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## Disaggregated Public Spending, GDP and Money Supply: Evidence for Italy

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### Abstract


The aim of this article is to analyze the relationship between public spending and GDP controlling for the money supply in Italy for the period 1990-2010 at a disaggregated level, using a time series approach. After a brief introduction, a survey of the economic literature on this issue is shown, before estimating this nexus for ten items of public spending according to the COFOG functional classification. Cointegration tests reveal a long-run relationship between GDP, money supply and eight spending items. Moreover, Granger causality tests results show evidence in favour of Wagner's Law in two cases (Y□G), while a bi-directional flow has been found in only one case. The Keynesian hypothesis (G□Y) is supported by five series of spending. Some notes on the policy implications of this analysis conclude the paper.

**Keywords:** Public Spending, GDP, Money Supply, Wagner's Law, Time Series, Unit Root, Cointegration, Causality, Fiscal Policy

**JEL Classification:** C32, E60, H50, H60, N44

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