

# FISCAL POLICY PERFORMANCE ASSESSMENT IN THE CONTEXT OF NATIONAL COMPETITIVENESS, CASES OF EU COUNTRIES

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## Abstract

The article deals with problematic issues of economic competitiveness in the context of the EU. Fiscal policy and competitiveness as the world emerges from the global recession, the full extent of the deterioration of fiscal accounts is becoming visible and is raising questions about the consequences for longer-term competitiveness. Upon characterizing the tendencies of economic growth the most often used indicator is GDP per capita. Developing research in a similar direction and characterizing the tendencies of formation of the structure of new socioeconomic indicators to describe economic growth was carried out. In this case GDP per capita (growth) is far from a robust indicator of social welfare (progress)—witness the common substituting phrase “standard of living”. Countries with developed economics have much experience with respect to formation of business-friendly tax systems. The tax system (fiscal policy) is one of the most basic economic mechanisms determining the economic development. Finally, it could be shown that the correlation coefficients between the rankings of GCI, HDI and livings standards are high and positive.

*Keywords:* indicators of the development, GCI, HDI, growth of economy, taxes, GDP.

*JEL Classification:* A13, C14, E24, E42, E62, E64, G18, M48.

## Introduction

Though the international economic discussion is mostly about the worldwide financial crisis and the global recession, it's necessary to investigate long-term trends, determinants productivity and competitiveness of economy. Understanding the factors of this process has occupied the minds of economists for hundreds of years, ranging from Adam Smith's focus on specialization and the division of labour in neoclassical economists' emphasis on investment in physical capital and infrastructure. There is as a result of a successful fiscal policy, which will promote and competitiveness, measured by Global Competitiveness Index – (GCI). A nation's level of competitiveness reflects the extent to which it is able to provide rising prosperity to its citizens and GCI have examined the many factors enabling national economies to achieve sustained economic growth and long-term prosperity. While the EU on average seems to be not very competitive, several of the European countries are internationally highly ranked. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy and the understanding of the key factors determining competitive economic growth, helps to explain why some countries are more successful than others in raising income levels and opportunities for their respective populations and offers policymakers an important tool in the formulation of improved economic policies and institutional reforms. In the GCI, taxes is assessed by including the budget balance, public debt in the macroeconomic environment pillar, based on the belief that, although sound fiscal policy does not contribute directly to raising productivity and competitiveness, disarray can be very harmful. Economic development of any country is also determined by the development of civil society, according to Human Development Index (HDI). Research the influence of the forms of fiscal policy and the financial structure of public finance in the country on the economic processes that are taking place in advanced EU countries, which in their turn define the domination of these structures.

The main goal of research is through indexes characterize competitiveness to determine their interactions and to assess whether EU countries can find the space to choose the analysing criteria can be considered as “good complex of indicators”, evaluating the fiscal impact of the economic and social environment.

### Research methodology

1. Theoretical and empirical research its statistical analysis of tax systems influence to relationship between public finance, economic development, the state's role in increasing the competitiveness of the economy and the general welfare,
2. The use of mathematical statistics. Correlations for the detection and qualitative data correlation analysis applied to Spearman's correlation coefficient, the calculation regression results of the data processed in SPSS 17.0, using a cluster analysis of the similarities between the countries, broken down them into clusters.

Countries are grouping according to their prevailing trend similarities. Developing research in a similar direction and characterizing the tendencies of new socioeconomic indicators structure formation to describe economic growth. Macroeconomics does not offer any support for GDP as a measure of social welfare. Quite the contrary, optimal (normative) growth theory proposes models that explicitly use some theoretical notion of social welfare resulting in an objective function (based on continuous or overlapping generations) that does not generally come down to a GDP type of criterion. In this case the main empirical measures of competitiveness and social welfare that have been proposed as an alternative to the GDP indicator. It means that GDP per capita (growth) is far from a robust indicator of economic-social progress – witness the common substituting phrase “standard of living”. The influence of GDP to information on economic decisions proposed alternatives to GDP are evaluated, especially in monitoring of economic progress and guiding public policy, will lead to decisions and developments is being more in line with improving human well-being.

### Interdependence of GDP and tax burden in EU countries

Ambitious purposes of economic and social development in EU are closely related with reconstruction processes of member taxes burden and fiscal systems. Different level of EU members’ economic development applies relatively different principles of formation national tax system. It makes appropriate base for researches, which would allow identifying the nature of interdependence between tax system’s parameters and development trends of national economics for higher level of competitiveness. A consistent tax policy has greater influence on GDP growth than changes of tax burden. For this reason it is essential not only to adjust individual taxes, but also to create long term, stable and moderate tax policy and acceptable burden level.

Statistical data of 1995-2010 are used in this work, as well as publications of EC “European Taxation Database”, “Structures of the Taxation Systems in EU”, “Euro indicators 1995-2010”, Eurostat, 2010. The results of performed correlation analysis are provided in table 1 below

**Table 1.** Groups of EU countries, classified by GDP size (EUR/ capita) in 1995-2010 years and detected Spearman’s correlation coefficient between GDP and the Tax burden (TB)

Group 1		Group 2		Group 3	
(5000 to 10000) Euro/per capita GDP	Spearman corr. Coeff.	(10000 to 15000) Euro/per capita GDP	Spearman corr. Coeff.	(15000 to 20000) Euro/per capita GDP	Spearman corr. Coeff.
Latvia, Lithuania, Poland, Czech Republic, Estonia, Hungary, Slovakia	-0,629 (average) 0,420(weak) -0,379(weak) 0,512(average) 0,771(strong) -0,456(weak) 0,436(weak)	Portugal, Slovenia, Malta	0,486(weak) 0,599(average) 0,489(weak)	Greece, Cyprus	0,510(average) 0,492(weak)
Group 4		Group 5		Group 6	
(20000 to 25000) Euro/per capita GDP	Spearman corr. Coeff.	(25000 to 30000) Euro/per capita GDP	Spearman corr. Coeff.	(30000 to 35000) Euro/per capita GDP	Spearman corr. Coeff.
Italy, Spain UK	0.540(average) 0,407(weak) 0,639(average)	Belgium Germany France	0,739(strong) 0,419(weak) -0,533(average)	Netherlands Sweden Denmark Ireland Finland Austria	0,408(weak) 0,396(weak) 0,470(average) -,629(average) 0,460(weak) 0,416(weak)

Summarizing results of performed analysis, it is possible to consider that only in more “weak” countries the increase of taxes have negative of the trends of GDP growth, but not unambiguous direction. In “richer” countries it could not be identified that the higher level of TB had negative influence on the trends of changes of GDP per capita. Correlation relation between changes of TB and GDP per capita is stronger in the countries with historically high TB and stable tax system. The analysis of GDP and the TB changes occur in different ways - high levels of economic development of countries in Group 6, 5 (the Netherlands, Sweden, Denmark, Germany), the correlation coefficients are sufficiently low, which corresponds to (Kollintzas, 1994; Fiorita, 1997) claims that the correlation between government consumption (tax burden) and GDP is close to zero for a consistent long-term fiscal stability in economic analysis of a strong Europe. Mid-level countries (3, 4, 5 groups) correlation between GDP/capita and TB have a positive but weak

correlation coefficient. Countries with the lowest GDP per capita correlation coefficients ranging from 0.6 to 0.7 and has a different impact on the direction of - 4 s in the positive, and their 3-negative coefficients. There is no unambiguous relationship between tax burden and economic development, so further tests are necessary. Taxes incomes are formed public expenditure policy, therefore actual government participation, by reallocating resources of budgetary support. The empirical evidence on the relation between economic growth and government investment has been mixed. Studies (Barro, 1991) of 98 developed and developing economies finds a positive but insignificant relation between public investment and economic growth. Negative relation between the capital component of public investment and economic growth for a group of developing economies found (Devarajan et al. 1996). They attribute this to the misallocation of public capital expenditure by developing countries, which cause them to be unproductive at the margin. One would expect welfare growth here to show a higher correlation with GDP growth than in rich countries. The size dimension as measured by public goods and investment, has been incorporated in the work of Barro (1991), Barro and Sala-I-Martin (1995), Aschauer (2000). However, much less attention has been paid to the quality dimension which underpins the efficient provision of public goods, in this case –social benefits (SB). The Solow augmented Mankiw-Romer-Weil (MRW) model is used as a basis for this study. The production function incorporating the size and quality of the government is of the Cobb-Douglas form such that consumption and production levels, production output corresponding to the level of optimal taxation model (Barro, 1991) and as a general expression of public revenue, can be described by Barro and Sala-I-Martin (1992) model as:

$$N = Y(G, M, L, R)t - c(G) + \alpha r(M) \quad (1)$$

The model represent as a function of a competitive national economy, which is influenced by:

- GDP (the amount the state budget through the G in the public service level, M-tax incomes);
- HDI (working environment for L-labor productivity and unemployment rate);
- SB Social benefits level (c (G) is the cost of government services);
- GCI (R - resource base - technological innovation, scientific potential of natural assets, the influences of these components in the tax environment);
- TB (t - fiscal policy and the country generated additional income tax-free private- $\alpha r(M)$ ).

In modern economic theory is widely discussed in any set of criteria to assess the impact of the tax system, creating the country's competitiveness and a favourable environment for human development. Applying the same reasoning as Hulton (1996), a country with better governance will converge to a higher level of steady state income per capita than a country with poor governance. Subjective well-being studies also show that, at the individual level, income does not perfectly correlate with welfare –so that absolute individual income is not a good, general proxy of individual welfare Sen, (2000) considers the implicit treatment of income distribution as the main objection against GDP as a measure of welfare. An unequal distribution implies unequal opportunities for personal development and well-being. A sub-argument is that the public budget will increase with income growth. This, however, raises the question whether an ever larger public budget is desirable in the first place.

### **Studies of dependence analysis of Social Indices, benefits GDP and tax burden**

In this section, we analysed general trends in all EU countries in order to test whether trends occur between the analysed values, which are the country's public finances and economic feasibility criteria, identifying and assessing the HDI, GCI, TB, GDP and changes in the tax burden, calculated from the GDP. Correlation in testing hypotheses on the economic importance of social change and the competitive environment of the country's fiscal policies indicate opportunities for competitive growth. GDP is as a measure of economic change in the assessment of public finance, social policy choices and express the tax burden (budget revenue generating methods, social stress (income inequality) between the different fields of regulation) appropriateness for choice trends aspects of economic indices - competitiveness, social evaluation. TB assessment as a consequence of fiscal policy, the correlation between the indices from the available data and consideration of the chosen methodology, we seek to learn the additional indicators of budget connection with fiscal policy, strength and trends in the classification of EU countries into categories in terms of economic competitiveness efficiency with other EU countries, as analysed indexes, reflecting the country's economic development impact of changes in the derived global prosperity and competitiveness in accordance with the hypothesis, that the country's leading economic development and proven experience in an important historical aspect. By this way find the patterns and priorities for making the tax environment in order to steady the country's competitive economic growth and to obtain more detailed information about the

social environment, taxes and competitiveness of interdependence and their connection with the GDP, as a measure of the economy. Statistical data are calculating base of the socio-economic indicators for further analysis and correlation. Statistical sources based on (International Financial Statistics (IFS), Eurostat, The Euro indicators data base, the World Bank, 1995-2010). Availability and reliability of the data are testing, if data conducted for the statistical calculation tests. The results of correlation analysis showed that among TB, GCI, SC and HDI indices dominated by a statistically significant relationship describing the level of correlation between size and direction. This is confirmed hypothesis (Barro, 1990), that the appropriate mathematical calculation methodology based on mathematically based indicators and appropriate to examine the link between economic growth and fiscal policy.

**Table 2.** Spirmen's correlation coefficients between the GDP, TB, GCI, HDI and SB

	GCI	HDI	GDP/capita, change	TB (change in tax burden) as, % of GDP	Social Benefits, (transferrin benefits /capita), % of GDP
GCI	1	,878(**)	-,775(**)	-,726(**)	-,407(**)
HDI	,878(**)	1	-,924(**)	-,903(**)	,602(**)
GDP/capita. change	-,775(**)	-,924(**)	1	,927(**)	,925(**)
TB (change in tax burden as), % of GDP	-,726(**)	-,903(**)	,927(**)	1	,910(**)
Social Benefits, (transferrin benefits /capita), % of GDP	-,407(**)	,602(**)	,925(**)	,910(**)	1

A positive relationship (0.878) between the HDI and the GCI shows the index of consistency - the same change in direction and strength of the connection direction. Evaluation of the positive economic impact on the progress of development and increase competitiveness, as a consequence of what has become a cause of improvement of social life, or vice versa. These results are consistent with assertion (Sen, 2000, Rani and Stewart, 2005), that the economic development becomes a cycle, a success at any stage have a synergy effect and over time has a strong effect chain - from the beginning of the cycle by maintaining an economic growth may be at the "circle of poverty" centre category and countries with high HDI and evaluation of sustained economic growth has increased the potential to achieve higher competitiveness of the country. It is customary to point to the importance of GDP growth for developing countries.

The analysis of the fiscal group factors - GDP, TB and SB – demonstrate, that all coefficients have the opposite direction compared to the group index (HDI and GCI), although the signal strength is high enough from (0.924) to (0.726), except SB (0.602), which is between the SB and HDI, (-0.407) the SB and the GCI. It can be argued that the TB, generating income and GDP trends affecting depends (signal strength is high) and the quality of life assessment of HDI, as well as the country's economic life and assessed GCI and GDP, but dominated by the influence of the opposite effect (negative values). This indicates that the economy (GDP) and social development (HDI), depending on the fiscal policy can be mutually reinforcing upward spiral elements are affected by the country's competitiveness, which corresponds to findings of Barro and X. Sala-I-Martin (2004). There is confirmed Sen, 1999 statement that the tax system and their effectiveness must be evaluated in addition to the existing social system and possibility with different indices to express the level of the social environment is becoming an important criteria for performance evaluation. Support of Social environmental and income disparities between different groups in society become one of main fiscal policy assignment, which connects the different experiences and levels of economic development of the countries as a main income equalization tool. Evaluation of the strong correlation between TB and the HDI (-0.903), GDP (0.927) and GCI (-0.726) suggest that a tax system that meets the country's economic development tax rate has an impact on GDP changes, but does not affect the competitiveness of the country, directly. Thus, positive economic developments in one part of the world are not automatically a disadvantage for other parts. However, if a country is growing slower than other economies, the effect can bring about changes in the employment in some industries, which is decreasing in some and increasing in others.

Opposite signs of correlation between the sizes of indices GCI; HDI and GDP, TB, SB, shows that taking into account only size of GDP and his changes in measured only the country's economic activity, but no change in the efficiency and this information is not sufficiently informative to be able to reveal as the country's economic growth and welfare of population affected by the country's potential economic growth. Although correlation does not guarantee causation, but the high indices of social factors can often act as a

precondition for sustainable GDP growth, although they will not necessarily improve with the growth in income levels. It is therefore clear that in today's economy requires additional GCI index, HDI assessment is widely recognized as next of GDP, TB or SB in order to assess the country's economic development and influence the direction of both the public welfare and national economic competitiveness. This statements correspond the hypothesis that increasing the reallocation of resources within the country's budget requirement leads to fast changes in fiscal policy, but the long-term competitive the country's economic growth is not enough only to assess changes in GDP, which is more of the state budget and the country's economic growth in general characteristics (Alesina, 2004) while budget and fiscal redistribution leads to changes in the size which depends on the country's spending and innovation level, social and other benefits to the feedback with changing needs of society (Shuller, 2008).

A strong negative correlation between GDP and HDI, which can be explained as an index of the HDI components of dependence, which has a different impact on different levels of countries. World Economic Forum (WEF), in assessing the competitiveness between nations based on the GCI methodology and argues that the high and rising standard of living is a critical level of competitiveness. Furthermore, a highly competitive position associated with a high living standard, expressed in terms of GDP/capita and the HDI assessment. It can be argued that there is a group of EU countries which belong to the world's most competitive economies, while their standard of living in the desirable priorities. The evaluation of the strength of relationships among variables, it is necessary to determine important the causal nature of this relationship and to evaluate the factors influencing these changes. Considering that economic growth is a necessary condition for growth and welfare of society to a modern economy, competitiveness is a priority for the success of both the revenue and the country's economic growth, we analyse the factors influencing the competitiveness of significance. Analysing regression test between sizes - HDI, GCI, GDP, TB (tax burden) and SB (transferrin and benefits) were given different significance of correlation. The factors related to a correlation equation to determine factors affecting the level of GCI index (assuming the country's competitiveness is a priority task of economic development), testing the linearity of the model (ANOVA) method, as an independent sample of more than three. Determine the significance level and the response; there is the issue in a sample of statistically significant mean differences for which no linear regression model.

By using the data from table, record the economic competitiveness of the dependence on the analysed variables in multiple regression equation:

$$GCI=49.30+0.133 HDI-0.391 GDP+0.188 TB-0.93 SB \quad (2)$$

The regression equation corresponds to the theoretical expression of Barrow and Sala-I-Martin (1992), model (1) and Sen.'s (2000) sustainable development conditions. The level of the social environment (in this analysis evaluated HDI), a positive impact on economic growth and competitiveness and there is confirmed Sala-I-Martin, (2007) hypothesis that the HDI and economic growth, depending from taxes policy can be complementary upward spiral, the factors that affect the country's competitiveness. SB regression (-0.930) value is the most significant in this equation, and confirmed the view that social policy has a significant economic development impact of the EU countries, the existing policy of social benefits has a strong negative impact on competitiveness. These trends are in accordance with the hypothesis that a social security benefit does not belong to the factors influencing productivity and social needs of the formation of a long-term task that must be agreed with the country's productivity level. Therefore, the value of social benefits correspond to Devarajan, (199) claim that public spending has different effects on economic growth, which depends on the country's economic development level and type of spending. It is likely that the analysis of general trends in the EU countries, not all occur in the negative impact of social transfers on economic competitiveness, but it is clear that the benefits of social policy must be substantially adjusted/re-allocated for payment under other criteria. Negative GDP (-0.391) value, confirms the hypothesis that GDP growth does not result in direct country-level competitiveness and higher growth countries are not competitive during the current period. Positive (0.188) value of the tax burden (as fiscal policy and budget allocations expression) refutes importance of the competitiveness of the hypothesis that the tax burden slows economic growth. Growing budget (for the last few decades the trend, according to Solow, 1993; Carneiro, 2009; Perotti, 1999 trials) and increasing the redistribution at "State level" is significance dimension of the economic. The economic and productivity growth determines systemic changes in taxation, the country rates the depends directly on the costs of innovation and scientific-technical developments, both social and other benefits to the feedback with changing needs of society in the future period. The results are confirmed by DasGupta (2001) study that productive government spending positively affects economic growth, but higher

than the national level of productivity in public expenditure on social benefits in slowing down economic growth, while the share of public spending and public capital (nonwage) goods and services promotes it.

EU fiscal and social policy formation properties must be contiguous and linked to the EU "good" experience, taking into account the historical development of these countries. Different growth strategies and the relationship with the public welfare are directly reflected in the Cluster Groups. Based on these relationships and dependencies between the issue size and the assessment of the distribution of the cluster groups, it is likely that many features of chronologically best performing countries development repeats in new phase of other countries. After cluster analysis of the evolution of GCI, it can be said that the Common group of the countries have common development trends in the higher groups of countries have a higher level of competitiveness, is therefore likely that the fiscal changes in the tax system enables the collection of higher incomes, their purposeful redistribution through the budget promote further long-term efficient growth. The analysis of macroeconomic factors - GDP, fiscal policy and transfer payments GCI index of the significance of factors in individual EU countries tested in the regression between the EU countries, highlighting the "priority" countries (lead by GCI, HDI, and GDP/capita).

**Table 3.** Grouping of countries by cluster of GCI character

Groups No.	Countries	GDP, group (Euro/capita) 1995-2010	TB size, place in EU, 1995-2010	HDI, place, 2000-2010	GDP change (Euro/capita), place in EU 1995-2010	SB (Euro/capita), place in EU 1995-2010	Dendrogram
1.	France	5	4	16	3	5	
	Austria	6	6	17	6	6	
	Belgium	5	3	9	5	4	
2.	Denmark	5	2	13	1	1	
	Netherlands	6	12	12	9	3	
	Finland	6	5	14	2	8	
	Sweden	6	1	6	4	2	
3.	Germany	5	9	20	15	9	
	United King.	4	13	15	8	7	
	Ireland	6	23	8	12	10	
4.	Latvia	1	24	48	22	24	
	Slovak	1	25	42	24	21	
	Lithuania	1	26	39	23	23	
	Estonia	1	22	38	19	22	
5.	Cyprus	3	17	29	18	16	
	Malta	2	18	32	21	17	
	Greece	3	20	24	13	13	
	Poland	1	21	36	20	20	
6.	Spain	4	16	21	17	12	
	Portugal	2	19	27	14	14	
7.	Czech Rep.	1	14	31	16	18	
	Slovenia	2	8	26	11	15	
	Hungary	1	10	35	10	19	
	Italy	4	7	18	7	11	
8.	Bulgaria	1	15	55	26	26	
	Romania	1	27	64	25	25	

There is a tendency that the relationship between the increase in the SB (social benefits) and rising tax revenues TB exists only in the higher competition. There is no one answer about experience of assessment the different countries' economic potential and existing economic evaluation. Analysed economic development characterize the specific circumstances and facts of this countries group, using their experience in tax, fiscal, social policy, the public finances relationships to ensure a competitive economy of each other EU country. 2nd Cluster Group countries-Finland, Sweden, Denmark keeps the highest ranking in the Global competitiveness. They have a similar structural model of economic development - the challenge the current balanced budget and low public debt levels, and high absorption rate of technological innovation, a high level of infrastructure, property and human rights protection in Germany has the experience relevant to the growth of competitiveness. Countries grouping in the cluster groups suggests that these countries' public finances, fiscal and social policies best reflect the current public finance practices and competitiveness in the EU countries, as well as a similar socio-economic level of countries of the world. These ("priority") countries

$$GCI=12.25 + 0.254 HDI - 0.132BVP + 0.252TB - 0.173SB \quad (3)$$

fiscal and social policies can be considered as a priority and develop such fiscal practices, analyzing the structure of the budget in these countries, which have a positive influence in other EU countries, economic growth. In order to analyse the patterns, we test the statistics of countries formerly used in statistical methodology. "Priority" countries regression equation:

Compared with the common to all EU countries for the growth of dependence equation, seen a similar trend, but with a different dependency levels, especially in the field of SC. HDI in "Priority" countries has higher regression coefficient, indicates the growing importance of social environment on economic competitiveness, lower SB values (0.930) and (0.173) suggests, that decreasing dependence on social benefits indicates that the decline in society of people, who need this service, which leads to possibility increasing the productivity of the public, as well as part of the public with minimal revenue loss. These trends are in accordance with the hypothesis that social protection has a positive effect on the growth of potentially strong human capital formation (Belletini and Ceron, 2000). Income inequality affects economy growth positively decline (Alesina and Perotti, 1996) and this approach, as the Sala-I-Martin (1994), may be decisive in the analysis of the fiscal deficit problems in high-growth countries.

TB rate increase in case of "priority" countries from (0.188) to (0.252) negate the hypothesis, that the tax burden slows economic growth. As it shows the "priority" countries achievements, thanks to the high-tax high level of public sector efficiency has a significant impact for competitive economic development associated with an active fiscal policy (Lucas, 2003). Negative GDP value "priority" countries (-0.132) and (-0.391), "All" countries, negates hypothesis that GDP growth determines the level of national competitiveness and higher-growth countries are more competitive in the current moment. The results of analysis can be concluded that economic growth directly not affect competitiveness (correlation coefficient in all three cases is negative), which confirms the hypothesis of the lack information from GDP for evaluation of economic development. It is therefore relevant to the global level of fiscal management and economic development and new development seeing assessment of globalization and EU integration process is a result. This confirms the tendencies regarding a new complex viewpoint of evaluation in economic, fiscal and social policy changes to the competitive growth. In order to correct any of the analyzed parameters, the other will also be changed, so it is necessary to know the changing policies and possible trends directions.

The study also refers to conclusion that the social benefits which do not comply the country's financial strength, reducing their competitiveness and thereby redistributed through the budget share of GDP is targeted for long-term economic development, and meet only short-term needs of society. The practical applicability of the model, a versatile tool in determining the direction of public finance, fiscal policy in shaping the decisions that determine the structure of economic development, because economic policy makers have to constantly analyse the structural reforms, fiscal consolidation and strengthening of the financial system in order to permanently reduce the future fiscal and financial vulnerability and increase the economic factors of consolidation. According to the research material be concluded that the assessment of causality connections between economic growth and fiscal experience in these countries have seen a specific trend and dominated "good" fiscal policy experience, taking into account that economic growth rates and changes in GDP is expressed controversial different growth rates and the level of countries. Therefore it is important to develop new methods and models that explicitly use a theoretical (usually intertemporal) notion of social welfare that is not identical to a GDP type of criterion. As the GDP completely omits the relative income aspect of welfare, it tends to overestimate social welfare or progress. Although an increase in relative income can improve the welfare of an individual, social welfare is not being served by it. The reason is that status is a very scarce good, causing rises in relative income and welfare to resemble a zero-sum game: what one individual gains, others lose. EU fiscal several decades of experience to coordinate the actions are much more positive impact on GDP volatility in, and they cost less than the national action of the stimulus of fiscal policy effectiveness is determined by how long they are determined to continue the state. This shows a new approach to fiscal policy and in assessing the necessity of GDP, in addition to complex indicators in their assessment of the country's competitiveness, the level of social benefits and social status of society position.

## Conclusion

This study examines the effects of government size and quality on economic growth in EU countries. The model is also estimated by grouping the countries according to income distribution. There is significant conclusion that GDP represents a serious information failure: it suffers from many shortcomings and has a large influence on socioeconomic reality. The results suggest that for developing economies already allocate

a considerable share of public resources to social service; further spending may not improve increases in the growth outcomes. The results indicate that good governance can improve growth outcomes, improving the efficacy of public capital can lead to improved growth. Therefore in conclusion it can be stated that public spending is a necessary but not sufficient condition for economic growth. The size of the government can impede growth due to the disincentive effects of taxes, increased rent seeking and the crowding out effect on private investment.

The indices GCI and HDI characterize the different approaches of economic development, and their inverse correlation with GDP, as a measure of economic performance, confirms the deficiencies of this indicator in assessing the achievements of the long-term economic development. There is a tendency that a significant correlation between the increase in SB (the size of social benefits) and the growing tax revenue can be observed in the (1-3) groups of countries characterized by the higher competitiveness. The analysis of the evolution in GCI makes it possible to state that the countries found in the general group have common tendencies of development. Moreover, the on-going changes in their fiscal tax system enable the collection of higher income, the appropriate redistribution through the budget of which promotes the long-term efficient economic growth. The analysed indicators characterize the differences in the impact of the state fiscal policy – GCI, HDI in the long-term, and GDP – only in the short-term perspective. It can be regarded as a reflection of the framework of the state fiscal policy. The heterogeneity of the relationship reveals a variety of different economic potentials of the EU countries, and consequently, their differently manifested dependences.

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