

# CEE Growth & Development

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Lecture 2

Spring Term 2014



# Growth and Development in CEE

## GDP: Problems

- GDP
  - "cooking books"
  - PPP
  - shadow economy
  - home production
- Welfare and Happiness
- Gross National Happiness
  - sustainable development
  - cultural values
  - natural environment
  - good governance.

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- HDI
  - GDP pc, plus
  - Education
  - Life expectancy
  - $\frac{x - \min(x)}{\max(x) - \min(x)}$
- Non-material consumption
  - Culture
  - Nationalism
  - other values



# What is the correlation between GDP and happiness?

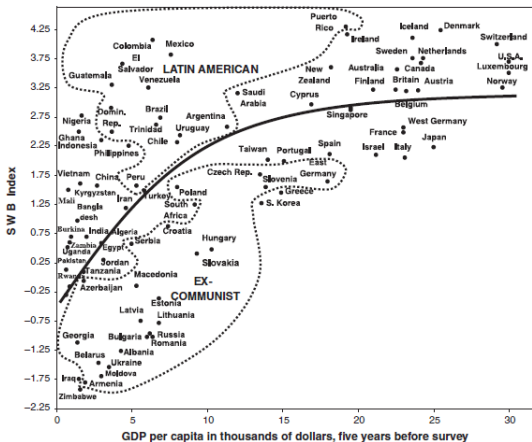


Fig. 2. Subjective well-being (SWB), per capita gross domestic product (GDP), and different types of societies. Well-being index is based on reported life satisfaction and happiness, using mean results from all available surveys conducted 1995–2007 (cubic curve plotted;  $r = .62$ ). PPP=purchasing power parity estimates.

# Growth and Development

## Basic working assumption

Growth in *GDP per worker* is the best  
*economic indicator of*  
*Economic Growth.*

## Problem

- *USA*

$$GDP_{pc} = 35000$$

$$GroRt = 4pct$$

- *Czech Republic*

$$GDP_{pc} = 20000$$

$$GroRt = 9pct$$

*Q: In how many years will the Czech Republic have production equal to that of the USA (if both keep on their growth rates).*



## Solution

*Equal production*

$$y_{t+n}^{US} = y_{t+n}^{Cz}$$

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$$\begin{aligned}
 y_{t+n}^{US} &= y_{t+n}^{Cz} \\
 y_t^{US} (1 + g^{US})^n &= y_t^{Cz} (1 + g^{Cz})^n \\
 \ln y_t^{US} + n \ln (1 + g^{US}) &= \ln y_t^{Cz} + n \ln (1 + g^{Cz}) \\
 \ln \frac{y^{US}}{y^{Cz}} &= n \ln \frac{1 + g^{Cz}}{1 + g^{US}} \\
 n &= \left( \ln \frac{35}{20} \right) / \left( \ln \frac{1.09}{1.04} \right)
 \end{aligned}$$

$$\ln \frac{35}{20} = 0.5596 \text{ and } \ln \frac{1.09}{1.04} = 0.047$$

*Equal production in  $n = 11.9$  years!*

# EBRD - Transition Report 2013

Can the transition region ever catch up with the living standards of the worlds most advanced market economies?

Depends on:

- ① relationship between transition and democratisation,
- ② the scope of strengthening economic institutions,
- ③ the state of human capital
- ④ inclusiveness of economic systems.

Progress in transition has been closely *correlated with political systems*: countries which are more democratic have come further, in terms of reform, than their less democratic counterparts.

Will transition economies ever reach the living standards of Western Europe?

Productivity growth will likely remain modest over the next 10 years around 2-4 per cent on average and decline further in the following decade.

- Only the countries of central Europe and the Baltic states would reach or exceed 60 per cent of the EU-15 average per capita income in the next 20 years.
- Most countries in the transition region would remain far below this threshold.

What should be the main focus of policies in transition economies?

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What should be the main focus of policies in transition economies?

Improving economic institutions. Side note: Do we know what are economic institutions?

- 1. Specific agencies or foundations, both government and private, devoted to collecting or studying economic data, or commissioned with the job of supplying a good or service that is important to the economy of a country. The Internal Revenue Service (the IRS the government tax-collection agency), the U.S. Federal Reserve (the government producer of money), the National Bureau of Economic Research (a private research agency) are all examples of economic institutions.
- 2. Well-established arrangements and structures that are part of the culture or society, e.g., competitive markets, the banking system, kids' allowances, customary tipping, and a system of property rights are examples of economic institutions.

# Recommended policies

## Political Institutions

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- However, large resource endowments are found to impede, or at least slow down, democratization (Any ideas how?)

\*\*In order to support countries in their long-term transition to democracy, it therefore makes sense to encourage policies and institutions that underpin economic growth, foster market reforms, and assist countries that are rich in natural resources as they seek to diversify their economic base.

# Recommended policies

## Economic Institutions

Cross-country analysis shows that countries with greater openness to trade and finance tend to have better economic institutions.

How can countries in the transition region improve their economic institutions?

- Transition countries can seek to *benchmark themselves internationally* and become members of organisations with high institutional standards.

# Recommended policies

## Economic Institutions

Cross-country analysis shows that countries with greater openness to trade and finance tend to have better economic institutions.

How can countries in the transition region improve their economic institutions?

- Transition countries can seek to *benchmark themselves internationally* and become members of organisations with high institutional standards.
- Improving political systems by introducing *proportional representation*.
- Lastly, they can *improve the transparency of political institutions* at the regional and local level, as they play a key role in the shaping and reform of the business environment

## Recommended policies

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- A country's ability to retain and attract skilled people is another important factor for building a high quality human capital stock (Which country from CEE is a leader in positive net migration?)

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- A country's ability to retain and attract skilled people is another important factor for building a high quality human capital stock (Which country from CEE is a leader in positive net migration?)
- Human capital development and institutional improvements are thus complementary, and policy-makers should pursue them in parallel.



# Recommended policies

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Two approaches are used to characterise inclusion in the transition region:

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- 2. A *top-down approach* rates the institutions, markets and education systems in regard to the capacity of countries to extend economic opportunity to individuals regardless of gender and place of birth, and to young adults regardless of social background.

# Recommended policies

## Economic Inclusion

- Inequality of opportunity is highest in the Western Balkans and some eastern European and Central Asian countries. In part, this reflects a failure to provide young people with relevant education and job opportunities (Place of birth urban or rural as the strongest driver).
- The analysis suggests that education and its quality and economic relevance in particular is likely to influence inequality of opportunity that is based on people's social or geographical origin.

## Recommended policies

### Macroeconomic Review

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Reform Overview 2013 has once again seen a relatively high number of downgrades for sector and country-level indicators. This is a result of:

- Increasing government interference in the energy sector;
- There have been three downgrades for Hungary and two downgrades for the Slovak Republic, mainly due to increased government involvement in the energy and insurance sectors which may negatively affect the confidence of domestic and foreign private investors.