The Tax-Spend Debate:
The Case of Canada

ABSTRACT

This paper examines the time series relationship between revenues, expenditures, and GDP in the case of Canada. Utilizing the Johansen-Juselius multivariate cointegration procedure and error correction modeling we find that revenues follow a time path independent of expenditures and GDP. On the other hand, expenditures respond to budgetary disequilibrium in that budget imbalances would be corrected by expenditure changes. Moreover, evidence suggests that expenditures also respond to GDP.