

## Validity of Wagner's Law in Eurozone: A Panel Causality Analysis

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### **Abstract**

Government expenditure has become one of the main issues in macroeconomics after Keynesian Model. According to Keynesian Model, government expenditure encourages economic growth. However, before Keynes, a prominent German economist Adolph Wagner, revealed the relationship between government expenditure and economic growth. Wagner claims that as the economy grows, the share of public sector in the progressive states increases. Wagner's Law asserts that the relationship is from public expenditure to economic growth. In this study, the validity of Wagner's Law analyzed by Dumitrescu and Hurlin(2012) panel causality analysis for member of the European Union countries using the Euro. The analysis was performed by using annual data of 16 Eurozone countries between years 1995-2018. According to test results there is a causality from government expenditures to economic growth. In other words, Wagner's Law is valid for selected Eurozone countries and period subject to the study.

**Keywords:** Wagner's Law, Government Expenditures, Economic Growth, Panel Causality Analysis

**JEL Codes:** E62, C33, H59