Accepted Manuscript

Title: Government spending and its components in Italy, 1862–2009: drivers and policy implications

Authors: Barbara Pistoresi, Alberto Rinaldi, Francesco Salsano

PII: S0161-8938(17)30045-5
DOI: http://dx.doi.org/doi:10.1016/j.jpolmod.2017.05.003
Reference: JPO 6352

To appear in: *Journal of Policy Modeling*

Received date: 9-12-2016
Revised date: 4-5-2017
Accepted date: 8-5-2017

Please cite this article as: Pistoresi, Barbara., Rinaldi, Alberto., & Salsano, Francesco., Government spending and its components in Italy, 1862–2009: drivers and policy implications.*Journal of Policy Modeling* http://dx.doi.org/10.1016/j.jpolmod.2017.05.003

Government spending and its components in Italy, 1862-2009: drivers and policy implications

Barbara Pistoresi*, Alberto Rinaldi*, Francesco Salsano**′

*Dipartimento di Economia "Marco Biagi" and ReCent,
Università di Modena e Reggio Emilia,
Viale Berengario 51,
41100 Modena
Italy

**Dipartimento di Scienze Giuridiche "Cesare Beccaria",
Università di Milano,
Via Festa del Perdono 7,
20122 Milano
Italy

′**Corresponding author**: E-mail address: francesco.salsano@unimi.it.

Abstract

Using a new historical dataset over the time period 1862-2009, this paper tests the validity of Wagner's Law of public spending (WL) in Italy. To this aim, cointegration and Granger causation are used to investigate the long run relationship between GDP and government expenditure. Moreover, DOLS method is applied to estimate consistent long run elasticity between these two variables. In contrast to previous studies, we evaluate WL for both total government expenditure and some specific items of spending. Our main findings are that WL does not hold in the long run for total government expenditure. However, we find strong support for WL in the shorter time span from 1862 to the end of the 19th century. Here WL is confirmed as regards both total government expenditure and all the specific items of spending we have considered. Conversely, in the post-Second World War years, WL holds only for capital expenditure, compensation of employees, justice and national security, welfare and redistribution by the state. Thus, it seems that Italy invested a great deal and for a long period in infrastructures, justice, national security, and welfare, and less in items such as education and culture that play a paramount role in the formation of human capital.

Keywords: Wagner's Law, government expenditure, economic development, cointegration, Granger causation, DOLS.

JEL classification: H1, H5, I00, N43, N44