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A causal relationship between government spending and economic development: an empirical examination of the Greek economy

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Abstract

During the past few years, in many countries, both developed and developing, there has been a tendency to increase government spending. This article intends to examine this tendency of the public sector as well as the existing relationship between the extent of government spending and economic development. The data used cover a time period between 1960 and 2001. An effort is made to determine causal relationships between spending and economic development through the use of Wagner's theory.

Notes

[1] A problem of spurious regression can occur when two time series in a regression are highly correlated whereas there is no actual relationship between them. High correlation is due to the existence of time trends in both time series (Granger and Newbold, 1974).

[2] Calculations are made through the method of inverse interpolation, maximizing the logarithm of the likelihood function in the case of first order autoregressive procedure AR(1), the ML estimators are given through the following maximum likelihood function.

Whereas for a second order autoregressive process AR(2), the maximum likelihood function is given by the relationship:

where ρ represents the autoregression process coefficients, θ represents the estimated parameters and R(θ) is the η×η matrix of autoregression coefficients (Pesaran and Pesaran, 1998).

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