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Is there a correlation between the size of public spending and unemployment? Evidence from the OECD countries

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ABSTRACT

The Abrams curve approach points to the presence of relationship between the size of public expenditure and unemployment. The objective of this study is to examine empirically the relationship between government size and unemployment in the OECD countries over the period of 1980-2014. For this purpose, the time series techniques are utilized and empirical results indicate that Abrahams curves relation is present for some of the countries from the selected sample countries. The existence of evidence on positive correlation between the size of public spending and unemployment will definitely produce policy implications in this regard; encouraging the policy makers to opt for disciplinary fiscal policy measures. Monetary and fiscal policy discipline; and convergence among the members has become primary concern for European Union from the very start. To this end; Treaty on European Union signed in Maastricht in 1992, laid down the conditions for the members for the qualification in Economic and Monetary Union Project. The Stability and Growth Pact (1996) further declared that the fiscal norms that were imposed as Convergence Criteria would become permanent fiscal rules for the EU members in the Euro area. Fiscal rule had been viewed as an indispensable element for economic stability within the economies of EU. However; The ongoing Euro-wide crisis and concerns call for more effective remedial solutions in this respect.

KEYWORDS Abram Curve; Government Size; Unemployment

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