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Asymmetric modelling of the revenue-expenditure nexus: evidence from aggregate state and local government in the US

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Abstract

This study examines the time series dynamics between US aggregate state and local government receipts and expenditures in differentiating between four hypotheses related to the revenue-expenditure nexus: tax-spend, spend-tax, fiscal synchronization and institutional separation hypotheses. Unlike previous research at the state and local level, the possibility of asymmetries in the budgetary process is explored using the threshold autoregressive (TAR) and momentum threshold autoregressive (MTAR) cointegration framework of Engle and Granger (1987). The results indicate the absence of any asymmetric relationship between aggregate state and local government receipts and expenditures.

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Notes

¹ See Payne (2003) for a review of the empirical literature on the tax-spend debate.

² If the government is financing expenditures by means other than direct taxation, fiscal illusion exists in that the public is paying less in direct taxation, but more in the form of indirect taxation. Indeed, if there is a decline in indirect taxation while direct taxation increases, this could very well lead to a reduction in government expenditures.

³ Significant Features of the Fiscal Federalism, Budget Process and Tax Systems (1994) surveys state-balanced budget rules and deficit limitations.

⁴ Mounts and Sowell ([1997](#)) discuss the Congressional Budget and Impoundment Act of 1974, which induced greater federal spending.

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