Keynes versus Wagner: public expenditure and national income case study of Tunisia

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Abstract

This study aim is to investigate the relationship between public expenditure and economic growth in Tunisia spanning from 1965 to 2019.

Primarily, the validity of Wagner's law and Keynes' hypothesis was tested through time series analysis of public expenditure and national income measures. The key findings suggest non-stationarity in the time series data alongside the existence of a cointegration relationship. Additionally, Granger causality testing within the error-correction model revealed bidirectional causality from national income to government expenditure, thereby confirming Keynes' hypothesis for Tunisia during the study period. Furthermore, nonlinear analysis of the Wagner version, employing the threshold model, lends support to this hypothesis, highlighting the presence of two thresholds over the study duration.

These results contribute significantly to our understanding of the dynamics between public expenditure and economic growth in Tunisia, offering valuable insights for policymakers and researchers alike.

Keywords: Economic Growth, Public Expenditure, Wagner’s law, Granger causality tests, Cointegration test, Threshold Regression Model.

JLS classification

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