

Size of Government Public Expenditure and the Armey Curve: The State of Iraq's Economy

Hasan Khalaf Radhi

Abstract;

The main purpose of this study is to test whether there is an upside-down U-shaped relationship between public expenditure and GDP, and to find an optimal level of expenditure. In theory, the relationship between optimal government expansion and GDP has been linked to an Armey curve. Armey Curve, which Armey assumed that the basic logic behind the Armey curve is that the relationship between public spending and GDP is positive until the point where the optimal size of the tunnels reaches its maximum, after which the relationship becomes negative according to the throw curve. The data used in the study for 2004-2022 used the ARDL method to test the limits. The optimal volume of public expenditure as a proportion of GDP in Iraq's economy was 26.3%. The empirical results show that the share of current public expenditure in GDP exceeds the optimal public expenditure in Iraq and for all school years. (Express/GDP, Expt2/GDP) and the dependent variable (GDP), and this relationship is governed by two directions, First, there is a positive relationship between them at the beginning and after reaching the optimal threshold for the size of the expenditures by which GDP rates are maximized due to increased expenditures, and then another stage begins to be one where the quadratic shape of the government's expenditures affects the dependent variable negatively after the threshold of optimal size of the tunnels and declines in GDP rates. The research recommended that decision makers in fiscal policy rationalize government spending to no greater than the optimal size of government spending of 26.3%.

Keywords: optimal size of government tunnels, GDP, ARDL measurement model, Armey curve, Iraq.