ECONOMIC EFFICIENCY OF NATIONAL GOVERNMENTS: CASE STUDY OF POLAND AND UKRAINE

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Abstract

The article proposes a new unique approach to assessing the economic efficiency of national governments. The assessment is based on the indicator of gross free product per capita, which is a difference between GDP and government size per capita. This method was used to analyze the situation in two post-communist states – Poland and Ukraine. The author studied their economic development in 2009–2019, and the received data was used to draw conclusions about economic policies in the two countries in the period in question. A forecast has been made about the possible impact of the Covid-19 pandemic on economic processes from the perspective of changes in the gross free product per capita.

1. Introduction

Assessing the government's performance is an important social and political objective. The concept of "government" may be interpreted differently. In a broad sense, the government consists of the legislative, executive, and judicial branches. In this regard, public administration would be a synonym for a government. The government is a tool to exercise social and economic policy. An objective assessment of the government's performance ensures a proper level of accountability of government's decisions, increases political competitiveness, and eliminates the strategies unwanted by the society, etc.

According to H. Izdebski and M. Kulesza (2004), public administration performs its tasks on the following four levels: a traditional administrative level focused on maintaining order and implementing regulations (law enforcement level), public services management, ownership rights management (public property management), and the development management level.

The government has its core functions in the protection of persons and property, establishing the rule of law, the sanctity of contract, and perhaps the creation of a limited set of public goods (Chobanov, Mladenova, 2009). Therefore, ensuring conditions for economic growth may be considered by society

as one of the important requirements for the government. In parallel, other requirements about security, stability, or social support are set.

In reality, creating conditions for economic growth, or increasing well-being is crucial for ensuring all other functions of the government. Economic growth provides resources for the proper execution of the government's tasks. Thus, in terms of social interest, the key criteria for assessing government's activities include the creation and improvement of well-being through economic growth.

This research focuses on the national government and its activities to improve people's well-being through ensuring economic growth. It must be noted that the government aims to improve its citizens' well-being in democratic countries only, where voters generally recognize and share the philosophy of economic growth.

At the same time, the object of assessment may cover not only the long-term multi-faceted government's activities but also its individual aspects. In this paper, we propose an approach to the assessment of the economic efficiency of national governments alone.

2. Key Approaches to Assessing the Government's Economic Policy

In simplistic terms, economic efficiency is about contrasting the outcomes of economic activity with the invested resources. The government's economic efficiency may be assessed differently, depending on economic approaches and accepted indicators.

Researchers following the Keynesian theory expect a proactive role of the government in the economic policy. For example, they claim that the government provides the public goods that the market is incapable of providing and removes distortions in the allocation of resources due to externalities (Chobanov, Mladenova, 2009). On the other hand, the state efficiency is ensured by the well-functioning system of government bodies, the ability to articulate and legally protect the public interest, and to implement successfully the state social and economic policy, ensuring not only the interests of the state or the ruling class, but also the entire population, certain social groups, and each individual (Moiseev et al., 2017).

The supporters of the Austrian school of economics generally posit that economic efficiency will be higher due to the government's limited interference into economic processes. The negative impact of the government on economic growth is manifested in the "disincentive effects of higher taxes and the crowding-out effect of public investment in relation to private investment, diminishing returns as governments undertake activities for which they are ill-suited, and an interference with the wealth creation process, because governments are not as good as markets" (Gwartney et al., 1998, p. V). They often say that that, similarly to the market, the state does not offer a perfect mechanism of assets allocation. The public choice theory has taken into consideration the political aspect of economic processes, in particular the problem of inefficient political processes, and developed the category of government failure (Przesławska, 2006).

According to J.W. Dawson (2003), the level of economic freedom, especially the level of property rights, is an important cause for economic growth. Therefore, the lower the government's impact on the economy, the better for the economy. Economic liberals generally support the private sectoral market economy and consider private property to be extremely important for the building of a prosperous society. Furthermore, M.N. Rothbard (1973) provides an interesting argument that the private sector could more effectively undertake all of the functions normally performed by the government. Private owners have a higher incentive to grow the returns of their own companies intended to raise the efficiency and search for innovations rather than public owners (Balcerowicz, 2018). Thus, L. Balcerowicz (2004) encourages restricting the necessary (or desired) scope of the government's activities for the benefit of the private sector.

In this regard, the high efficiency of the economy mostly depends on the share of private capital in the national economy. In other words, it may be assumed that the bigger the private capital in the national economy, the better the prospects for its growth, both short-term and long-term.

In fact, neither approach denies the relevance of public impact on the economy. In particular, they imply such government's functions as ensuring the rule of law, the efficiency of the judiciary, a low corruption level, well-organized public bureaucracy, or well-functioning property rights (see North, 1987; Abdiweli, 2003; Rodrik et al., 2004; Afonso, Jalles, 2016). Besides, there is a consensus about the fact that with no government support economic growth cannot be possible. D. Mitchell (2005) highlights that if there were no government, it would be very difficult to provide for enforcing contracts, protecting private property, and developing infrastructure.

The key difference between the two approaches is the efficiency assessment of public and private sectors in the economy. Whereas the latter claims that the efficiency of the private sector is a priori

higher than that of the public sector, the former assumes that at least in some situations the public sector is capable of achieving higher efficiency.

Gross Domestic Product is a universal indicator used for assessing the status of the economy today. Gross domestic product illustrates the final result of the activity of all entities of the national economy. Gross domestic product is equal to the sum of gross value added of all ownership sectors or all domestic institutional sectors or to the sum of gross value added of all sections and divisions, increased by taxes on products less subsidies on products (Statistical Yearbook of the Republic of Poland, 2020).

Gross Domestic Product is the value of all new goods produced in the country in a specific period (typically a year). GDP is calculated in three ways: (1) as expenditures of economic subjects (households, entrepreneurs, government, and foreigners) on goods and services; (2) as production in all economic spheres; and (3) the overall income, i.e. the amount of earning and profits received by all subjects that add to a country's GDP. GDP can be assessed based on current prices (nominal GDP) or based on market-adjusted prices in a given period (real GDP) (Hall, Taylor, 2002).

GDP is also an element in a series of more integrated and specific economic indicators. GDP per capita or GDP in conversion per one citizen is a commonly used criterion for measuring well-being. It may be generally accepted that the government's key economic task is to increase GDP. When we compare state economic policies in different countries, the assessment will reflect, in the simplest terms, the change in the government's GDP share in global production. However, this simple approach cannot be considered fully adequate.

A reason for it is a significant impact of other (non-economic) factors on economic growth. For example, the administrative factor implies that it is extremely difficult, and sometimes hardly possible, to define the timeline when the effects of the government's economic policy will become tangible. In other words, the current economic growth may be based on economic decisions from distant past rather than on the outcomes of the current economic policy. Another good example may be a security factor that can bring to naught even the most adequate economic solutions and efforts during military conflicts or internal political turbulence.

In fact, additional factors and circumstances encourage researchers and experts to elaborate alternative integrated indicators for an objective assessment of government decisions in the economic area. Assessment of economic efficiency of national governments may be performed with many indicators and indices that use the available statistical data and other sources, including the GDP. Some of the most popular indicators that reflect the economic condition of countries and may be used in assessing the economic efficiency of national governments should include the following:

Index of Economic Freedom (Index…). It is an indicator of the regulatory rigor and scope of coercion used by the government in the economic sphere in various countries. It is published by The Wall Street Journal and the Heritage Foundation.

Global Competitiveness Index (World Economic Forum, 2020). It is published by the World Economic Forum. The WEF groups the indicators into 12 categories (pillars of competitiveness), which are as follows: (1) institutions; (2) infrastructure; (3) macroeconomic environment; (4) health and primary education; (5) higher education and training; (6) goods market efficiency; (7) labor market efficiency; (8) financial market development; (9) technological readiness; (10) market size; (11) business sophistication; and (12) innovation.

Competitiveness Index (The 2017 IMD World Competitiveness Ranking, 2017). It is calculated by the International Institute for Management Development and the World Economic Forum and organizers the indicators into four groups ("competitive factors"): (1) economic performance; (2) government efficiency; (3) business efficiency; and (4) infrastructure.

Satisfaction with Life Index, which is a macroeconomic indicator, which measures people's satisfaction with their current lives (University of Leicester…, 2006).

Human Development Index, which is a summary measure describing the degree of socio-economic development of individual countries (Human Development Index).

Happy Planet Index. It is an economic measure which identifies the level of well-being in individual countries. In addition to popular indicators (gross domestic product and human development index), it also takes into account an environmental impact and sustainable development, as it is based on the assumption that the goal of economic activity is not so much to get rich as to ensure health and happiness (Happy Planet Index).

Gini index, as an indicator of social inequality, expresses the uneven distribution of goods, especially income (Gini index).

3. Methodology. Cost of the State and Economic Efficiency

Thus, the road to the objective assessment of economic efficiency is to study the extent to which governments interfere with economic development. In other words, it is about government size. Government size is defined as a share of the economy that is directly regulated by the government. In simple terms, it is presented as a share of the public budget in gross domestic product and is measured in monetary units, usually within a year's term.

Economic growth leads to the expansion of government's functions, and thus, to an increase in government spending. The problem is in the disproportion between the growth of the two indicators. In the extreme case, i.e. under statism, the state starts engulfing the economy. Statism is associated with full or almost full state control and state interference in all or almost all areas of social, economic, and political life. It also means the restriction of broadly understood freedom (Stępnicka, 2015).

E.V. Balackij (2013) claims that the building of the public sector of the economy is connected with difficult periods for the national economy, such as crises, wars, or post-war reconstruction while the growth of government spending is not limited only to those difficult periods. Another reason for the development of statism is a desire for increased income of the state treasury connected with emergence of the so-called state monopolies (Stępnicka, 2015).

Based on the available statistical data, A. Wagner (1883) defined a law whereupon as the wealth of society increases, so does the relative size of government. It is explained by a need for more administrative and protective functions of the state, a need for increased provision of social and cultural goods and services, and an increased need for provision of proper administrative and bureaucratic controls to ensure the smooth operation of market forces (Wahab, 2004).

The government's activities, even some of the most efficient ones, require engagement of the respective resources. Two important reasons for a negative impact of excessive government spending on economic growth are the fact that the necessary taxes reduce the incentives to work, to invest and innovate, and the fact that the government crowds out more efficient private suppliers (Heitger, 2001). In general, any taxes, under similar conditions, depress the growth opportunities at the cost of reducing investment resources (Dubrovs'kij, Čerkašin, 2018). A much worse situation takes place when the excess burden of taxation is found not only to exert a significant drag on economic growth (Grossman, 1988)

but also to facilitate the creation of a "grey zone" and the increase in tax fraud (Schneider, Enste, 2000).

Thus, growth of the government size has its reasonable limit, since growing above these functions, the government is likely to be detrimental to economic growth (Mitchell, 2005; Chobanov, Mladenova, 2009). An oversized government sector may have negative spillover effects on the economy due to financing of government spending via increasing taxes, borrowing, and/or printing money (Asimakopoulos, Karavias, 2016).

Government spending undermines economic growth by displacing private-sector activity. Whether financed by taxes or borrowing, government spending imposes heavy extraction and displacement costs on the productive sector (Mitchell, 2005). Furthermore, a larger public sector does not necessarily imply a better satisfaction of public requirements or a more efficient approach to providing the minimum required benefits of the welfare state (Afonso, Furceri, 2010).

The state that aspires to efficiency should find the optimal level of the tax burden that will provide for the expected level of public services. For that purpose, the government shall address a crucial task: to accumulate funds to provide for the functioning of the government and its programs without a general decrease in economic activity and incentivizing private initiatives.

Comparative studies of the interdependence of public expenditure and economic growth have recently become popular (Landau, 1983). The impact of the government size on economic growth has been the focal point of academic research for many years (i.e. Barro, 1990; Karras, 1997; Gunalp, Dincer, 2005).

In many economic studies, the correlation of budget spending to the GDP indicates their inverse relation to the growth rate (Woetzel et al., 2018). Some researchers argue that reducing the government size will certainly incentivize economic growth (Afonso, Furceri, 2010; Afonso, Jalles, 2016; Altunc, Aydın, 2013; Marlow, 1986; Pevcin, 2004).

For example, according to O.F. Altunc and C. Aydın (2013), a 1% change in the ratio of public expenditure and national income results in a 0.74% improvement in the economic growth rate. On the other hand, A. Afonso and J.T. Jalles (2016) established that a 10% increase in government spending is associated with the 0.5–1.0% decrease in annual economic growth.

However, other researchers question a direct linear relationship between these indicators. For example, L. Balcerowicz (2004) argues that a low effective level of the tax burden is not necessarily closely

related to fast economic growth. Economic growth is influenced not so much by the effective taxation level as by the sum of actual payments, both in the form of taxes and bribes.

The fact that a complex and non-linear relationship between government spending and growth exists has been first empirically verified in endogenous growth models (Pevcin, 2004). When we take a more thorough approach to analyzing the government size, we can see that not only is the profitability of public investment different in countries with different levels of development, but that it also significantly differs between sectors of the same economy. The study by A. Afonso and J.T. Jalles (2016) claims that countries with higher social trust levels are able to develop larger government sectors without harming the economy, whereas an additional incentive for growth could come from investment into key areas (such as education, science, and infrastructure). D. Romero-Avila & R. Strauch (2008) say that government consumption and transfers have a significant negative effect, and government investments have a significant positive effect.

Some researchers are trying to define optimal government size that will be adequate for all economies, both rich and poor. They believe that the increase in government spending is beneficial up to a certain threshold, but beyond that level the impact on growth is negative. In terms of methodology, they rely on the study by R. Armey (1995), R.J. Barro (1990), G.W. Scully (1995) and R. Rahn & H. Fox (1996), whereupon the "BARS curve" was developed. The regularity confirms that there is a positive correlation between public expenditure and GDP up to a certain point, after which the correlation turns negative (Altunc, Aydın, 2013).

Some of the early fundamental research of the issue can be found in the analysis by E.A. Peden (1991). The study of the impact of public expenditure on the productivity of the US economy over 1929–1986 proved that the maximum productivity growth correlated with the 17%–20% of the government share. In general, according to M. Friedman (1997), the optimal level of public spending should be between 15% to 50%. Other studies that covered the specific list of the same-type states produced more precise findings. In particular, with the methodology of the "BARS curve", they made several attempts to empirically establish optimal government size.

Building upon the Barro model, G. Karras (1997) developed an empirical methodology to examine the role of public expenditure in the process of economic growth. That study, focusing on the data from 20 European countries, estimated the optimal share of public spending to be 16% (+/– 3%).

Later, B. Gunalp and O. Dincer (2005) identified the optimal share of public spending for 20 transitional economies to be 17% (+/– 3%). Following that, G.W. Scully (2008) predicted that the share of the tax rate in the GDP that maximizes economic growth should be 19.3%. The study by D. Chobanov and A. Mladenova (2009) showed that if you need to maximize economic growth, the government size should not exceed the range from 20 to 30% of the GDP. S. Asimakopoulos and Y. Karavias (2016) have empirically established that the optimal level of the tax rate that maximizes economic growth is 19.12% for developing countries and 17.96% for developed countries.

Therefore, the negative impact on economic development only comes from the situations when public spending exceeds the critical point. On the other hand, it has been challenging to practically implement the findings of theoretical research as the calculations usually have an insignificant influence on the government's economic policy, in particular as regards the government size. In fact, over several decades, the developed countries have seen an increase of government size (Afonso, Furceri, 2010), which in most countries has been above optimal levels (Chobanov, Mladenova, 2009). The situation has been most critical in Europe, since many European governments have extremely large welfare states (Mitchell, 2005).

A key shortcoming of the attempts to establish a universal optimal government size is connected with significant peculiarities of individual states. F. Forte and C. Magazzino (2011) pose a historical question: should the fiscal adjustment be the same for all the states or should it depend on the weight of the public sector on GDP in each country? In our analysis of the weight of the state and of the attempts to establish the optimal level, we believe it reasonable to focus on another aspect of the issue.

In terms of the market economy paradigm, a key performance indicator is the scope of the economy beyond public regulation. Since the private sector (with few exceptions) offers the best opportunities for multiplying the material resources, and thus, for economic growth, the main parameters for quality and objective assessment of economic efficiency of national governments reflect the difference between gross domestic product and the public budget per capita. In other words, we suggest assessing the government's economic efficiency by analyzing the GDP dynamics per capita excluding the weight of the government. We suggest this indicator shall be termed as gross free product per capita.

Gross free product per capita does not focus on government size per se but explores the scope of the most economically efficient private (non-state)

capital in the national economy. It can help us explain why the highly developed economies with excessive government size have an advantage over the underdeveloped nations, with insignificant government weight in the economy. Therefore, in this regard, the reduction of government size should not be a goal in itself. The main objective shall be to increase the private component in the national economy. In other words, the efficient government shall restrict the effect of the Wagner law so that the state's growth rate does not exceed the growth rate of the economy. This indicator is easy to calculate, as it is based on the generally available statistical data, which is its another advantage.

At the same time, we shall highlight certain shortcomings related to the calculations and use of gross free product per capita indicator.

Firstly, the indicator does not account for the non-economic factors, such as political environment, conflicts, wars, or crises, which may require from the government a rapid increase of government size, even if it contradicts the original plans.

Secondly, although the indicator is easy to calculate, it fails to account for some economic processes that may be critical in identifying the actual impact of government size. These include the government's policy on public debt, the scale of inflation, the redistribution of funds within the EU, and others.

Thirdly, additional factors of economic growth may influence the actions of the government that are not related to providing a sufficient share of private capital in the national economy. Such soft factors include the government's policy in entrepreneurship, in particular, creating and maintaining a fair legal system, eliminating bureaucratic obstacles, encouraging entrepreneurship, and investing in education.

Fourthly, there is still an open question about what should be the basis for economic efficiency assessment – a comparison with earlier periods or with economic policies of other countries. Certain methodological restrictions come from the year-based calculations as governments usually replace each other with no connection to calendar years.

4. Findings

Some studies in the USA propose assessing the government's economic efficiency from the perspective of reducing government size (Mitchell, 2005; de Rugy, 2004). These studies compare the economic policies of the US governments from different periods. The comparisons of different countries give more interesting results as they allow for making conclusions not only from the chronological but also from the geographical perspective.

Contrasting the countries can help illustrate the influence of public policy on changes of economic weight for individual countries. It should also be taken into consideration that the use of cross-country analysis in assessing the optimal government share of GDP has also a deficiency because each country has individual characteristics (Chobanov, Mladenova, 2009).

Ukraine and Poland offer good comparative study material in this context. These countries are comparable in the area, population size, and in 1990, they had a roughly similar level of economic development (see Fig. 1). They shared the Communist totalitarian past and a wish to reform the inefficient planned economy. Whereas Poland coped with the task relatively fast, Ukraine failed to achieve the objective. Overall, after the collapse of the Communist system, the situation of Ukraine turned out to be more challenging than that of its neighbors (Kuczabski, Michalski, 2014). After having become independent, the new Ukrainian leadership focused on the building of national institutions and the establishment of national insignia, largely disregarding economic policy and economic reforms (Åslund, 2019).

Using the indicator of gross free product per capita is also justified by the fact that both countries had to overcome the post-Communist distortions and still need to increase the share of private capital in the economy. Namely, they have not yet reached the efficiency peak under BARS. According to statistical data from 2010–2019, the share of this indicator in Poland was dropping consistently – from 20.4% to 18.1%, respectively. According to Ê. Šulga (2021), on the Armey-Rahn curve, Ukraine is located far away on the right from the point of "optimal government size." It implies that the insufficient capacity of the Ukrainian state is not connected with its underfinancing and a decrease in the government spending within the GDP will entail economic growth. Therefore, in any situation, the increase in gross free product per capita in the two countries will illustrate the government's efficiency in economic policy. It is assumed that, on the one hand, the annual dynamics of gross free product per capita is a comparative benchmark for the analysis; on the other hand, the percentage of increase in gross free product per capita in both countries is a point of reference.

The study covers the period from 2010 to 2019, i.e. the time of relative economic stability that lasted from the end of the 2008 global recession until the beginning of the COVID-19 pandemic. While in 1990 both countries had a comparable level of economic
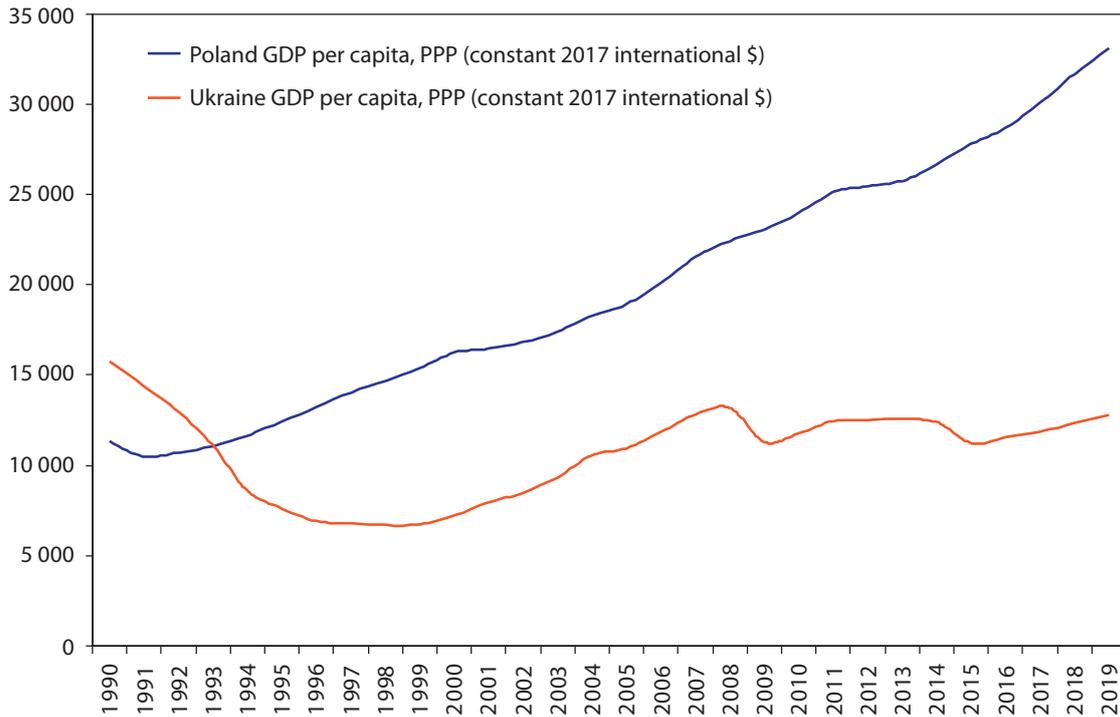
Fig. 1. GDP per capita dynamics in Poland and Ukraine, constant 2017 international $ (1990–2019)
Source: own study based on the World Bank Open Data.

development, by 2010, the gap between them had become very significant. This situation posed more radical challenges before the Ukrainian government in terms of economic reforms. However, generally, the decade between the crises presented a chance for the two countries to increase the competitiveness of their national economies and gave opportunities for bridging further the gap between them and the leading European economies.

Among the non-economic factors that affected the economic policies of the two countries, we highlight the Russian military aggression against Ukraine. Its active phase took place in 2014–2015. Both economies have been affected, but the Ukrainian system faced a critical challenge, which had a significant impact on the indicators under analysis. Furthermore, we mention the economic consequences of the Ukrainian 2013 political crisis and the dramatic political change following the 2014 and the 2019 elections in Ukraine and the 2015 elections in Poland.

Huge inflation in Ukraine has also complicated the assessment of economic policy efficiency. Nominally, the statistics gathered in the national currency show a positive trend, but the real picture is more pessimistic. Thus, the assessment was based on the World Bank data presented in US dollars, rather than the official GDP statistics in the Ukrainian currency. This approach helped avoid inflation-related distortions.

In the period under analysis, Poland had a rather stable government size, with a slow downward tendency. There was a short exceptional period, though, when the government size grew from 18.2% in 2014 to 19.4% in 2016. In our view, it gave an impetus for the dynamic growth of the Polish economy throughout the entire period under research. Thus, a consistent tendency has been maintained since the early 1990s (see Fig. 2).

The growth of GDP per capita, PPP (constant 2017 international $) in ten years reached as high as 38%: from 24,000 per capita in 2010 to 33,100 in 2019 (The World Bank…). Gross free product per capita has been growing with a better dynamic – 42.7% over 10 years (see Fig. 3).

In 2011 and 2018, the growth rate for gross free product per capita reached 6% a year. On the other hand, in Ukraine, government size remained high, only dropping to 30.9% in 2011 and then peaking to 35.4% in 2017 (see Fig. 2). Ê. Šulga (2021) considers excessive public spending in Ukraine to be a cause of slow economic growth.

Unlike the developed economies, where government size is also high, in Ukraine, the efficiency of the public sector has been extremely low. Therefore, a reduction of public spending in Ukraine is by far the only means to improve the economic situation. Ukraine has a problem with its social policy, as a significant reduction of the government size may be
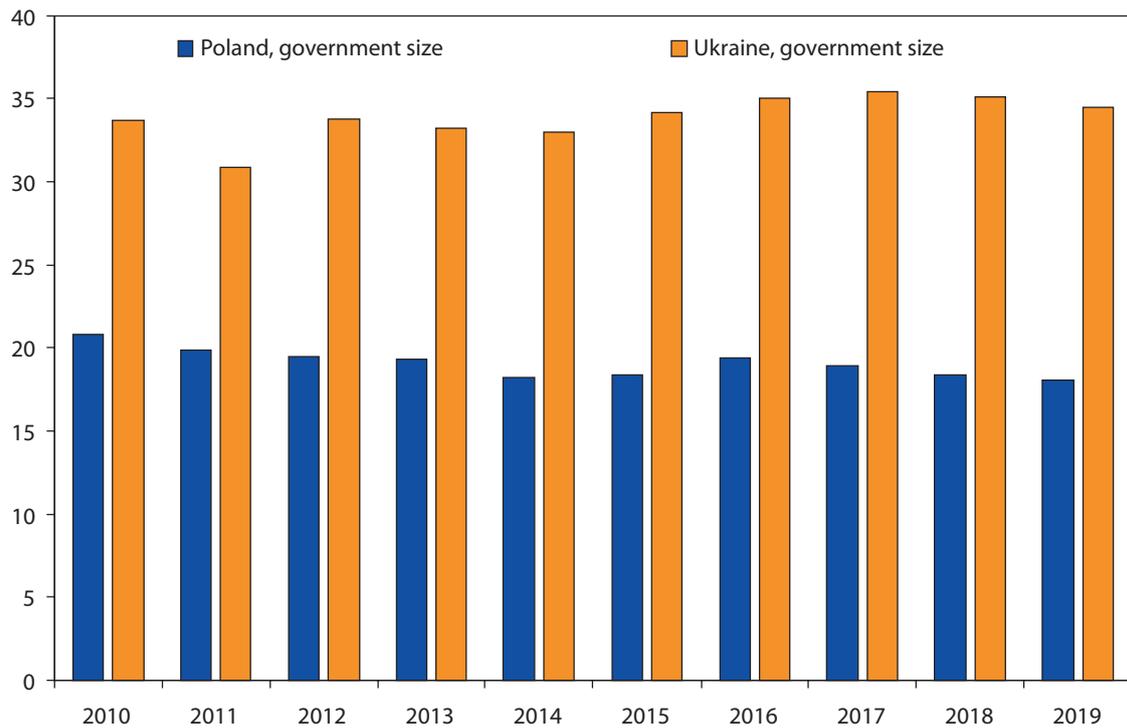
Fig. 2. Government size dynamics in Poland and Ukraine, % (2010–2019)

Source: own work based on the World Bank Open Data, Statistical Yearbook of the Republic of Poland (2011-2020), Statistical Yearbook of Ukraine (2011-2020).
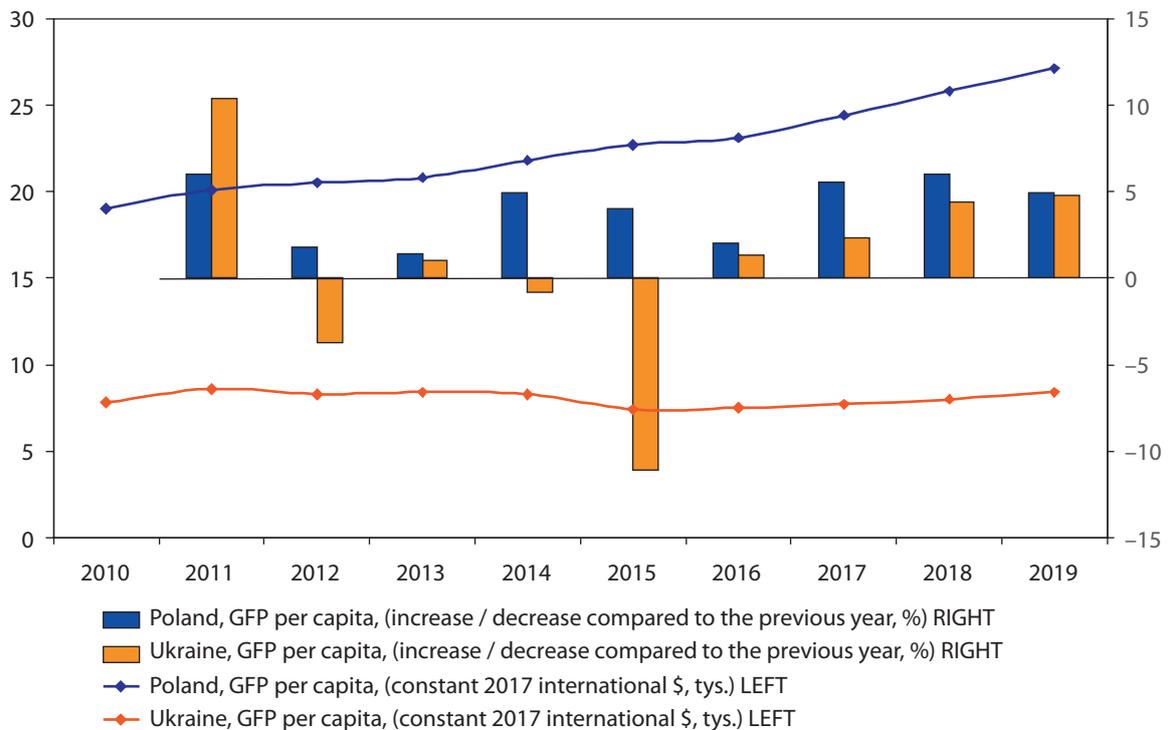

Fig. 3. Gross free product per capita dynamics in Poland and Ukraine, % (2010–2019)

Source: own work based on the World Bank Open Data, Statistical Yearbook of the Republic of Poland (2011–2020), Statistical Yearbook of Ukraine (2011–2020).

politically unrealistic. According to V. Dubrovs'kij and V. Čerkašin (2018), about 22% of GDP constitutes the irreducible public expenditure, of which 10% of GDP is used to provide for retired citizens.

Over the decade under analysis, the Ukrainian economy stagnated. It is proved by an insignificant growth of the GDP per capita, PPP (constant 2017 international $), from 11,800 per capita in 2010 to 12,800 in 2019, or by 8.8% over 10 years (The World Bank…). Changes in gross free product per capita demonstrate a similar tendency: from 7,800 in 2010 to 8,400 in 2019, or by 7.4% over 10 years (see Fig. 3). In the decade under analysis, the best year for Ukraine in economic terms was 2011 when the GDP per capita grew by 5.8%, and gross free product per capita increased by as much as 10.4%.

Similarly to other poor countries with weak public administration, Ukraine has a rather high level of the shadow economy, which is estimated at 28% of the GDP (Dubrovs'kij et al., 2017). In this regard, we can assume that the actual gross free product in Ukraine is much higher than the official statistics show. However, it should also be kept in mind that the corruption burden virtually eliminates the tax-exempt "preferences" of the shadow economy. In addition, it causes the transfer of profit abroad to low tax jurisdictions. In Ukraine, the capital outflow to other countries is estimated to be UAH 130-220 bln per year, which results in an underpayment of taxes to the budget from UAH 23 to 40 bln (Dubrovs'kij et al., 2017).

5. Conclusions

The economic efficiency of national governments depends on decisions in the economic area. A key task is to retain the size of the state that would be adequate to the level of its economic development. In post-Communist states, economic growth is attributable to the overcoming of state monopoly and statism. Therefore, economic development and its dynamics directly depend on the decrease in government size.

Our research proposes a unique and new approach to assessing the government's economic efficiency based on the government size indicator. We argue that the government size is a consequence of the government's policy and has a crucial impact on both economic growth or recession. We suggest assessing the government's economic efficiency with the indicator of gross free product per capita, which is a difference between the GDP and the government size per capita.

A comparison of the outcomes of economic policies of Polish and Ukrainian governments in 2009–2019 has offered certain conclusions.

Firstly, the Polish economy retained the positive dynamics that started in the early 1990s while the Ukrainian economy was stagnating.

Secondly, a key success factor for the Polish economy was the preservation of optimal government size, which allowed for a consistent increase in gross free product per capita, and thus for providing a good basis for economic growth.

Thirdly, in the case of Ukraine, it turned impossible to achieve the optimal balance between government size and the private sector of the economy, which largely delayed economic growth and undermined the prospects for future solutions.

Fourthly, it may be assumed that the COVID-19 pandemic will have a significant impact on economic processes and will cause a deep crisis. Attempts to maintain the pre-pandemic government size with reduced economic activities will affect gross free product, and thus, will launch a long-term negative tendency.

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