The role and the performance of public sector in the European Union

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Introduction

The role of the state is finally the decision of the citizens. The government, being a result of elections, can provide more or less protection and increase or decrease expenditures. Anyway for achieving goals and for being performant the state definitly has to promote a good governance. Good governance means the way unions, public institutions, civil society and tax payers work together. An other important factor is the transparency and accountability of the elected government.
As regards public services and goods, it is definitly important to grow efficiency of the government. Therefore themes like tax competition, public expenditures and harmonization of the tax system have to be analysed. There are main differences between eastern and western countries of the European Union witch generate social and economical consequences.
It is also important to think of measuring performances of the public sector and of finding the most appropriate way in which government size and efficiency can lead to economical growth.

1. The modern welfare state

1.1. The role of the modern state

In modern economies, the public authority delegated to manage the public choices of the community is the state. In fulfilling its tasks the public decision makers assume more or less attributes according to the doctrines embraced by the government. The government acts on behalf of the citizens and is the result of the election process, thus, it reflects the community's choice in the field of public decision including the provision of public goods. Regardless the doctrines followed by government, it always pursues the society's welfare target. Consequently, the main roles assumed by the state are: *the distributive role*, *the regulation role*, *the stabilising and the assurance role.*

By applying the *distributive* roles, the state widely encompasses the reallocation of incomes and wealth among individual and firms. According to Pareto efficient allocation of resources, there is *a priory* distribution of wealth depending on the property rights, the existing wealth, the actual income as well as the intellectual and physical abilities of the economic subject. But, the distribution of income is not always consistent with the norms of social justice embraced by the society, considering that it is assessed according to market values. Consequently, the society, represented by the state adopts a number of measures in order to redistribute the level of income and wealth with the socially agreed norms. In this process the main part is played by the government because it holds the necessary tools used in order to coordinate the financial policy.

The usual way to redistribute income and wealth is by manoeuvring the taxation rates (that can be flat, progressive or regressive). It is a very powerful financial policy tool, able to shape income and wealth, and fuelling the necessary funds required by the public goods financing.

But, the wide spreading globalisation, as well as the new configuration of the European economy, are about to change the role of state.

From this point of view, economists argue whether the state should provide directly the required public goods or it should increase personal income so that the individuals acquire the goods on the market according to their free will. The arguments against this conduct are the followings:

- individuals don't, always, choose the proper quantity of goods (either over or underestimating the consumption), thus crowding out a number of goods
- incomplete and/or distorted information (information asymmetries) concerning pricing,
- the impossibility of the state to supervise the price of goods that should be available for a wider range of the population,
- the existence of negative externalities when private activities are no subject to clear regulation. *Externalities are considered as the economic effects of o certain activity that does not appear in a firm's accounts because they are not tradable transactions.* It means that the costs and benefits of an economic subject are transferred to other entities influencing their production of consumption. Some of the externalities have negative effects (urban agglomeration means increasing costs for the infrastructure and public order, pollution affects the environment and health, etc.) others such as investments in education, health, infrastructure have positive effects on productivity, life quality, profits, etc. Therefore the state should intervene in order to diminish the negative effects of externalities, to provide public goods that mean positive externalities for its beneficiaries and creating incentives for investments and productivity growth.

This line of reasoning may come into conflict with the liberal view on this issue argueing that the government intervention constrains individual freedom. Nevertheless, the regulation role of the state influences the producers and consumers decisions, thus aiming to reduce monopoles and externalities. The regulating part of the government is necessary given the asymmetric information regarding market conditions which are either not available or they are much too costly.

On the other hand, though regulations restrains individual freedom, they are absolutely necessary in a market economy otherwise a social order, considered hostile by many, would be created. Moreover, rules and regulations are necessary in order to protect the public interest, to prevent illegal incomes and wealth and the excessive monopolization, consumers’ safety, etc.

The *stabilizing* role of the state concerns the possibility of market failure leading to misallocation of resources, unemployment, under or overpricing of assets and goods, payments imbalances, etc. In other words, the market failure means a widespread lack of communication and coordination of economic subjects that operate on different markets. By cooperating with the monetary authorities, the state can set up rules in order to prevent deeper financial imbalances and ultimately economic and financial crisis.

The *social protection* role of the state derives from the fact that it assists individuals that due to market failure lose temporary or permanent their ability to work, pensioners, disabled. Of course there is always the alternative private possibility to insure risks, but for the majority of the population the insurance rate may seem prohibitive, inducing discrimination.

1.2. The public sector governance and transparency

Public sector governance is essential for an efficient management of the welfare state. It means the cooperation among the government, trade unions and civil society, taxpayers in the process of decision making. In order to grant efficient governance, all participants should act according to social norms: the public decision makers in setting up the best practices in the interest of society, public institutions in applying the approved rules and in offering efficient goods, and tax payers by complying with tax laws.

The positive role of governance in economic development is obvious. Thus, it helps society to meet its expectations and enhances the power of law.
If the governance rules are not followed, a number of negative effects on development may appear. The reason is that governments manage a large volume of resources channelled toward acquisitions, public firm functioning, subsidies and grants in aide.

But, all these activities are rent bearers, and if they are not submitted to transparency and accountability, then decision makers may encourage corruption impeding inovation, private initiative, market mechanisms, thus inducing negative effects on economic and social targets. The problem regards all the countries, regardless their state of development. It derives from the fact that governmental activities are complex, often dificultely defined and assesed, and public servents often rent seeking. Moreover the public sector efficiency cannot be appreciated rigurously and the public policies may induce assimetries in asseing the political process. Thus the interest of the political class is estranged from the interest of society generating corruption and „concentrated benefits”.

Public sector governance credibility is enhanced by a number of determinants, including transparency.

We are concerned about transparency because it enables two interlocked engines of welfare and development, namely governance and economic markets. More openness and information sharing enables the public to make informed political decisions, improves the accountability of governments, and reduces the scope for corruption. Greater transparency is also essential to the economy: it improves resource allocation, enhances efficiently and increases growth prospects.

The definition for transparency is not straightforward. Some opinions are based on the *availability of information regarding the laws, rules,* while other definitions emphasize *more general objectives such as communication the decision makers' intentions.* The first point of view is fundamental and not submitted to controversy. It presumes undertaking certain measures to inform the public on the decision making process, while the second point of view concerns communication and requires the consideration of values, preferences, mentalities and customs.

Guarentying transparency implies the right to certain information. They overcome abuses and informational assimetries and allow the society's respons.Difficulties may occur by not fiding the proper communication terms required by receivers of information.

A working understanding of transparency should encompass the following attributes: *access, comprehensiveness, relevance, and quality and reliability* of laws and regulations.

Transparency mechanisms are accompanied by the authorities' *accountability* concerning the use of public funds. The accountability is necessary to internalize the indirect costs of fiscal indiscipline as well as the sanctions for not complying with the budgetary rules. It requires that politicians and other decision makers present reports concerning their activity, and fund allocation and bear responsibility for the authority that was delegated to them. The accountability is necessary but it doesn't become operational until the person held responsible, the object of accountability and other entities are identified. The timely and lawful information are an important ingredient to correctly inform the public. According to a widespread view, the transparency presumes: the existence of a financial law to cover budgetary and extra budgetary spending as well as the accountability for public spending management, taxation should be strictly ruled and backed by self guarding rules, etc.

Beyond these aspects a healthy public spending management system considers the broader values of society. *Accountability, transparency, predictability and participation* are very important tools and are regarded as the four pillars of healthy public governance.

If decision makers do not submit to the authority conferred by the Parliament or if public funds are used for private purposes it is doubtful that the fiscal discipline or efficient allocation of funds can be attained. Corruption defined as the improper use of public funds for private gain raises moral and legal issues and is a major source for public spending inefficiency.

If these requirements are not fulfilled the governance fails, the society can be submitted to moral hazard and adverse selection while the welfare state is compromised.

2. The prerequisites of public sector performance

2.1 Public goods and public spending

In modern economies the public sector has to prove its effectiveness by supplying the required public goods under an efficient allocation of public funds.

In managing public spending, governments need to be mindful of fiscal discipline, resource allocation efficiency and operational efficiency, i.e. they need to ensure that public spending is macro economically appropriate and fiscally sustainable, expenditure is allocated to functions, programs and projects that are priorities for government policy, and those resources are used efficiently and effectively. Good institutions and thorough policies help governments accomplish all these functions.

The intensive financial flows, migration and trade raise the question defining the public goods in the context of globalisation. Under these circumstances several issues must be addressed:

- firstly, the identification of fiscal authority enabled to collect taxes on income and wealth for individuals and firms residing abroad in order to prevent free riding,
- secondly, the provision of public goods to accommodate the new needs of the community.

Such questions become more acute for the European Union which faces new challenges in achieving sustainable development. Under the new economic environment, the global public goods become ever more important. Within the EU individual countries should make efforts to subordinate their local interests to the general welfare of the community.

This approach requires a revision of public goods definition. Traditionally they are considered as the goods whose consumption by an individual does not diminish another individual consumption (meaning they are non-exclusive and non-rival). Under the new circumstances this definitions should be extended by considering as public goods *the advantages the society is taken from the provision of utilities meant to satisfy certain particular wants, eradication of poverty, disease, environment protection, and social protection.* Moreover, it should be clearly stated that whether they are referred to as goods or public services they should bring advantages to the society as a whole, as well as individually.

Though public goods are traditionally supplied by government bodies, their provision can be delegated to private entities under certain conditions: the quality of goods and services, availability and price. Moreover, public goods should be cost effective, should enhance productivity and diminish unemployment. All these aspects become more challenging because nowadays public goods become global, range beyond national borders, and once put in place the future generation can benefit of their advantage.

Given the high costs of public goods, either merchandise or services, and the limited funds available to finance them the question of expenditure effectiveness is raised. Therefore the public goods should complement private goods, and the intervention of the state should not trespass the line beyond which private incentives diminish. We consider that the provision of public goods and advantages to the society should support individual development, should sustain economic activity and tax benefits toward contributors should be maximized.

Global sustainable development will require an unprecedented level of international co-operation in the field of public sector. And it must be a co-operation in which the developing countries are brought in as true partners and not underdogs. Key challenges for achieving this objective are the eradication of poverty and the protection of our environment from the damaging processes.

Existing models of economic globalization are not delivering these results. More specifically, the European Union has to deal with problems it has not encountered before. The economies within its frontier have deep differences of structure, development, and face specific problems. Its peoples belong to different cultures, have different morals, and different points of view on the Union's problems. Therefore it is compulsory for the European Union to support reduce poverty, reduce the gap between the poor and the rich nations, to preserve the quality of the environment and harmonize the European economy as a whole. To achieve these goals, social measures that promote democracy and participation, expand education, improved access to medicine and healthcare and help the transfer of technology are to support economic growth. Countries need transportation and telecommunication infrastructure to sustain commerce and trade, the more so in a global competitive world. Fuel and energy services are necessary for agriculture and modern industrial functions. Water and sanitation services are essential to support population settlements in both urban and rural areas. Whether provided by the public or the private sector, the extent and quality of infrastructure services is critical for growth and development.

If public goods fail to provide these services we may assist to a ever divided Europe, wide spreading migration, free riding, waste and exhaustion of financial resources and turmoil that will affect the stability of the economies.

2.2. New challenges for the extended European Union

One of the biggest challenges of the extended European Union is to set up a harmonised financial policy in order to accommodate the needs of the older as well as the new member states. The challenges concern the collection of funds, the level of tax compliance, but foremost providing quality public goods under financial constraints. In addressing these issues, the main goal pursued should be the economic growth and the welfare of the citizens.

The framework to discuss these problems contains public sector governance, transparency and credibility as well as defining the public goods and their beneficiaries.

In addressing these issues the EU must face cultural differences, customs and habits that define the financial behavior of its citizens i.e. tax compliance and public funds spending. It further affects the efficiency and effectiveness of public expenditure.

Of course, individuals and firms express their options for public goods according to the goods offered by the state. From the state's point of view, the individual preferences should be aggregated thus complying with the mutual interest of the community and stating an objective pursued by the community. The efficiency and effectiveness of public expenditure in the European Union are critical to outcomes, including growth. A country that spends resources in a way that does not complement private sector initiatives or in a cost-effective way will undermine its growth prospects. In the new member states, cost-overruns, poor project management, and poor maintenance of new assets result in inefficient creation and maintenance of infrastructure assets. Leakages and waste may imply that increases in health and education spending do not necessarily translate into better outcomes. Typically these reflect underlying problems of capacity for budget management and, in some cases, of governance. If institutional weaknesses and problems of governance that cause poor outcomes are not addressed, even spending on potentially high return programs will have little impact on growth. The net impact will be to erode the government's solvency and reduce its fiscal space.

Country specific conditions are therefore important in the design of fiscal policy for long-term growth. Creating fiscal space will depend on initial conditions in a country and the strengths of its public sector institutions and the likely trajectory of ongoing reforms to improve their performance. Fiscal policy design that emphasizes the deficit but ignores the composition of spending effectively ignores an important transmission channel for the growth impact of fiscal policy. There is a rich but not uncontroversial literature, for example, on the relationship between public investment and growth. The sustainability of a fiscal deficit itself depends on the productivity of the expenditure. By allowing a fuller consideration of the growth effects of fiscal decisions, an explicit focus on the composition of expenditure would allow both stabilization and growth objectives to be addressed in more sustainable ways.

Comparing public sector in EU countries, it could be easily stated that the dimenssion of this sector reaches different levels. There are several old member states that have a large public sector. Those countries are mainly Sweden, Netherlands, Denmark, Austria. In oposition to those countries are situated Eastern European countries with a smaller public sector. This situation is due to several factors. Firstly it is worth mentioning the specific financial behaviour. Scandinavian countries but also Austria and other western countries seem to assume a higher compliance to taxes and agree a larger public sector. Consequently, the protection offered by the state in those countries to the citizens is much more important. Eastern countries but also Ireland and other western countries tried to encourage private sector for growing their economies by reducing taxes. Anyway, this is also correlated to the lower trust which people show towards public institutions in eastern countries.

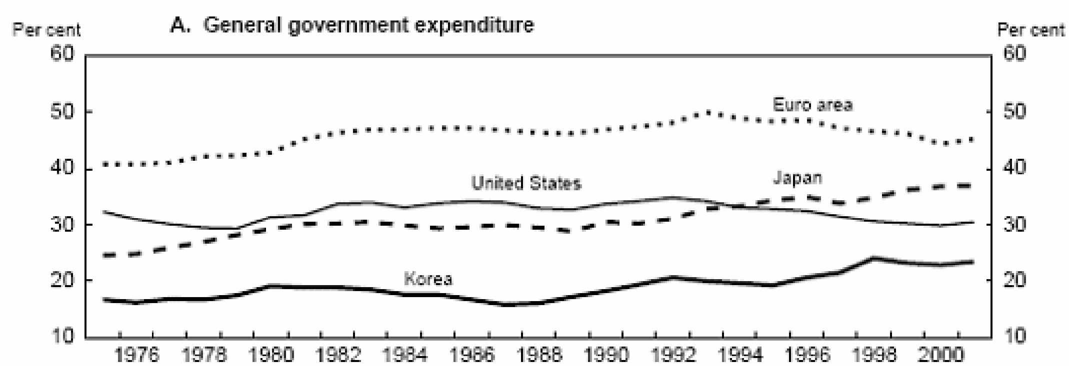
Table no 1 Percent of public expenditure in Gross Domestic Product

Countries	Period	Public Expenditure/GDP
U.S.A	2003	38,1
Canada	2004	49,8
Japan	2003	35,7
E.U. member states		
Austria	2003	61,2
Belgium	2003	51,5
Denmark	2004	65,4
Finland	2004	52,9
France	2003	56,9

Germany	2003	57,6
Ireland	2003	48,2
Luxembourg	2003	48,4
Netherland	2004	63,1
Portugal	2003	45,4
United Kingdom	2003	48,0
Spain	2003	49,9
Sweden	2003	61,3
Romania	2004	40,3
Hungary	2004	44,2
Poland	2003	45,9
Czech	2004	46,4
Estonia	2004	39,3

Source: OECD

Figure 1. **Public spending in international comparison**[1]
Per cent of GDP



Source OECD

Regarding public spending in the latest decades, it’s worth mentioning that the period around 1995 was the time with the largest spending as percent of GDP in the European Union but also in the United States. However, public spending reported to the GDP started to decrease ever since. This approach is due to tax competition in the European Union and also to the increasing pressure of the private sector. In fact tax competition and harmonization of the tax system is largely debated as western countries blame the eastern ones for adopting small tax rates and flat taxes. The argument would be accepting aids and funds from the European Unions budget is not fair thinking that eastern countries can afford not to ask for higher taxes from the empolyees and the companies.

An other important issue would be the composition of public expenditure and the comparison of productive and not productive public expenditures. There are countries like Sweden, Denmark, Italy but also Poland that spend important percent of their GDP for social security while others like Romania, Czech and Hungary spend little money for social security. Providing social security means protecting people and offering them the chance to recover from unpleasant situations and integrate into the social and economical environment. Countries that cut social security may claim this to be a way for supporting work and productivity, but experience prooves that countries with low social security don't neccessarly grow the rate workers/ not active persons. There is also very obvious evidence that eastern european countries have small budgets for sectors like health and education but do spend more money than western countries on economical activities.

Table no. 2 Functional structure of public expenditure

Country	Reported year	Total expenditures (%)	General public services and public order (%)	Defense (%)	Education (%)	Health (%)	Social security (%)	Houses and social buildings (%)	Culture, recreation, religion (%)	Economical activities (%)
U.S.A.	2004	100	12	15,5	2,0	21,9	28,3	2,8	0,5	6,6
Canada	2004	100	9,4	6,0	2,2	1,0	46,4	1,4	1,5	5,7
EU member states										
Denmark	2003	100	10,5	4,1	12,7	0,8	40,9	1,9	2,6	7,5
Finland	2004	100	8,5	4,5	10,4	3,3	36,4	2,9	1,0	16,1
Grece	2003	100	7,9	8,4	10,9	7,1	17,9	2,3	1,3	12,5
Ireland	2004	100	9,0	2,9	13,6	16,3	25,9	2,1	0,7	16,7
Italy	2003	100	8,9	5,6	6,6	2,0	46,3	1,7	0,7	9,6
United Kingdom	2003	100	7,7	7,1	3,8	15,4	36,5	2,2	0,3	4,34
Netherlands	2004	100	9,3	3,9	10,0	14,8	37,4	1,5	0,3	6,1
Spain	2003	100	5,5	3,2	3,6	5,9	39,6	0,4	0,5	4,7
Sweden	2004	100	8,9	5,6	6,6	2,0	46,3	1,7	0,7	9,6
Bulgaria	2003	100	12,0	6,1	4,5	9,6	35,5	1,9	1,4	11,3
Czech	2004	100	8,3	4,5	9,3	17,3	35,3	3,0	1,1	13,7
Hungary	2003	100	11,1	2,7	4,9	6,1	32,2	1,6	1,9	13,6
Poland	2004	100	7,0	3,4	4,8	0,8	51,5	2,0	0,7	4,6
Romania	2004	100	11,0	5,1	5,9	15,5	31,4	1,9	1,1	13,9
Slovenia	2004	100	12,2	3,1	10,7	14,5	43,5	1,2	1,6	9,2

Source: OECD

Differences in efficiency across countries are due to differences in governance and accountability, and in particular, in the quality of budget institutions and public sector management. All countries have elites, interest groups and lobbies seeking to control and divert public resources to their advantage. But in some countries the allocation of resources is determined by a legitimate and effective political and budget process while, at the other extreme, in other countries resources may be diverted wholesale from government functions to the private use of the politically powerful. The countries that do better in terms of resource management have evolved political processes and budget and public sector institutions that establish some rules of the game which restrain selfish behaviour, protect the public interest and enforce accountability for resource use.

Given the differences of economic development, living standards, culture, customs and habits, a harmonised approach of public goods in the European Union means to solve the *jurisdiction gap, the participation gap and the incentive gap among different nations.*

3. Measuring public sector performance

3.1. A conceptual framework

The discussion on public sector measurement rests on the processing mechanisms (input, output, income, impact). For instance, in education services *inputs* are the resources assigned for this purpose: teachers, equipment, facilities, etc. and their social value is measured by their costs (i.e. the value the society tags to this task).

The budgeting performance criterion corresponding to inputs is *compliance*, i.e., defined as close adherence to budgetary ceilings and *ex ante* allocation, as well as a proper but agile procurement process.

Output is the service itself, number of pupils and students, The social value of outputs is approximated by the market price for the same or the closest equivalent service (or, in its absence, by total unit cost). The performance criterion corresponding to outputs is *efficiency*, i.e. minimizing total input cost per unit of output (or maximizing the quantity of output in relation to a given total cost of inputs).

Outcome is the purpose that is achieved by producing the service—e.g., literacy vs. illiteracy, number of graduates and employment. The social value of outcomes is subjective and arbitrary, except as revealed by public reaction in the political arena. The performance criterion corresponding to outcomes is *effectiveness*, i.e., maximizing outcomes in relation to the outputs produced.

The i*mpact*, is defined as the *value added* from the activity. It can be explained by the positive externalities induced on the counterpart fields (transfer of productivity by hiring educated labour).

Processing management is the manner in which inputs are procured, outputs produced, or outcomes achieved. For inputs, good process consists of intelligent compliance with input acquisition and utilization rules and, of course, integrity. In some areas of public activity, such as law or politics, “due process” has its own independent validity and is a key element of good governance.

3.2. Performance indicators

Building performance indicators is not an easy task. Nevertheless, measuring is of an utmost importance because what gets measured will presumably get done.

In order to have a valid measurement three rules should be considered: a correct and accurate definition of what must be measured; the goods and services must be measured correctly; consequences if tasks are not fulfilled. In the public sector, these rules are quite difficult to apply, because seldom, the least measurable activities may be the most important ones. Moreover, the rules should be adjustable, entailing behavioural changes. It is important to assess the long term outcomes of measurements because the benefits or dysfunctions depend on the ways and fairness of the performance assessment system.

A few examples of performance indicators are illustrated in table no.1

Because of the difficulties in measuring the public sector performance, a system of benchmarks is necessary. For this purpose, the best performances of similar countries are to be considered as benchmarks. It will provide

Benchmarking and performance measurement are closely linked. Performance measurement can be the first step towards improving the performance of a public sector organization and, if backed by an appropriate incentive system, it can help shift organizational focus from inputs to outputs and outcomes and thus improve efficiency and effectiveness. However, the real benefits come from using the performance measures as the basis for internal or external comparisons with the objective of improving the performance of an organization. This is called Benchmarking, which can be defined as the technique of comparing *business practices* and *performance levels* between organizations to identify opportunities for making improvements in *economy, efficiency or effectiveness* of an organization's activities.

Table no.3 Performance indicators

Sector	**Type of indicator**			
	Input	*Output*	*Outcome*	*Process*
Administration	No.of staff	No. of policy papers	Better decisions	Openness of debate
Education	Student/teacher ratio	Retention rates	Higher literacy	Encouraging student expression
Judicial system	Budget	Cases heard	Low appeal rate	Assistance for indigent defendants
Police	No. of police cars	No. of arrests	Decline in crime rate	Respect for rights
Corrections	Cost/prisoner	No. of prisoners	Recidivism rate	Preventing abuse
Health	Nurses/population	No. of vaccinations	Lower morbidity	"Bedside manners"
Social welfare	Social workers	Persons assisted	Exits from system	Dignified treatment

The first steps in a process benchmarking exercise involve the preparation of process maps for the activities in the selected area of focus, collection of information on resources consumed by those activities and an analysis of the practices, working methods and policies that determine the performance of those activities. Generally, at this stage many obvious inefficiencies in the existing processes are revealed, the elimination of which can yield significant performance improvements. The next steps are to obtain comparator data, compare the processes, develop recommendations and implement change. After the changes have been introduced, the new values of the performance indicators provide a measure of the improvements achieved and the basis for starting the next round of benchmarking. Therefore, this technique is often referred to in the literature as benchmarking and continuous improvement.

3.2.1 Set backs of the measurement problem

Measuring the public sector performance has always a number of shortfalls, given that the psychological, cultural, social characteristics of a given society play a major part in this process. Therefore every measure of performance is a proxy measure. Moreover, the performance of the public sector is often judged in terms of the secured wellbeing and public goods quality. But, computation constraints force the use of market values to assess public goods and services. Since the quality of public goods is very difficult to determine, the measurement issue becomes more complex as one proceeds up the scale from input measures through process indicators. Consequently, performance indicators are most appropriate for sectors where there is a direct and immediate relationship between the government agency's outputs and the desired outcomes.

Considering the above concerns, *caeteri paribus*, an indicator meant to reveal as well as possible must obey the following requirements:

- clarity, i.e. being as unambiguous as possible,
- relevance, i.e embedding the necessary features to answer the pursued objective
- economical, using available, costless information
- adequacy, i.e it should provide information consistent with pursued performance
- monitoring, i.e. adjustable according to the changes in the set of data.

As the public sector performance is often submitted to criticism, being considered as overdeveloped, ineffective and supplying public services that do not meet the expectation of the community, the issue of contracting out was risen.

Since the whole community feels entitled to benefit of public goods and services, either free riding or not, and as these goods are non exclusive, the prospect of losing customers is not a powerful incentive and lack of profit motivation may reduce the public sector's performance. Therefore, contracting the supply of social services to the private sector can, if done right and under certain circumstances, lead to efficiency savings in and of itself.

Contracting-out is the transfer to the private sector of the implementation of activities financed and previously delivered by the government. Generally, under contracting-out arrangements, the activities transferred to the private sector remain financed by the government. Separating the financing from the delivery allows the governmental purchaser to choose from among different suppliers and to control costs and quality standards, without having to take into account particular interests of its staff. Contracting out aims at improving efficiency and curbing costs by promoting competition and/or clearer identification of costs.

Where a pure contracting out is not possible, public-private partnerships may develop, thus, because the profit objective of the private partner may allow the assessment of performance in market terms.

3.2.2 Effects of public sector on economic growth

There is a long debate going on whether the public sector enhances economic performance. Nevertheless, economists agree that there are circumstances in which lower levels of government spending would enhance economic growth and other circumstances in which higher levels of government spending would be desirable. If government spending is zero, presumably there will be very little economic growth because enforcing contracts, protecting property, and developing an infrastructure would be very difficult if there were no government at all. In other words, some government spending is necessary for the successful operation of the rule of law. Economists generally agree that government spending becomes a burden at some point, either because government becomes too large or because outlays are misallocated. In such cases, the cost of government exceeds the benefit. Generally, the public sector is not profit seeking and public spending requires costly financing choices. Since public spending requires public funds. Collecting the necessary funds means that the public authorities are confronted with the taxpayers' reluctance to comply with the tax laws, especially if taxes discourage productive behaviour. Government spending displaces private-sector activity. This dampens growth since economic forces guide the allocation of resources in the private sector, whereas political forces dominate when politicians and bureaucrats decide how money is spent. Some government spending, such as maintaining a well-functioning legal system can have a high "rate-of-return." In general, however, governments do not use resources efficiently, resulting in less economic output.

Nevertheless, it should be admitted that a proper public spending underlined by efficiency and effectiveness lead to positive effects on the economy: the redistributive effect under the market failure, the productivity transfer and the multiplying effect may still enhance economic growth maybe especially productive when the economy becomes sluggish and private capital and forces cannot support the down sloping of the economy. Therefore the public sector' dimension should be adjustable, i.e. it should grow whenever market mechanisms fail to efficiently allocate resources, absorb unemployment and available capitals, and should restrain its activity during economic boost. Such an approach should be feasible under the multiannual budgeting process. In order to ensure its main task, i.e. economic growth and welfare, the public spending policy should be underpinned by support policies, such as: the tax policy, monetary policy, trade policy, regulatory policy, private property.

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