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Does Income Level Matter in Growth Effect of Public Expenditure? A Comparative Analysis for Developing Countries over the Period of 1990-2011

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ABSTRACT

The growth effect of public expenditure is a controversial issue in both theoretical and empirical literature. While the Neoclassical Growth Theories suggest no effect of public policies on economic growth, the Endogenous Growth Theories indicate a significant economic effects of public policies. The empirical evidence is inconclusive. This study aims to shade light over the discussion by testing the relationship between public expenditure and economic growth for developing countries over the period 1990-2011. Endogenous variables are taken into consideration and the Two-staged Least Squared Panel Data Method is applied to a sample of two sub groups split according to income levels. The findings are in line with the predictions of Neoclassical Growth Models suggesting that the public expenditure has no role on determining the growth rate regardless of the income level in developing countries.

KEYWORDS Public Expenditures; Economic Growth; Developing Countries

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