

GRINCOH final conference

Warsaw, 26-27 Feb. 2015

The New EU Member States: Trapped in Integration?

Leon Podkaminer

wiiw

Q: NMS: trapped in Integration?

A: Unfortunately, yes

...

Despite early encouraging signs...

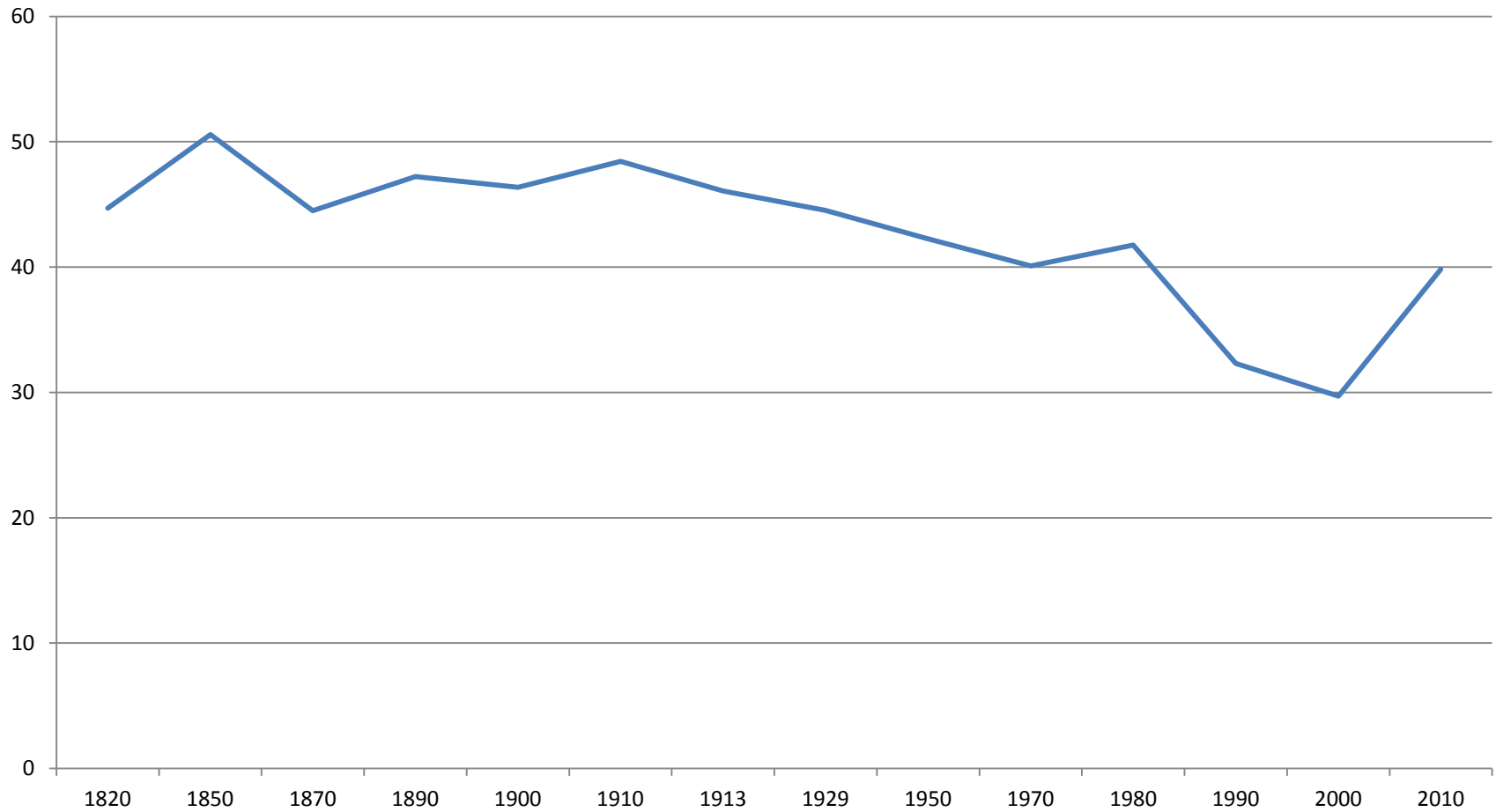
...

...unlikely to succeed eventually...

Secular retardation...not overcome

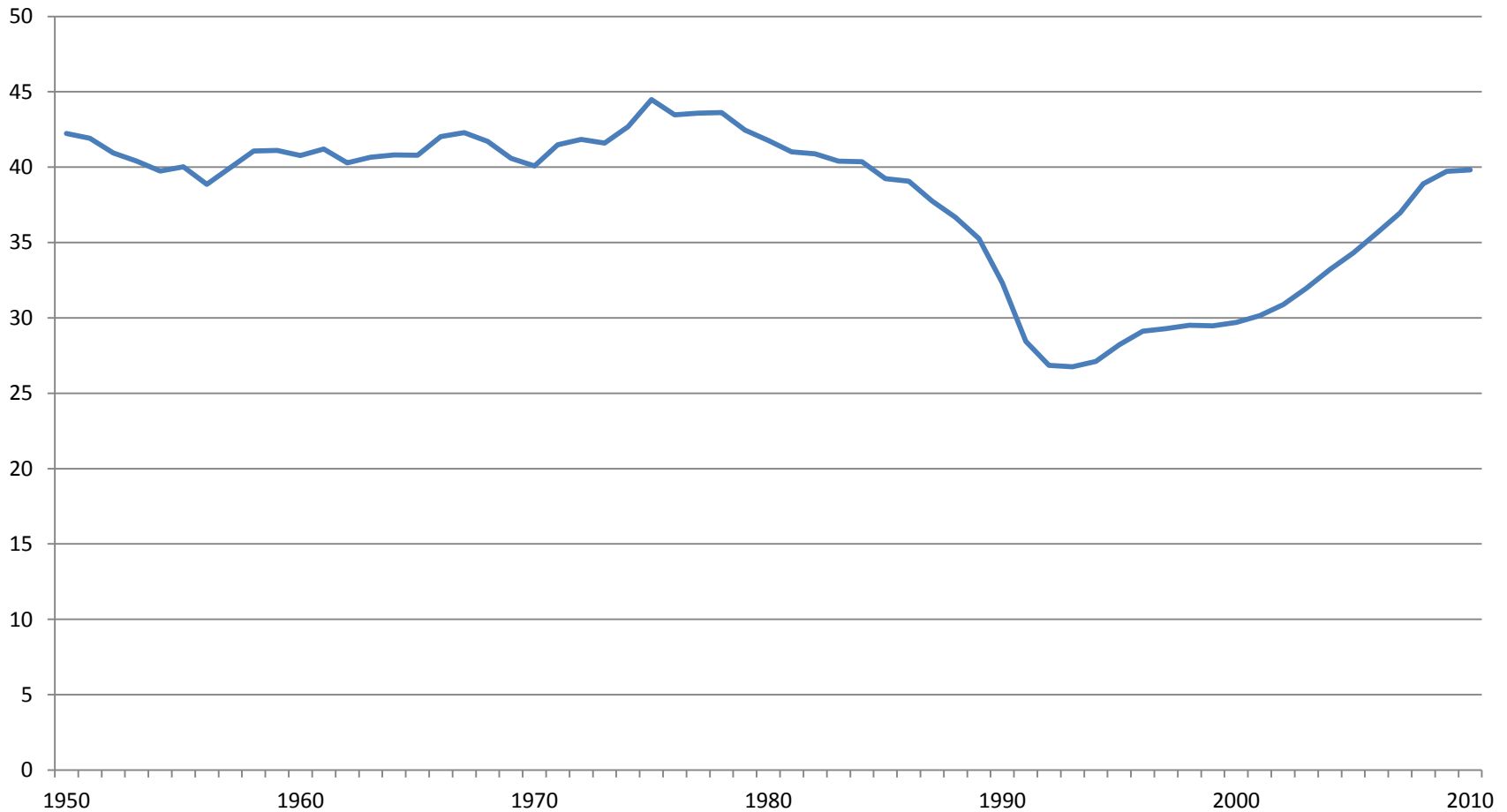
p.c. GDP: **7** vs. **12**

(Maddison)



„Central Planning“: effective(?), for some time Transition Shock worse than War

p.c. GDP/pc: 7 vs. 12
(Maddison)



25 years: Implementing... ...„the best practices“

Transformation:

Washington Consensus+Shock Therapy

Integration:

Maastricht Treaty + Acqui...

Liberalisation! Privatisation!

Sound Fiscal Policies!

F.D.I.

Protectionism: NO!

Industrial Policy: NO

Incomes Policy: NO!

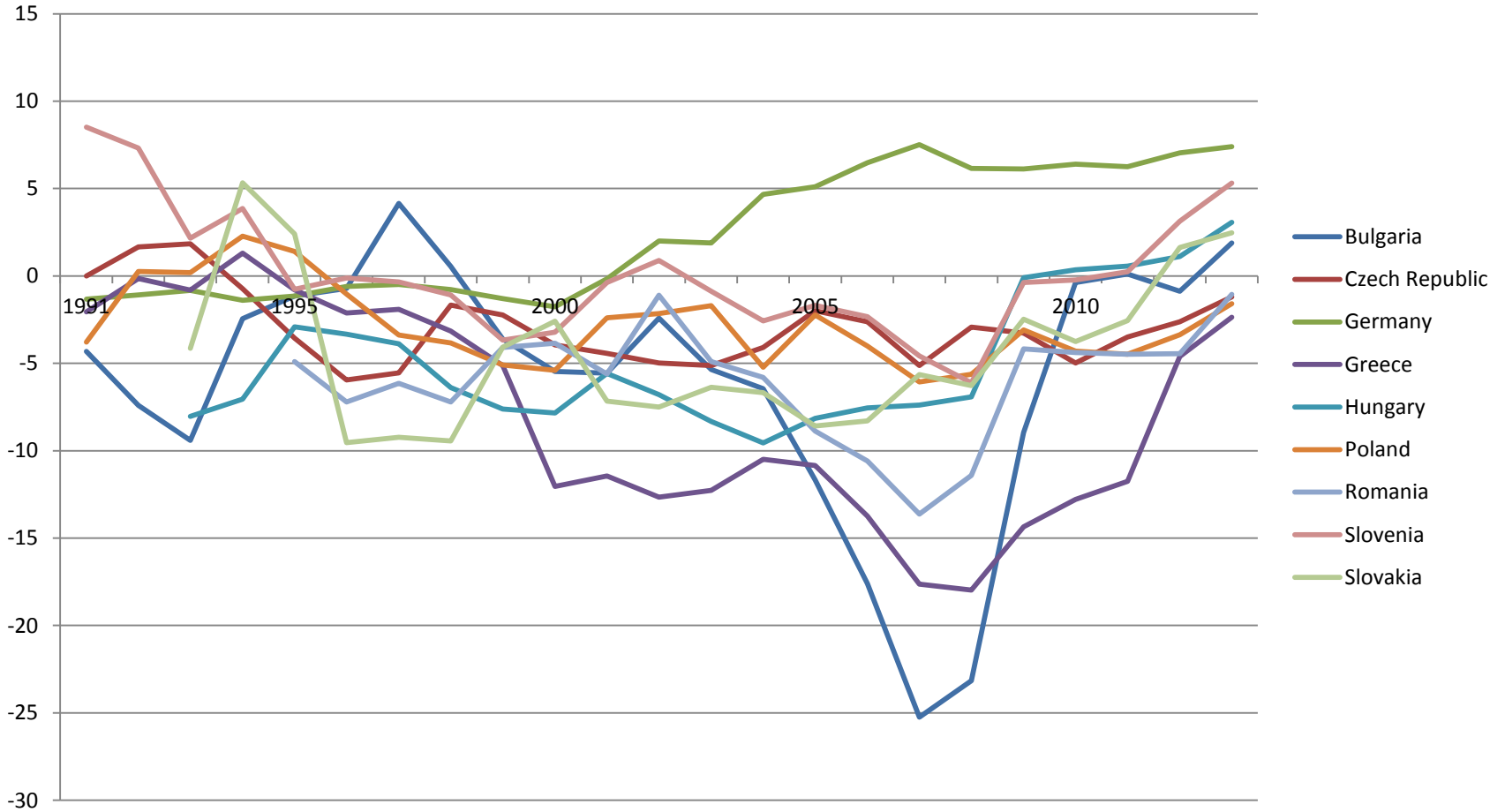


„INTEGRATIVE MODEL“

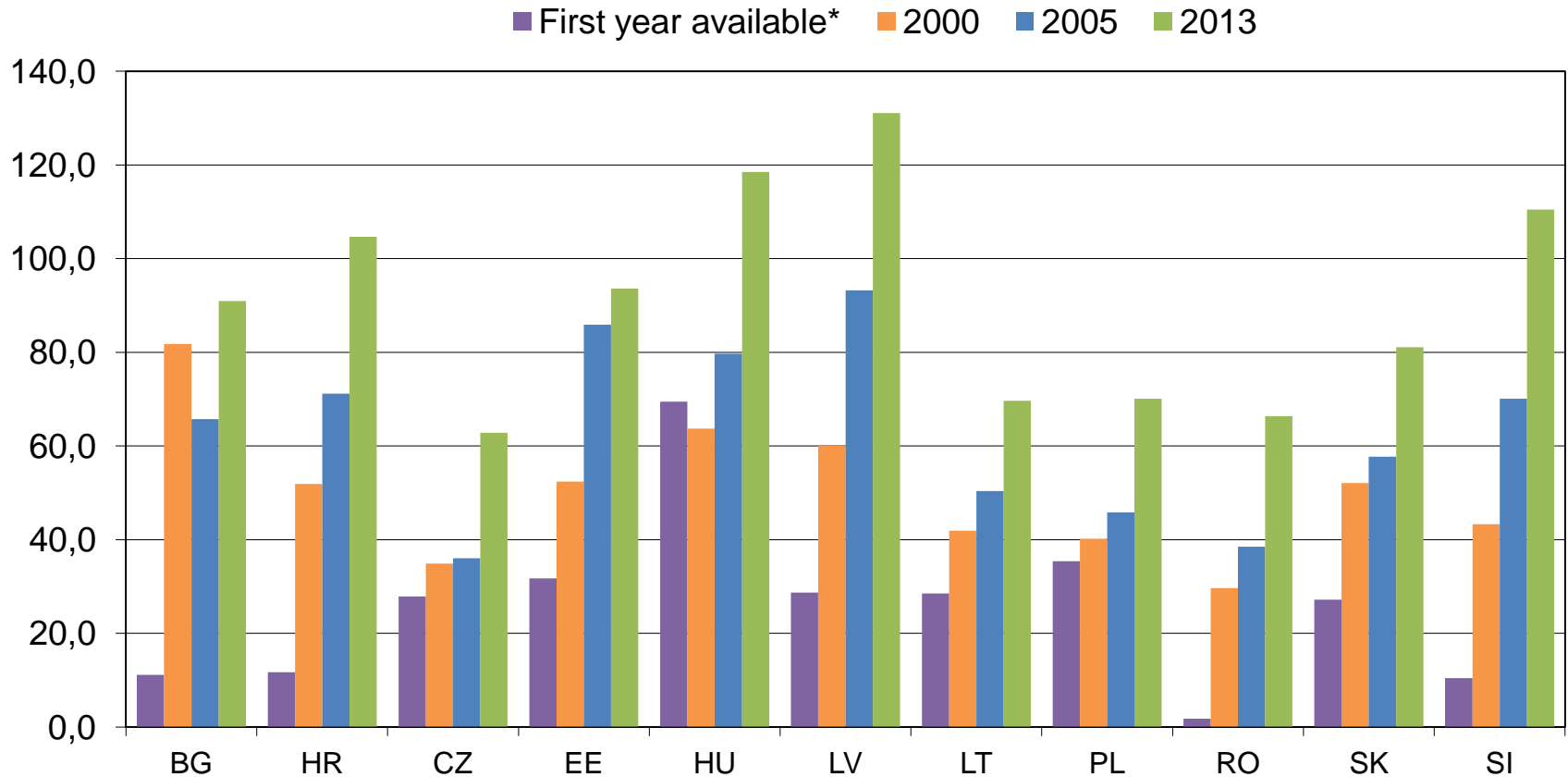
1. Liberalisation → Current Account Deficit → EXTERNAL DEBT

2. ExDebt excessive → „FASTING BELTS“

CA/GDP



Gross external debt in % of GDP



*Data first year: BG 1985, HR 1991, CZ 1992, EE 1996, HU 1986, LV 1995, LT 1996, PL 1985, RO 1989, SK 1992, SI 1990.

Source: wiiw Annual Database.

ULC (er-adjusted) 2010=100

(wiiw)

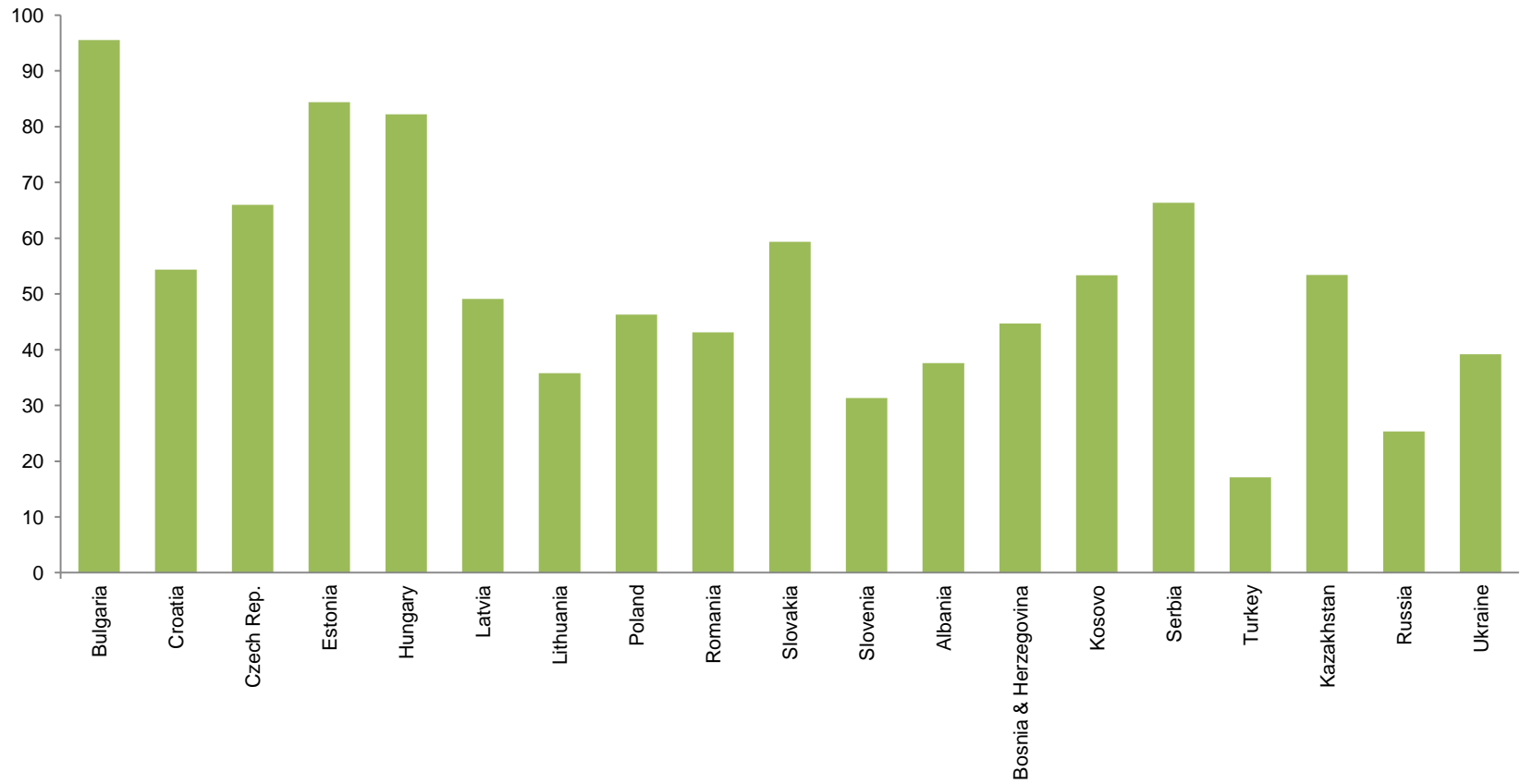
| | 1995 | 2004 | 2008 | 2013 |
|-------------------|--------------|--------------|--------------|--------------|
| EA12 | 79.5 | 89.9 | 96.4 | 103.7 |
| Bulgaria | 64.3 | 81.9 | 82.8 | 92.4 |
| Czech Rep. | 38.9 | 67.1 | 95.6 | 102.9 |
| Germany | 105.6 | 104.8 | 98.9 | 100.1 |
| Estonia | 43.9 | 66.1 | 104.6 | 113.2 |
| Latvia | 40.6 | 59.5 | 108.1 | 94.6 |
| Lithuania | 37.8 | 70.2 | 106.0 | 95.1 |
| Hungary | 44.1 | 84.0 | 103.9 | 108.1 |
| Poland | 48.2 | 70.2 | 108.4 | 97.0 |
| Romania | 109.3 | 122.6 | 93.6 | 82.7 |
| Slovenia | 71.6 | 82.8 | 89.6 | 98.5 |
| Slovakia | 42.5 | 64.5 | 94.6 | 101.7 |

Cost competition or „the race to the bottom“: GDP wage shares

| | 1993 | 1996 | 1999 | 2005 | 2008 | 2013 |
|------------|------|-------------|-------------|-------------|-------------|-------------|
| EA12 | 61.4 | 59.3 | 58.1 | 56.7 | 56.4 | 57.5 |
| Germany | 62.3 | 60.8 | 59.8 | 57.8 | 55.9 | 57.9 |
| Bulgaria | | 54.9 (66.8) | 53.1 (38.4) | 47.7 (36.2) | 47.9 (37.0) | 55.3 (40.1) |
| Czech Rep. | 44.7 | 47.3 | 47.2 (41.9) | 49.9 (42.0) | 50.3 (42.0) | 51.4 (42.6) |
| Estonia | 52.3 | 53.6 | 50.6 | 48.0 | 55.1 | 52.1 |
| Latvia | 57.0 | 54.1 | 51.9 | 47.9 | 56.7 | 46.8 |
| Lithuania | | 49.1 | 53.7 | 49.0 | 50.1 | 44.5 |
| Hungary | | 55.3 | 52.8 | 53.3 | 52.5 | 50.7 |
| Poland | 59.6 | 58.2 | 56.9 | 48.3 | 48.3 | 46.4 |
| Romania | 62.7 | 60.7 | 62.6 | 58.8 | 60.4 | 48.6 |
| Slovenia | | 66.2 | 61.6 | 61.4 | 61.2 | 63.2 |
| Slovakia | | 44.9 | 45.2 | 43.1 | 43.0 | 44.2 |

FDI: *quantitatively...* a success

FDI/GDP 2013



But qualitatively...?

2010: sectoral composition of FDI

DUP: Directly Unproductive Profit-seeking

| | BG | CZ | EE | HU | LV | LT | PL | RO | SK | SI | CEEC |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Manufacturing | <u>17.8</u> | <u>32.0</u> | <u>14.4</u> | <u>24.8</u> | <u>12.6</u> | <u>27.0</u> | <u>31.8</u> | <u>31.5</u> | <u>36.0</u> | <u>26.9</u> | <u>29.0</u> |
| Electricity, gas and water supply | 4.5 | 8.0 | 3.8 | 5.5 | 3.8 | 6.2 | 4.1 | 5.5 | 12.3 | 3.0 | 5.9 |
| Trade and repair of motor vehicles etc. | 13.1 | 9.9 | 11.2 | 12.7 | 12.0 | 13.0 | 15.9 | 12.2 | 11.7 | 13.1 | 12.9 |
| Transport, storage and communication | 11.8 | 5.2 | 5.4 | 7.5 | 7.3 | 12.2 | 5.8 | 6.8 | 5.2 | 3.4 | 6.6 |
| Financial intermediation | 18.2 | 20.4 | 30.1 | 9.5 | 23.5 | 18.1 | 18.6 | 20.5 | 19.7 | 40.4 | 18.7 |
| Real estate, renting and business act. | 22.3 | 16.2 | 30.5 | 30.7 | 25.0 | 17.5 | 17.6 | 13.7 | 10.9 | 11.5 | 19.0 |
| Remaining activities | 12.3 | 8.3 | 4.7 | 9.2 | 15.8 | 6.0 | 6.2 | 9.8 | 4.3 | 1.9 | 7.8 |

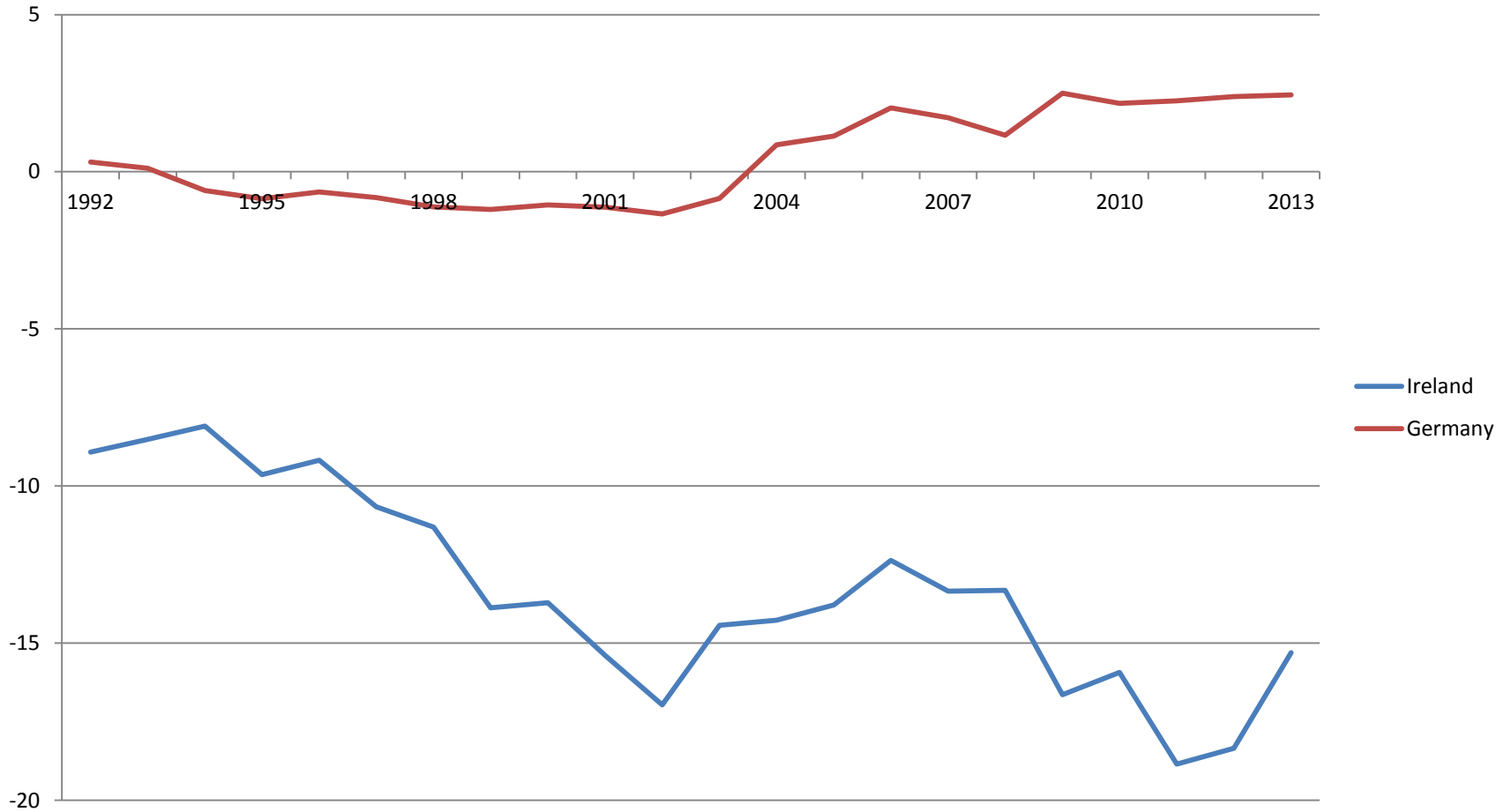
FDI: a success at all?

| | Current account balance | | | FDI income balance | | |
|-----------|-------------------------|------|------|--------------------|------|------|
| | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| Bulgaria | 0.1 | -0.8 | 1.9 | -4.7 | -3.6 | -4.2 |
| Croatia | -0.9 | -0.1 | 1.3 | -2.3 | -2.3 | -1.6 |
| Czech Rep | -2.7 | -1.3 | -1.4 | -6.5 | -6.5 | -7.9 |
| Estonia | 1.8 | -1.8 | -1.0 | -7.0 | -6.9 | -5.1 |
| Hungary | 0.4 | 0.8 | 3.0 | -4.8 | -4.6 | -4.2 |
| Latvia | -2.1 | -2.5 | -0.8 | -2.0 | -3.2 | -3.2 |
| Lithuania | -3.7 | -0.2 | 1.5 | -3.8 | -2.4 | -2.4 |
| Poland | -5.0 | -3.7 | -1.3 | -3.6 | -3.3 | -2.9 |
| Romania | -4.5 | -4.4 | -1.1 | -0.3 | -1.0 | -2.1 |
| Slovakia | -3.8 | 2.2 | 2.1 | -6.1 | -4.2 | -4.1 |
| Slovenia | 0.4 | 3.3 | 6.3 | -1.1 | -1.6 | -1.2 |

National income as % of national product

| | 1991 | 1995 | 2000 | 2005 | 2010 | 2013 |
|----------------|-------|-------|-------|-------|-------|-------|
| Bulgaria | | | 97.6 | 99.9 | 98.0 | 98.0 |
| Czech Republic | | 100.0 | 98.3 | 95.8 | 92.5 | 93.4 |
| Germany | 100.5 | 99.1 | 98.9 | 101.1 | 102.2 | 102.4 |
| Estonia | | 100.0 | 96.7 | 96.2 | 94.4 | 96.7 |
| Ireland | 92.3 | 90.4 | 86.3 | 86.2 | 84.1 | 84.7 |
| Latvia | 101.5 | 100.6 | 99.8 | 98.7 | 102.0 | 99.8 |
| Lithuania | | 99.9 | 98.3 | 98.5 | 98.0 | 96.4 |
| Hungary | | 96.7 | 95.0 | 94.6 | 95.3 | 94.7 |
| Poland | 96.4 | 98.6 | 99.6 | 98.0 | 96.2 | 95.3 |
| Romania | 99.1 | 99.1 | 99.2 | 97.1 | 98.8 | 97.5 |
| Slovenia | 99.8 | 100.9 | 100.1 | 99.2 | 98.7 | 99.4 |
| Slovakia | | 100.4 | 99.4 | 97.2 | 97.4 | 97.6 |

Ireland...even worse: $100*(GNI-GDP)/GDP$



The wrong way....!

Falling labour costs (→ stagnant labour incomes, consumption)



Yes, profits increase (and tend to leak abroad!)



- Fixed investment „insensitive“ to profits!



- Trade balance may improve, but not GNI!



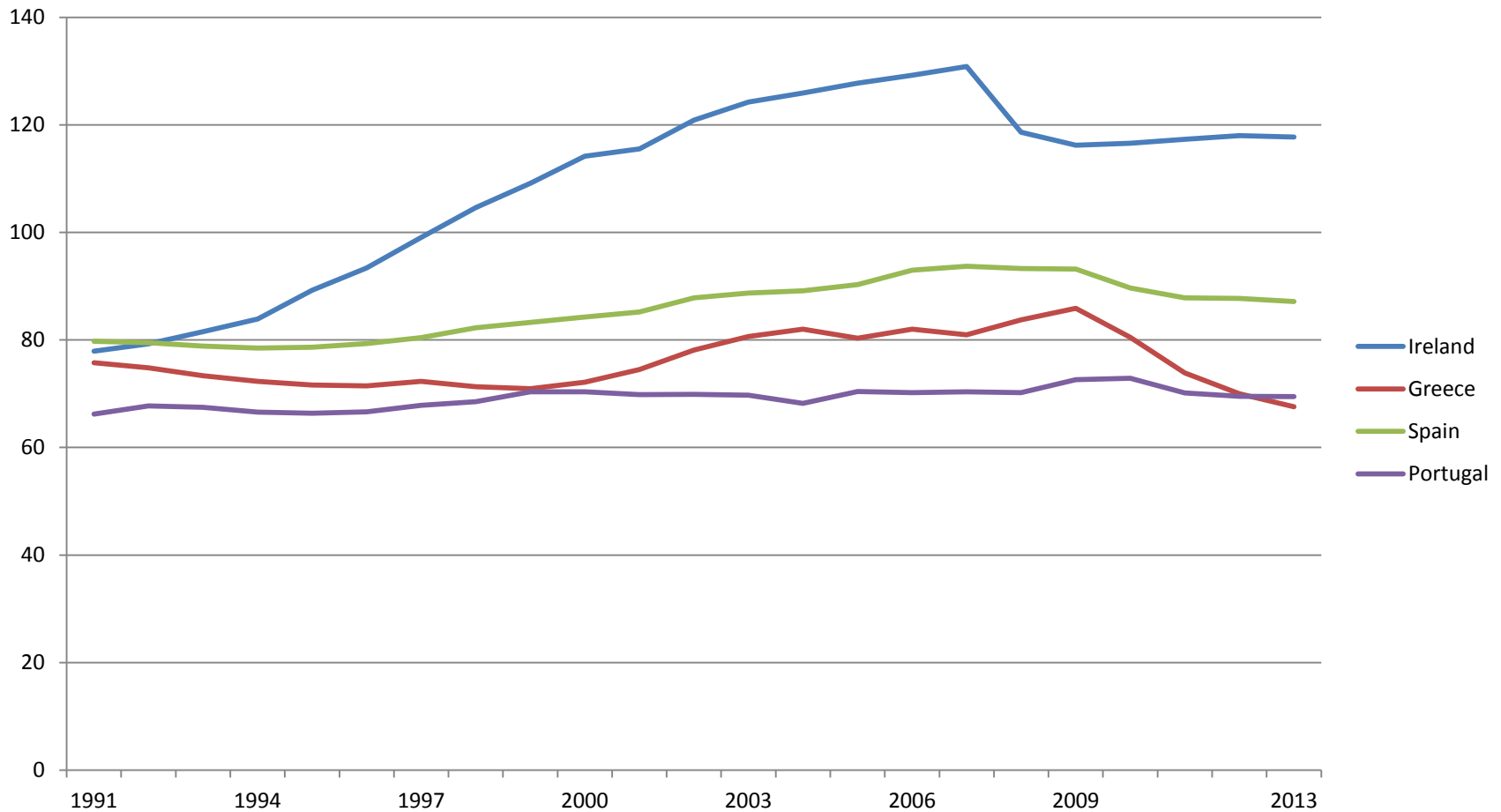
- Improving TB does not make up for stagnant domestic demand



- GROWTH ANAEMIC & UNSTABLE!
- IMBALANCED: EXTERNAL DEBT ON THE RISE

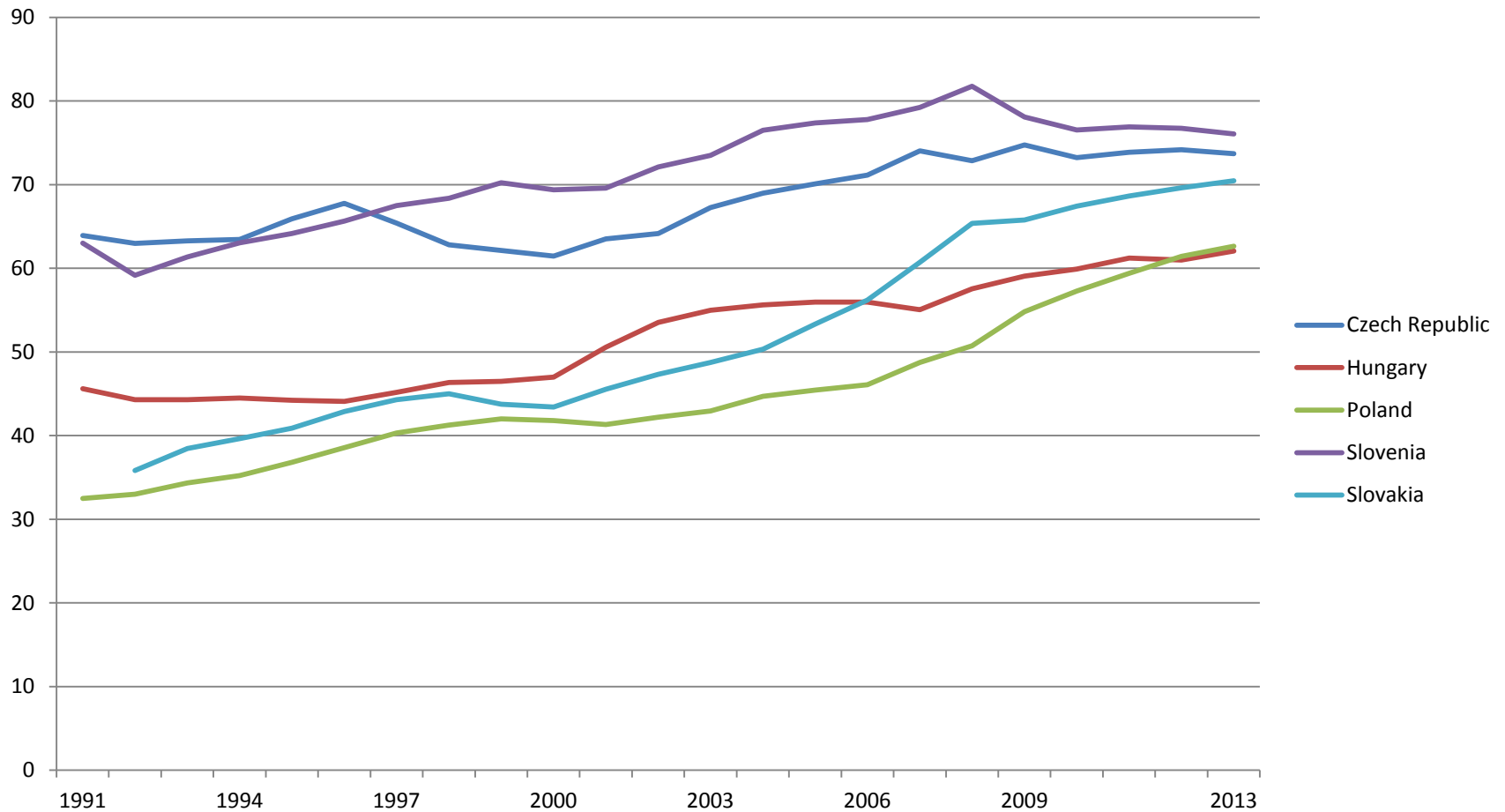
Convergence in EU: an invisible roof ?

p.c. GDP, PPP, EU-15=100



Convergence in EU: an invisible roof ?

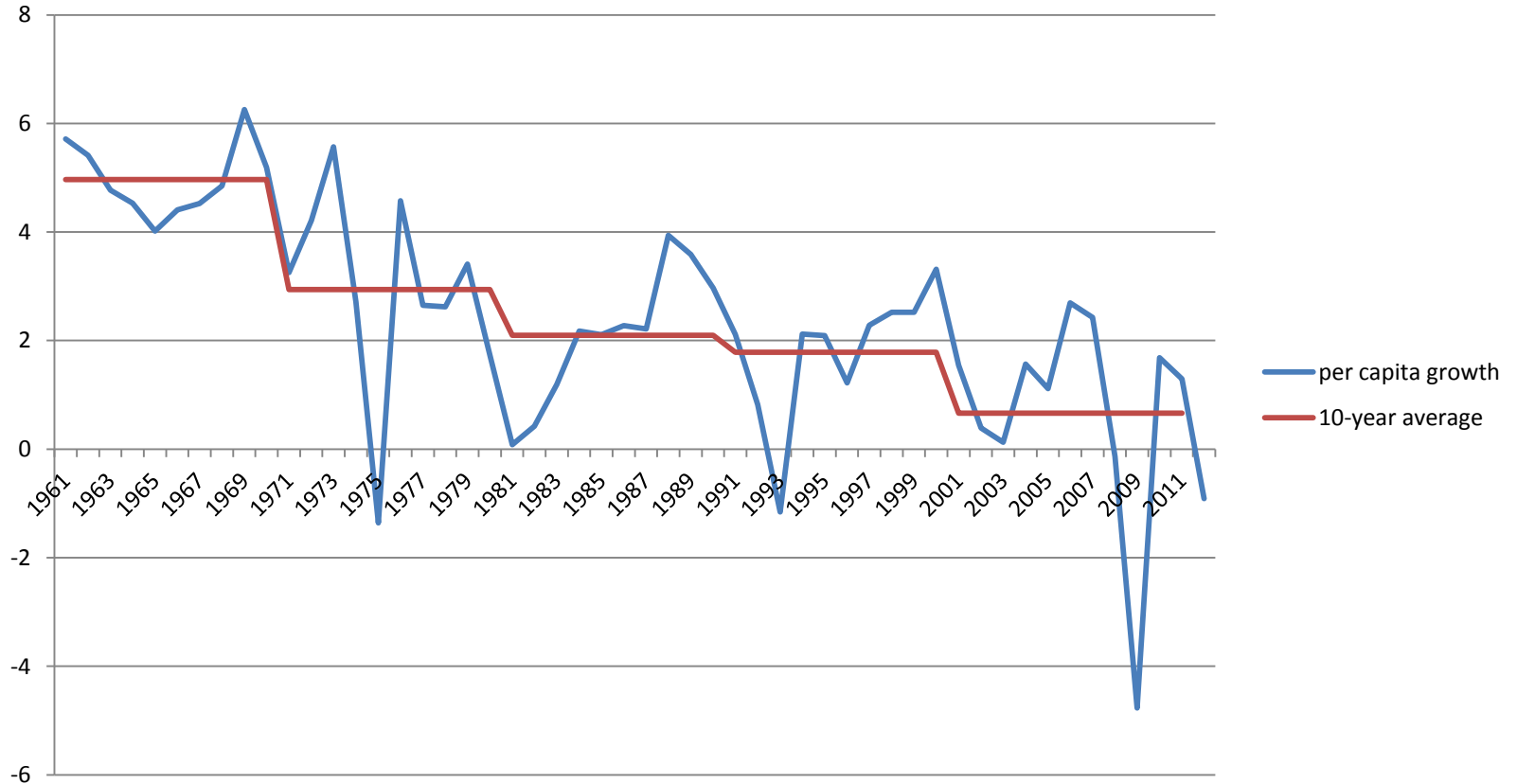
p.c. GDP, PPP, EU-15=100



Convergence with a **stagnant** area!

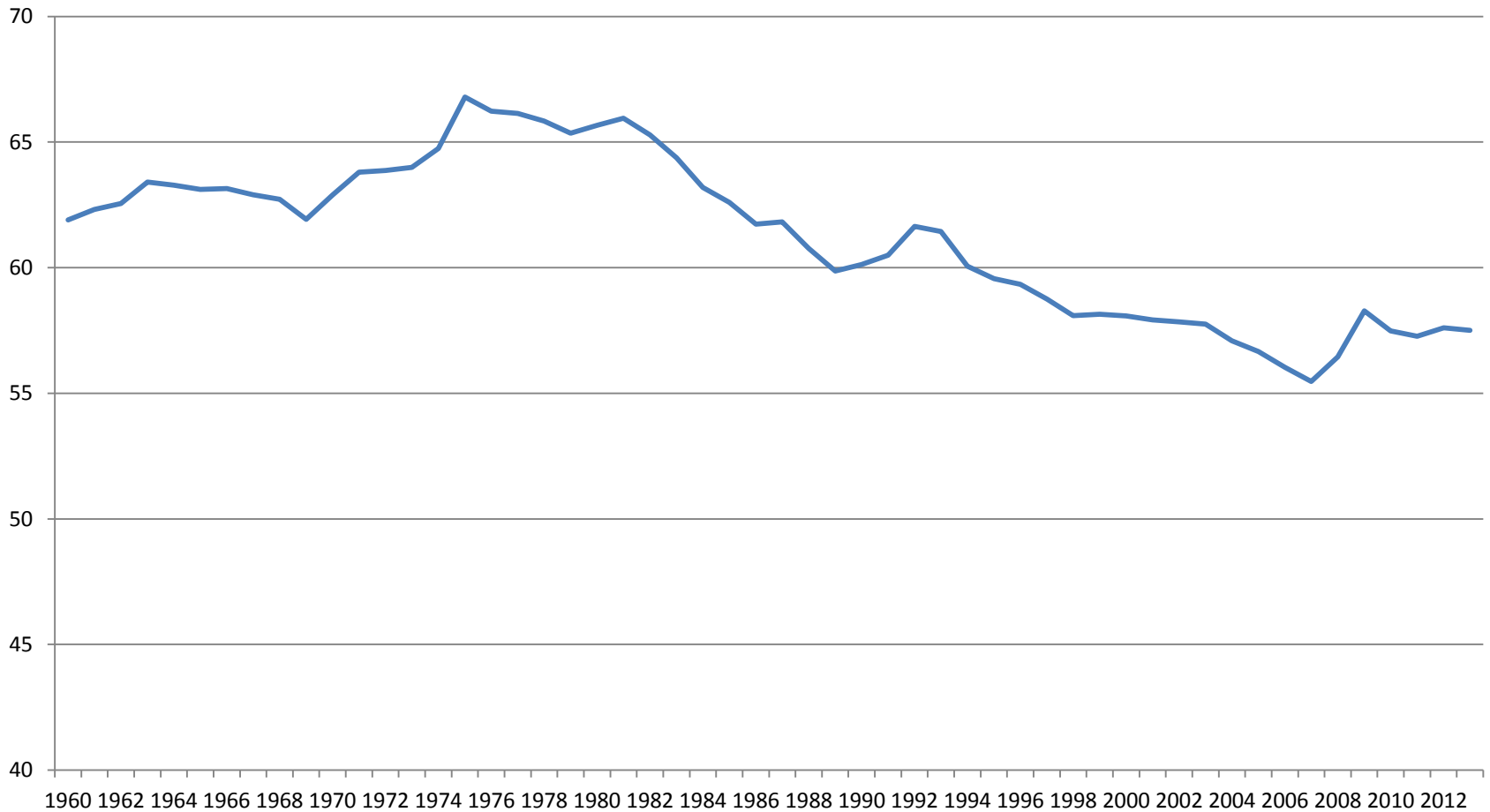
p.c. GDP growth

EA-12

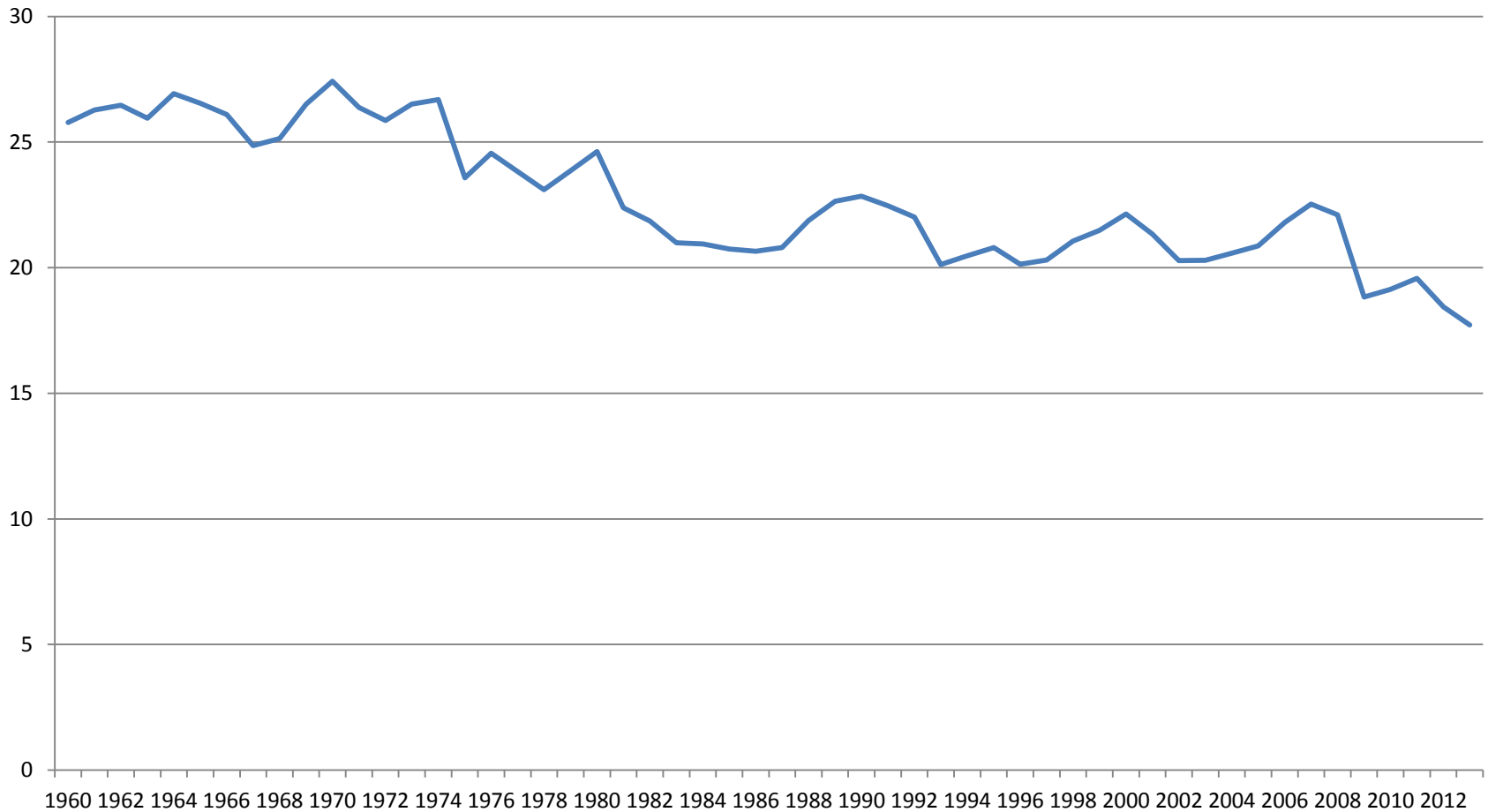


What's behind? A paradigm change

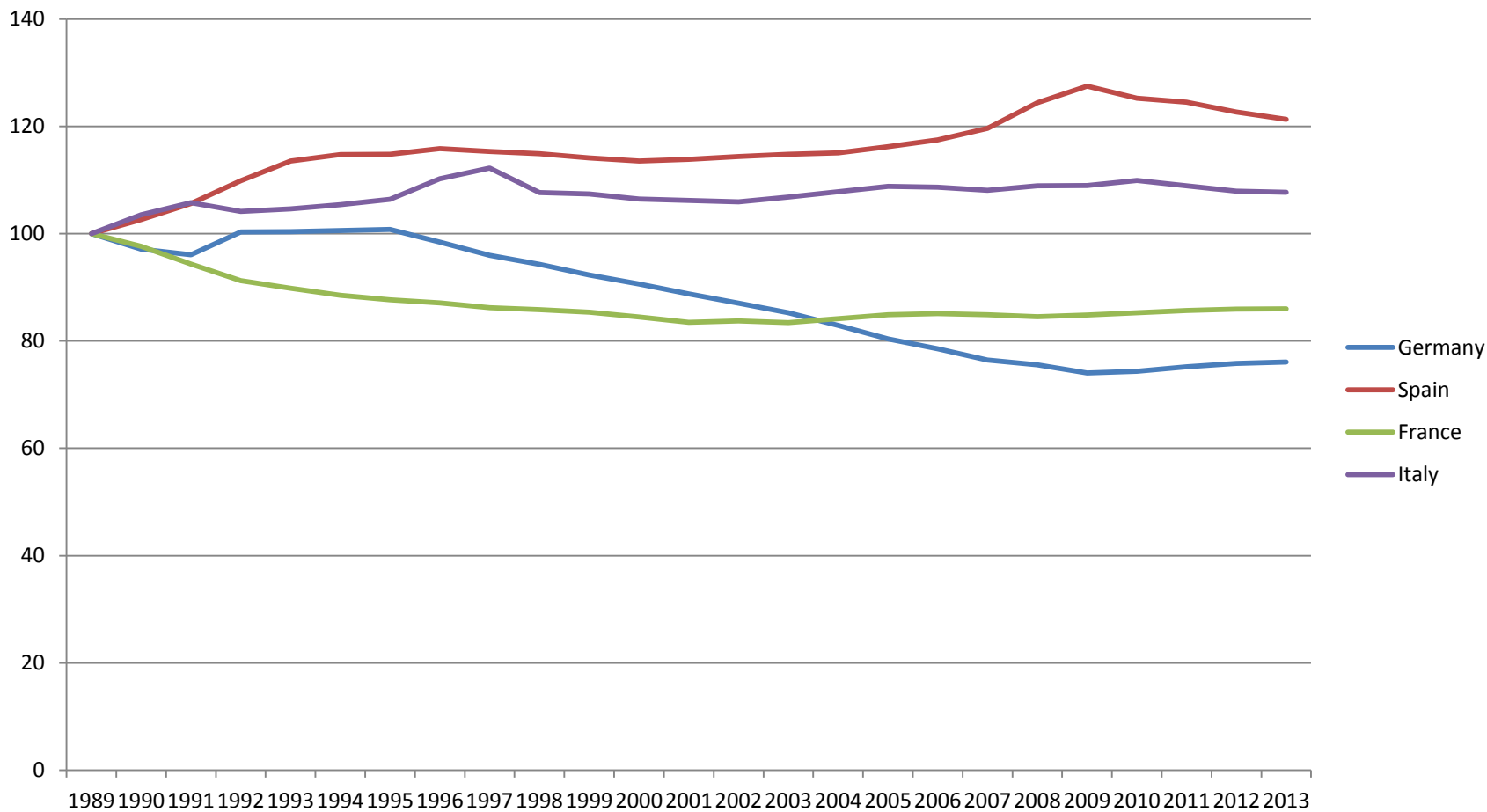
EA-12: „wage share“↓



Profits (↑) do not translate into investment: EA-12: Investment share ↓

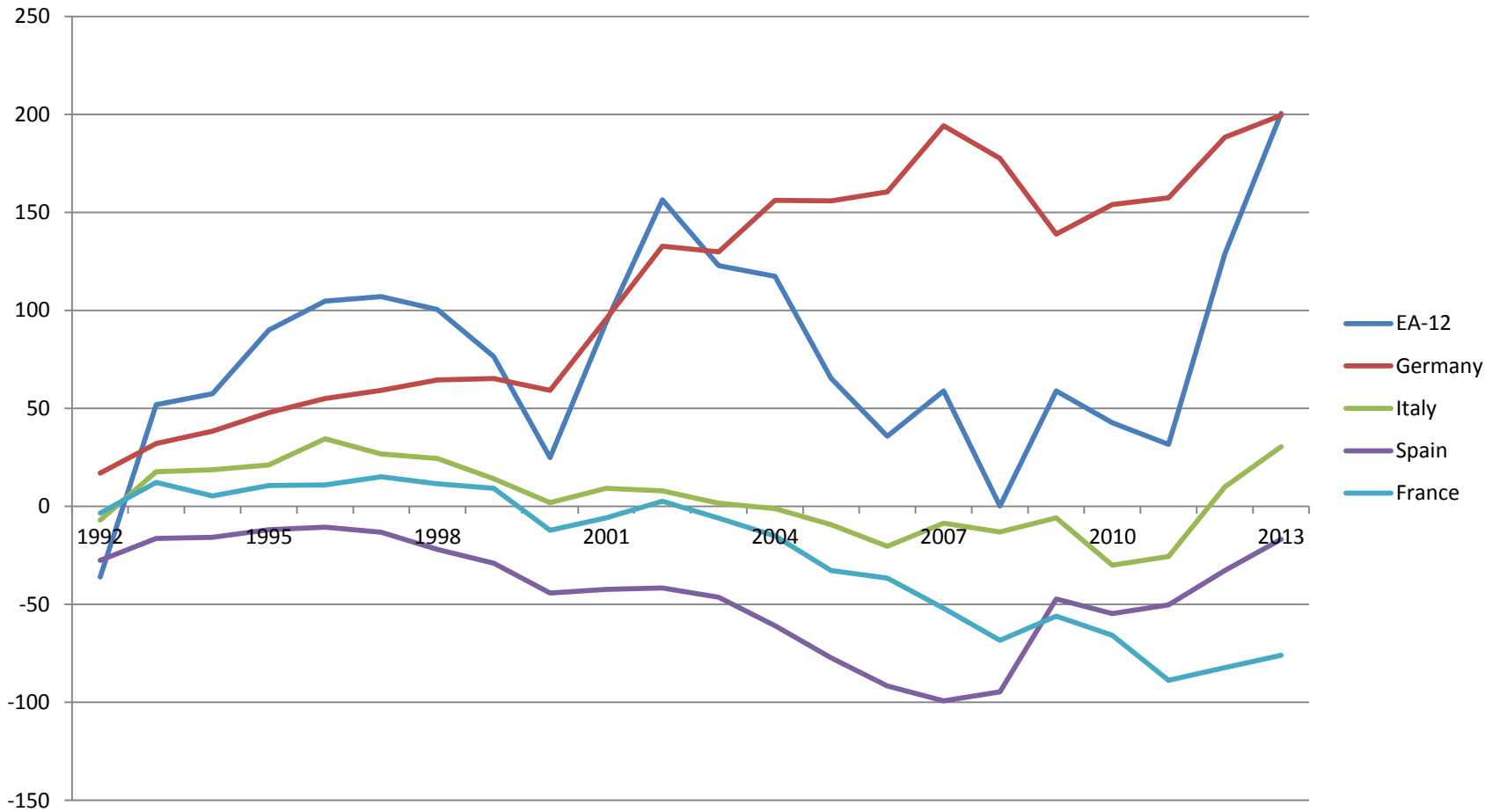


Germany above all? Beggar thy neighbour (and thyself!) ULC dynamics

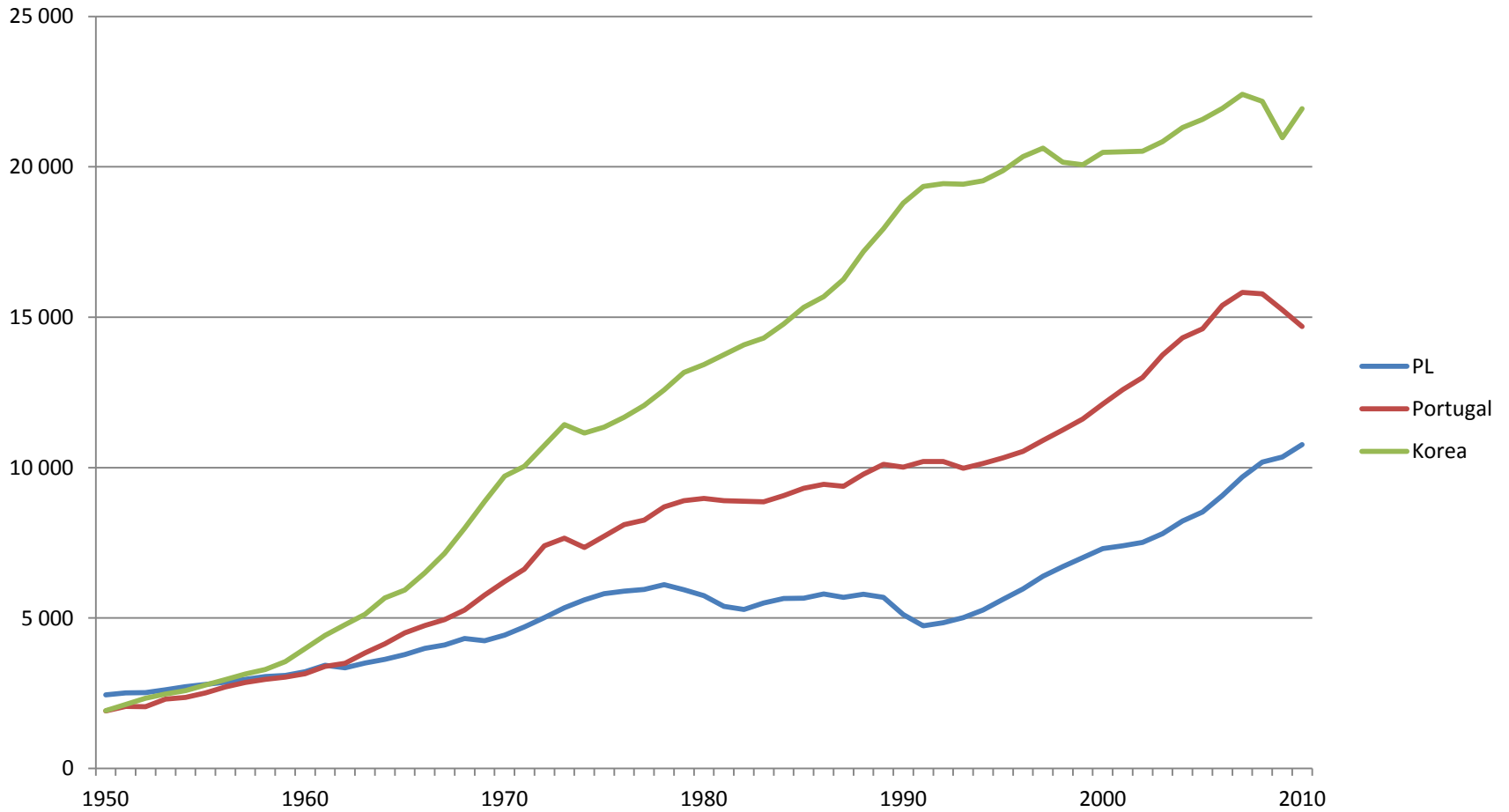


TB in EA:

bn.€



Another perspective...



Recommended reading

- Łaski, K. and Podkaminer, L. 2012: 'The basic paradigms of EU economic policy-making need to be changed'. *Cambridge Journal of Economics*, pp. 253-270.
- Łaski, K. and Podkaminer, L. 2012 What kind of socio-economic order do we need in Europe?. *Studia Ekonomiczne, Vol. LXXV, No. 4, 2012, pp. 449-461*
- Podkaminer, L. 'Development Patterns of Central and East European Countries (in the course of transition and following EU accession)', wiiw *Research Report, No. 388, Vienna, July 2013* [link](#)
- Podkaminer, L. 'Central and Eastern Europe: Trapped in Integration'. <http://e-axes.com/content/360-degree-econ-view?pprnt=945&pyear=2013&pmonth=Dec>
- Podkaminer, L. 'Secular Stagnation Simplistically Explained: the Euro Area Case'. <http://www.e-axes.com/content/secular-stagnation-simplistically-explained-euro-area-case>
- *REAL-WORLD ECONOMICS REVIEW, no. 70, Feb. 2015*