

OPTIMAL SIZE OF GOVERNMENT SPENDING. THE CASE OF EUROPEAN UNION MEMBER STATES

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ABSTRACT: The theme of public expenditure has been of great interest in the latest years. Focusing on government size, role of government and the efficiency of the public sector becomes an even more important issue nowadays when the financial crisis has covered severely almost all economies worldwide. The debate has as starting point the keynesian belief (state intervention overcomes recession periods) but also the division of the economy between the public and the private sector. Goods and services could be provided by the state, but many times the private sector seems to be more efficient. Using a specific econometrical analysis, the authors try to establish the optimal size of the public sector in both old and new member states of the European Union, a level that fosters economic growth and suggest that, following this point, GDP should be left in the hands of the private sector.

Key-words: public expenditure, economic growth, optimum level, public sector

JEL codes: H10, H50, H70