model

Variables	MIX	MIEX	HEEX	EDEX	CORR	FIND
MIX	1.000000					
MIEX	0.108754*	1.000000				
HEEX	0.28056***	0.316831***	1.000000			
EDEX	0.152278	-0.43377***	-0.29813***	1.000000		
CORR	0.032666	0.305746***	0.616140***	-0.29385***	1.000000	
FIND	-0.064550	-0.48494***	0.015833	0.271707***	0.448415***	1.000000

***, **,* represent significant 1 percent, 5 percent, and 10 percent respectively.

Table 3: Correlation Matrix for Fiscal Freedom Model

Variables	FF	MIEX	HEEX	EDEX	CORR	FIND
FF	1.000000					
MIEX	-0.173847*	1.000000				
HEEX	0.311192***	0.116882	1.000000			
EDEX	0.160090	-0.38445***	-0.298139***	1.000000		
CORR	0.096926	-0.167937*	0.616140***	-0.29385***	1.000000	
FIND	0.014576	-0.73974***	0.015833	0.271707***	0.448415***	1.000000

***, **,* represent significant 1 percent, 5 percent, and 10 percent respectively.

Table 4: Correlation Matrix for Monetary Freedom Model

Variables	MF	MIEX	HEEX	EDEX	CORR	FIND
MF	1.000000					
MIEX	0.20951**	1.000000				
HEEX	0.098779	0.116882	1.000000			
EDEX	0.061911	-0.38445***	-0.29813***	1.000000		
CORR	-0.045674	-0.167937*	0.616140***	-0.29385***	1.000000	
FIND	-0.103900	-0.73974***	0.015833	0.271707***	0.448415***	1.000000

***, **,* represent significant 1 percent, 5 percent, and 10 percent respectively.

The policy mix model's Hausman test produces a 5-degree-of-freedom Chi-Square statistic of 5.780172. This statistic's corresponding p-value is 0.3282. Since the p-value is greater than the conventional significance level of 0.05, the test explains that the random effects model is a more appropriate model for further analysis.

In the fiscal freedom model, the Hausman test produces a Chi-Square statistic of 12.281594 with 5 degrees of freedom. The associated p-value is 0.0311, which is less than the significance level of 0.05. This result indicates that there is a significant difference between the random effects and fixed effects models for the fiscal freedom model. In this case, the fixed effects model may be preferred as it is considered more appropriate when the random effects assumptions are violated.

The Hausman test for the monetary freedom model yields a Chi-Square statistic of 10.950163 with 5 degrees of freedom. The p-value associated with this statistic is 0.0524, which is marginally above the significance level of 0.05. This explains a borderline significant difference between the random effects and fixed effects models for the Monetary freedom model. In this case, the fixed effects model may be preferred as it is considered more appropriate when the random effects assumptions are violated.

Table 5: Hausman Test Outcomes

Policy Mix Model			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	5.780172	5	0.3282
Fiscal Freedom Model			
Period random	12.281594	5	0.0311
Monetary Freedom Model			
Period random	10.950163	5	0.0524

The results showcasing a negative and statistically insignificant relationship between defense expenditures and the policy mix in South Asian countries evoke multifaceted considerations. First and foremost, these findings underscore the pivotal role of budgetary allocation and its intricate influence on the policy landscape. In South Asian nations, security concerns are often paramount, compelling governments to allocate substantial resources to defense (Jalal, 1995; Kugler, 2006). This allocation inherently poses a challenge when determining how to apportion funds among various policy domains. The negative relationship can be seen as indicative of a budgetary tug-of-war between defense and other policy priorities. While defense spending is essential for safeguarding national security, it often necessitates trade-offs with other critical areas such as education, healthcare, and infrastructure, affecting the composition of the policy mix.

The positive and significant impact of health expenditures on the policy mix is in line with the concept of investing in human capital. Better labor productivity, lower absenteeism, and improved population health are all linked to improved healthcare services. Thus, a complete policy mix is reflected in the enhancement of general quality of life and economic growth (Mankiw et al., 1992). Increased health spending may be interpreted as a sign of a nation's dedication to social development. Investments in healthcare are instrumental in reducing poverty, fostering social inclusion, and ensuring a healthier and more productive labor force. These factors contribute to the overall development and diversification of a country's policy portfolio (Bloom et al., 2019). A government's commitment to higher health expenditures can signal a broader commitment to social welfare and well-being. The policy mix reflects the spectrum of policies aimed at improving the living standards of citizens. Governments may strategically allocate resources to health to achieve a more holistic policy mix and satisfy the diverse needs of their population (Clemens, 2007).

The positive and significant impact of education expenditures on the policy mix aligns with the concept of human capital development. Higher education investments lead to a more skilled and innovative workforce, contributing to economic growth and enhancing the overall quality of life. These outcomes reflect a comprehensive policy mix (Schultz, 1961). Education is a critical driver of economic development. Higher education expenditures result in a more educated and capable workforce, stimulating entrepreneurship and fostering economic diversification. The resulting

economic growth and increased government revenue can be allocated to a broader range of policy areas, contributing to a more comprehensive policy mix (Mankiw et al., 1992). Enhanced educational opportunities positively impact societal well-being. Higher education investments lead to a more informed and engaged citizenry, which can influence policy priorities and public discourse. This, in turn, contributes to a more comprehensive and inclusive policy mix (Hanushek & Woessmann, 2012). Governments that allocate substantial resources to education demonstrate a commitment to human development and the betterment of their citizens. The positive relationship between education expenditures and the policy mix reflects the government's strategy to address various societal needs comprehensively (Clemens, 2007).

The insignificance of the relationship between the level of corruption and the policy mix may reflect the complexity of corruption's impact on policy decisions. It is difficult to summarise the impacts of corruption in a single linear connection since it may take many distinct forms and impact diverse facets of government (Mauro, 1995; Ades & Di Tella, 1999). The impact of corruption on the mix of policies may be non-linear rather than linear. A small amount of corruption may occasionally result in changes to policy, while extensive corruption may have the opposite effect. There's a chance the outcomes miss these subtleties. Numerous elements, such as political, economic, and social concerns, impact the policy mix. Even though it can be a big problem, corruption is only one of many elements that influence how policies are made. The effects of corruption could be overshadowed by other variables (Kaufmann et al., 2009).

The complex character of policy mix drivers may be the cause of the insignificance of the link between financial development and the mix. Numerous elements, such as community requirements, political concerns, and economic realities, impact policymaking in South Asian nations. Although financial development can have a significant role, it is only one of many variables influencing the formulation of public policy (Bekaert & Harvey, 2000). The impact of financial development on the policy mix may not be linear but rather non-linear. There may be a threshold effect where the initial stages of financial development have a different influence compared to the mature stages. The models may not capture these non-linear dynamics (Levine, 1997). The policy mix is influenced by a range of policy drivers, and the weight given to financial development may be overshadowed by other considerations, such as social welfare or infrastructure development. The insignificance of the relationship may indicate that other policy drivers take precedence (Khemani, 2004).

Table 6: Outcomes for Policy Mix Model

	Dependent Variable: MIX			
	Panel Least Squares		**Random Effect Model**	
Independent Variables	Coefficients	Std. Error	Coefficients	Std. Error
MIEX	-0.005480	0.158451	-0.004710	0.149965
HEEX	0.179053***	0.055968	0.165222***	0.053959
EDEX	0.440853**	0.190682	0.416413**	0.187421
CORR	-0.031860	0.048891	-0.027185	0.047648
FIND	-0.039893	0.069370	-0.043989	0.066894
C	96.64458***	4.836203	97.32611***	4.643994
***, **,* represent significant 1 percent, 5 percent, and 10 percent respectively.				

The significant negative relationship between defense expenditure and fiscal freedom reflects a trade-off in resource allocation. When governments allocate a substantial portion of their budget to defense, it can limit the financial resources available for promoting fiscal freedom, such as tax reductions or budgetary transparency. This trade-off underscores the challenges policymakers face in balancing national security with economic freedom (Emmenegger et al., 2018). Higher defense spending can have economic repercussions, potentially leading to budget deficits or increased taxation. These fiscal constraints may, in turn, hinder the promotion of fiscal freedom (Barro, 1991). The results highlight the economic consequences of defense prioritization. The negative impact of defense expenditure on fiscal freedom may also be influenced by political considerations. Governments that allocate more resources to defense might have different policy priorities, including maintaining political power or

responding to security concerns, which can hinder fiscal freedom initiatives (Grossman, 1991). The geopolitical context of South Asian countries can play a role in shaping the relationship between defense spending and fiscal freedom. Regional dynamics, conflicts, and international alliances may influence the prioritization of defense over fiscal freedom (Hegre et al., 2017).

The positive and significant impact of health expenditure on fiscal freedom aligns with the idea that investments in healthcare lead to improved economic well-being. Access to quality healthcare services contributes to a healthier workforce, reduces absenteeism, and increases labor productivity. These factors have positive economic implications, enhancing fiscal freedom (Ali & Audi, 2016; Ali & Audi, 2018; Bloom et al., 2019). Adequate healthcare investments can reduce the fiscal burden on the government. Preventive healthcare measures and access to healthcare services can mitigate the need for extensive public healthcare spending, freeing up resources that can be allocated to other fiscal freedom initiatives (Meltzer & Richard, 1981). Healthier populations are more productive, contribute more to the workforce, and generate higher tax revenues. As health expenditures lead to a healthier and more capable labor force, governments can afford to lower taxes and foster fiscal freedom while still maintaining financial stability (Cutler & Lleras-Muney, 2006). Investments in healthcare can enhance societal well-being and improve public support for governments. Politically, leaders may find it beneficial to allocate resources to healthcare, which can, in turn, lead to increased fiscal freedom (Clemens, 2007).

Investment in education leads to the development of human capital, which is essential for economic growth and fiscal stability. An educated workforce is more productive, contributing to increased tax revenues and enabling governments to fund fiscal freedom initiatives (Mankiw et al., 1992). Education plays a fundamental role in promoting economic growth. Higher education expenditures result in a more skilled and innovative workforce, stimulating entrepreneurship and fostering economic diversification. This economic growth, in turn, provides governments with the resources necessary to support fiscal freedom (Lucas, 1988). Education can positively impact institutional development. Well-educated citizens are more likely to engage in the political process, advocate for transparent and accountable governance, and support fiscal freedom initiatives (Barro, 1991). Education is an investment in the future. While the immediate cost of education expenditure may be significant, the long-term benefits in terms of human capital, innovation, and economic development can outweigh these costs (Heckman & Masterov, 2007).

The insignificance of the relationship between the level of corruption and fiscal freedom may reflect the intricate and multifaceted nature of corruption's impact. Corruption can manifest in various forms and affect different aspects of governance, making it challenging to capture its effects through a single linear relationship (Rose-Ackerman, 1999). Corruption's influence on fiscal freedom may not be linear but rather non-linear. Corruption might have different consequences at varying levels, and the models may not capture these non-linear dynamics (Treisman, 2000). Fiscal freedom is influenced by a multitude of factors, including economic and political considerations, taxation policies, and government efficiency. While corruption is a critical issue, it is just one of many factors that shape fiscal freedom. Other factors may overshadow the impact of corruption (Berggren, 2003).

The significant negative relationship between financial development and fiscal freedom reflects a trade-off in resource allocation. As financial institutions and markets become more developed, governments may allocate resources to regulate and stabilize these sectors. This allocation can limit resources available for promoting fiscal freedom initiatives, such as reducing taxes or government interventions (Levine, 1997). Financial development can bring economic stability but also government regulations. While financial development can contribute to economic growth, it may come with the need for increased regulatory oversight, potentially leading to more government intervention and decreased fiscal freedom (Beck et al., 2000). The impact of financial development on fiscal freedom may also be influenced by the quality of institutions. In countries with strong institutional frameworks, financial development may coexist with fiscal freedom. However, in settings with weaker institutions, financial development may lead to negative consequences for fiscal freedom (La Porta et al., 1999). The negative impact of financial development on fiscal freedom may also be related to financial crises. In countries with rapid financial development, there may be a higher

susceptibility to financial crises, leading to government interventions and reduced fiscal freedom (Kaminsky & Reinhart, 1999).

Table 7: Outcomes of the Fiscal Freedom Model

Independent Variables	Panel Least Squares		Fixed Effect Model	
	Coefficients	Std. Error	Coefficients	Std. Error
MIEX	-0.375895***	0.144752	-0.380320***	0.151721
HEEX	0.177861***	0.051129	0.180826***	0.057173
EDEX	0.342338**	0.174196	0.357270*	0.209828
CORR	-0.009524	0.044664	-0.005182	0.052328
FIND	-0.120491*	0.063372	-0.166293**	0.071357
C	76.93040***	4.418087	78.10682***	4.848058

Dependent Variable: FF

***, **,* represent significant 1 percent, 5 percent, and 10 percent respectively.

The positive relationship between defense expenditure and monetary freedom may reflect the notion that military spending can contribute to overall economic stability. When a country invests in defense, it can deter potential threats and create a secure environment for financial institutions and monetary policy, fostering monetary freedom (Baker, 2005). Defense expenditures can deter external threats that may destabilize the financial sector. A secure economic environment is conducive to monetary freedom, as it reduces the need for government interventions to address financial crises (Azam et al., 2019). A well-funded defense sector can also contribute to political stability, which is integral to monetary freedom. Political stability ensures continuity in monetary policies and encourages international trust in the country's financial systems (Collier, 2005). Defense expenditures may signal a government's commitment to national security and economic stability, instilling confidence in investors and foreign institutions. This confidence can bolster monetary freedom and encourage foreign investments (Abadie & Gardeazabal, 2003).

The insignificance of the relationship between health expenditure and monetary freedom may be due to the complex causality between these two variables. While improved health outcomes are generally associated with economic development, the link between health expenditure and monetary freedom may not be direct or immediate (Bloom et al., 2019). Monetary freedom is influenced by a multitude of factors, including monetary policies, inflation rates, and financial regulations. These factors may overshadow the impact of health expenditure, making it difficult to detect a statistically significant relationship. The impact of health expenditure on monetary freedom may operate with time lags. It might take years or even decades for improved health outcomes resulting from health expenditure to translate into changes in monetary freedom. The timeframe of the analysis may not capture these long-term effects.

Investment in education enhances human capital, which, in turn, increases labor productivity. A more skilled and educated workforce can contribute to economic growth and, by extension, monetary freedom. Education fosters innovation and technological progress. Countries with a well-educated population are better positioned to adopt and develop advanced technologies, leading to increased economic activities and monetary freedom (Mankiw et al., 1992). Education is a long-term investment that can lead to sustained economic growth. Higher education expenditures signal a commitment to human capital development, which has positive repercussions for economic stability and monetary freedom. Education can enhance a country's international competitiveness. A skilled workforce is attractive to foreign investors and can boost international trade, ultimately influencing monetary freedom.

The insignificance of the relationship between the level of corruption and monetary freedom may be due to the complex and indirect nature of this relationship. Corruption may affect various aspects of the economy and governance, but its impact on monetary freedom might be overshadowed by other factors.

Financial development can influence the regulatory framework of the financial sector. Countries with more developed financial markets may have more transparent and efficient financial regulations,

which can enhance monetary freedom (Beck et al., 2007). Financial development can improve access to finance, especially for small and medium-sized enterprises. This increased access can stimulate economic activity, promote competition, and lead to a more open and free monetary environment. Greater financial development can also promote financial inclusion, ensuring that a broader segment of the population has access to financial services. This can reduce income inequality and improve overall monetary freedom. Robust financial development can instill confidence in investors and attract foreign investments. This influx of capital can boost a country's monetary freedom by promoting financial stability (Bekaert & Harvey, 2000).

Table 8: Outcomes of the Monetary Freedom Model

	Dependent Variable: MF			
	Panel Least Squares		**Fixed Effect Model**	
Independent Variables	Coefficients	Std. Error	Coefficients	Std. Error
MIEX	0.368145**	0.167401	0.375440***	0.125236
HEEX	0.075359	0.059129	0.004811	0.047193
EDEX	0.281122*	0.201452	0.148013*	0.173199
CORR	-0.035533	0.051653	-0.016380	0.043193
FIND	0.064074*	0.073288	0.088577*	0.058900
C	59.74563***	5.109356	61.91287	4.001743
***, **,* represent significant 1 percent, 5 percent, and 10 percent respectively.				

5. Conclusions

This section is comprised of conclusions and policy implications, the primary objective of this study is to explore the determinants of policy mix in the context of South Asia during the period from 2000 to 2022. Policy mix, monetary freedom, and fiscal freedom have been taken as the dependent variables, whereas defense expenditures, health expenditures, education expenditures, level of corruption, and financial development have been used as independent variables. The panel least squares and fixed and random effect models have been used for the empirical analysis. The policy mix model, fiscal freedom model, and monetary freedom model results offer important new perspectives on the intricate relationships between many financial and economic factors and how those relationships affect the monetary and economic environments of South Asian nations. It is essential to combine these results and provide thorough conclusions. In South Asian nations, defence spending has a statistically negligible yet adverse effect on the mix of policies. The government's capacity to attain a balanced policy mix may be hampered by the defence budget, although this impact is not statistically significant. Health expenditures have a positive and significant impact on the policy mix. Higher health investments contribute to comprehensive policy portfolios that enhance overall well-being and economic stability. Education expenditures also have a positive and significant impact on the policy mix. These investments lead to a more skilled workforce, stimulate entrepreneurship, and contribute to economic diversification, resulting in a more holistic policy mix. The level of corruption and financial development do not exhibit a significant relationship with the policy mix. Defense expenditures have a negative and significant impact on fiscal freedom in South Asian countries. Increased military spending is associated with reduced fiscal freedom. Health expenditures have a positive and significant impact on fiscal freedom. Investments in healthcare contribute to a healthier and more productive workforce, enhancing fiscal freedom. Education expenditures positively impact fiscal freedom. A more educated and capable workforce fosters economic growth and tax revenues, supporting fiscal freedom. The level of corruption does not have a significant linear relationship with fiscal freedom. Financial development has a negative and significant impact on fiscal freedom, indicating a trade-off between financial stability and fiscal freedom. Defense expenditures have a positive and significant impact on monetary freedom. Well-funded defense sectors can create a secure environment that attracts investments and promotes monetary freedom. Health expenditures do not significantly impact monetary freedom, indicating a complex relationship between health and monetary stability. Education expenditures have a positive and significant impact on monetary freedom, contributing to economic growth and attracting investments. The level of

corruption does not have a significant linear relationship with monetary freedom. Financial development has a negative and significant impact on monetary freedom, highlighting a trade-off between financial development and monetary freedom.

Based on the conclusions drawn from this study, several practical policy suggestions can be made to address the determinants of policy mix in South Asia: The positive and significant impacts of health and education expenditures on policy mix underscore the importance of investing in these sectors. These findings indicate that higher allocations to health and education budgets can lead to a more balanced and comprehensive policy mix, ultimately benefiting economic and monetary stability. South Asian countries should prioritize allocations to health and education sectors to enhance their policy mix. Policymakers should ensure efficient utilization of these expenditures to maximize their impact on policy coherence. The negative and significant impact of defense expenditure on fiscal freedom highlights the need for careful consideration of military spending. South Asian countries should assess their defense budgets, aiming for more efficiency and reducing the fiscal burden of defense, which can free up resources for other essential areas. Policymakers should review defense budgets to ensure they align with national security requirements while minimizing adverse effects on fiscal freedom. Consider reallocating resources from defense to other sectors that enhance economic development. The positive and significant impact of defense expenditure on monetary freedom may seem counterintuitive. However, it suggests that a well-funded defense sector can contribute to a stable and secure environment, attracting investments and promoting monetary freedom. South Asian countries should continue to invest in their defense sectors to maintain a secure environment conducive to economic growth. Policymakers should balance defense spending with other economic priorities to maximize the positive impact on monetary freedom.

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