Public Finance and Economic Growth: A Panel Data Analysis for European Countries

M. Carmen Blanco-Arana
University of Málaga, Spain
c.blancoarana@uma.es

Abstract

There is no easy way to follow the path that the Great Recession led us, since 2008 we have been trying to find out not only the consequences (worldwide reactions) but mainly the causes and key factors of the fall (worldwide problems). This disturb awoke a long-forgotten idea, a concept long time buried in the Great Depression and its unique factors: by appealing to the "secular stagnation" we could understand (or, at least, give an explanation to) the pre-crisis world and most importantly the difficulties that appeared in the post-crisis public and private sectors. Thus, there is a potential risk of secular stagnation in economically developed countries. Although their causes are structural, from both aggregate demand and supply sides, fiscal policy can play a significant role in boosting economic growth. This paper studies the relationship between different types of government spending and economic growth. To this end, a data panel analysis is performed for 31 European countries, covering a period of 25 years (1992-2017). The main findings suggest that some kind of social public spending, such as "health", "education", "public order and safety" or "recreation, culture and religion", are highly related to economic growth in European countries. Thus, in a low level economic growth context, raising some items of government expenditure could contribute to boost economic activity and potentiate growth.

Keywords: Public spending · Economic growth · Panel data · European countries

JEL Codes: H30; 040