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THE IMPACT OF GOVERNMENT SIZE AND COMPOSITION ON GROWTH IN EU15 COUNTRIES

Abstract:

The goal of this paper is to investigate the long-run effect of government size and composition on growth. Unlike previous studies, this paper employs an improved dataset and a more adequate econometric technique. Using pooled mean group (PMG) estimation approach, which is particularly suitable because it allows short-term adjustments and convergence speeds to vary across countries while imposing cross-country homogeneity restrictions on the long-run coefficients, we empirically test the relationship between growth and government size and its composition in developed European economies, over the period 1970 to 2014. The obtained results indicate that high aggregate spending levels are an impediment for growth in developed economies, while the single most important government expenditure item is - Education.

Keywords:

government size, GDP growth, PMG estimation, EU

JEL Classification: C33, H10, H50