

Expenditure Efficiency and the Optimal Size of Government in Developing Countries¹

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Government efficiency plays a significant role in the relationship between government expenditure and economic growth. Based on panel data from 63 developing countries 1990 to 2003, we calculate efficiency scores using Data Envelopment Analysis, incorporate them into a simple model of growth with government expenditure, and find that there is a critical level of efficiency required for government expenditure to have positive effect on growth. Above that critical level, greater efficiency lowers the optimal size of government expenditure required to maximize growth.

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