

PELIN VAROL İYIDOĞAN

Hacettepe University (Associate Professor), Turkey

REVISITING THE CAUSAL RELATIONSHIP BETWEEN THE MAIN COMPONENTS OF FISCAL BALANCE**Abstract:**

The deterioration of fiscal balance during 1970s has aroused a critical issue focusing on the government expenditure-revenue nexus, which are the major instruments of fiscal policy. The regarding interaction has become even more crucial in the aftermath of 2001 financial crisis, particularly in the era of government sector fiscal management reform in 2006. In the theoretical framework, 4 plausible explanation concerning spending-revenue nexus is asserted, that are i) tax-and-spend, ii) spend-and-tax, iii) fiscal synchronization, and iv) tax smoothing approaches. Within this framework, our study aims to examine the macroeconomic long-run relationship and causal interaction between the expenditure and revenue of government sector over the period 2006:1-2017:6 in Turkey. We analyze the cointegration relation between the variables in question by means of Pesaran (2001) bounds testing methodology. Followingly, we utilize Granger testing procedure based on error correction mechanism to reveal long and short-run causality between the fiscal aggregates in question. In accordance with the empirical results, we find causal evidence supporting the spend-and tax hypothesis which asserts government expenditure as a determinant of revenue. In this regard, fiscal policy should address efficient government expenditures to promote fiscal discipline and control budget deficits.

Keywords:

government revenue, government expenditure, cointegration, causality

JEL Classification: C32, H62