

GRINCOH Dissemination Workshop

Vienna, 30th October 2014

The New EU Member States: Trapped in Integration?

Leon Podkaminer

Q: NMS: trapped in Integration?

A: Unfortunately, yes

...

Despite early encouraging signs...

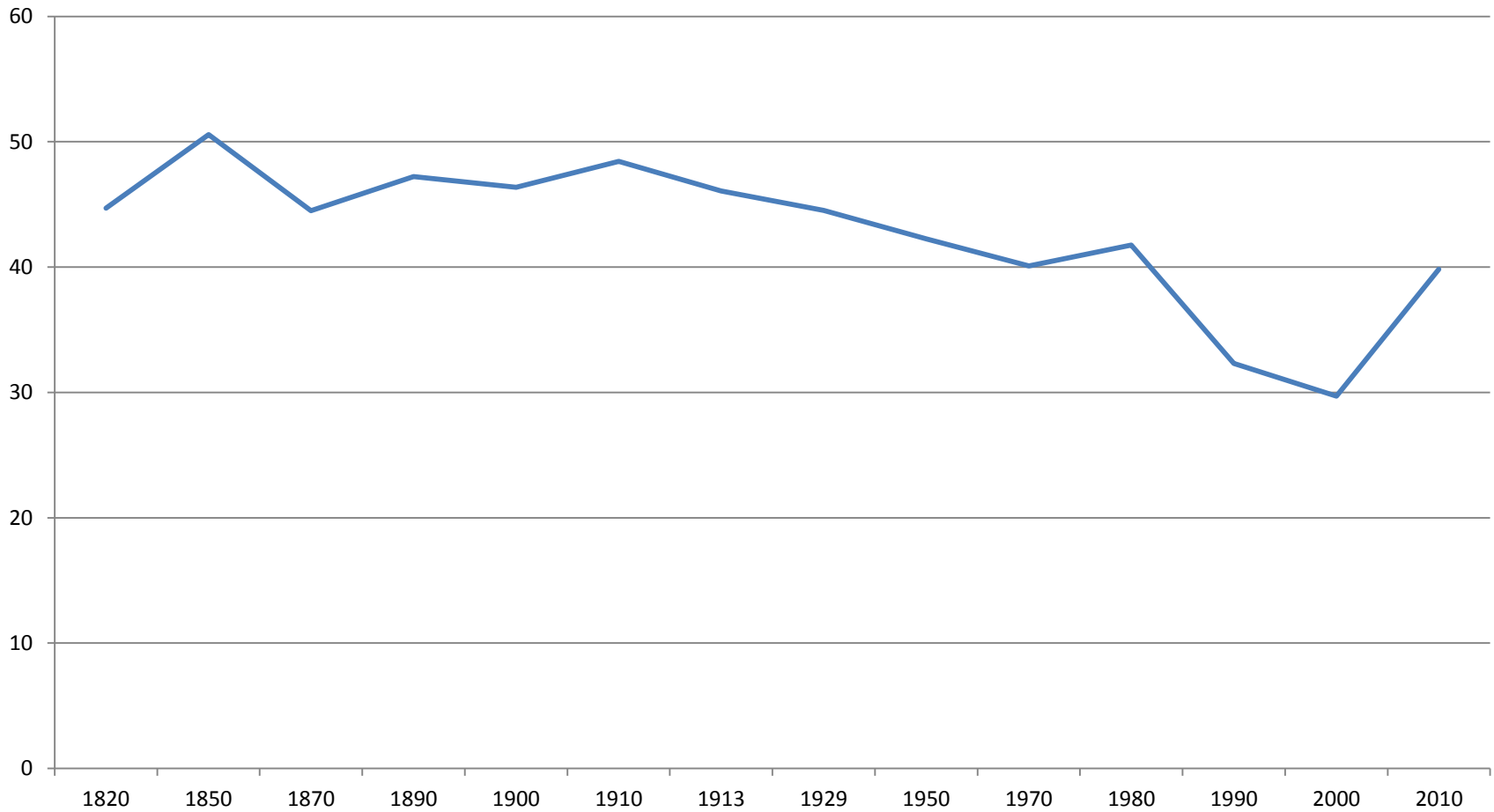
...

...unlikely to succeed eventually...

Secular retardation...not overcome

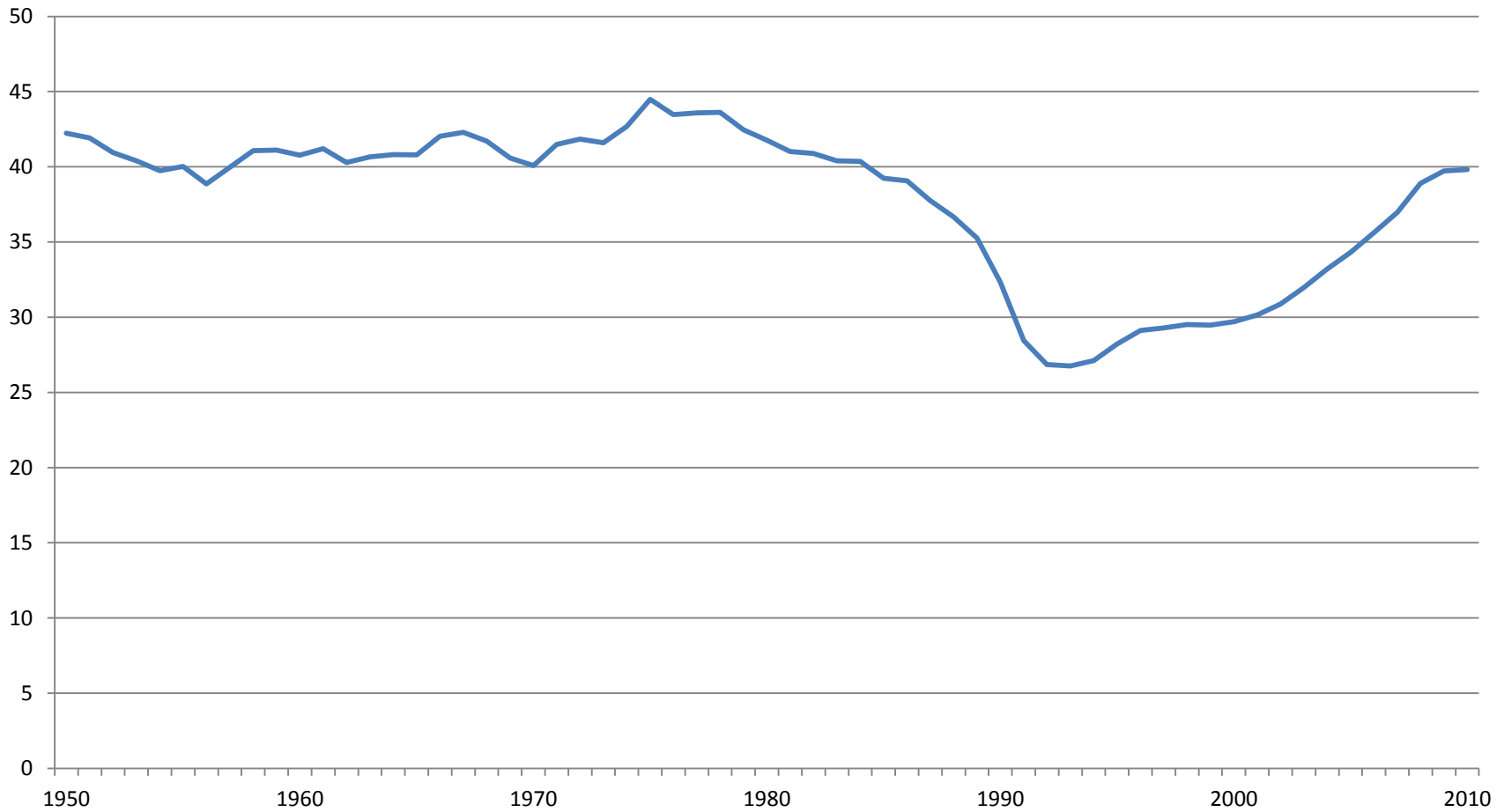
p.c. GDP: **7** vs. **12**

(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!

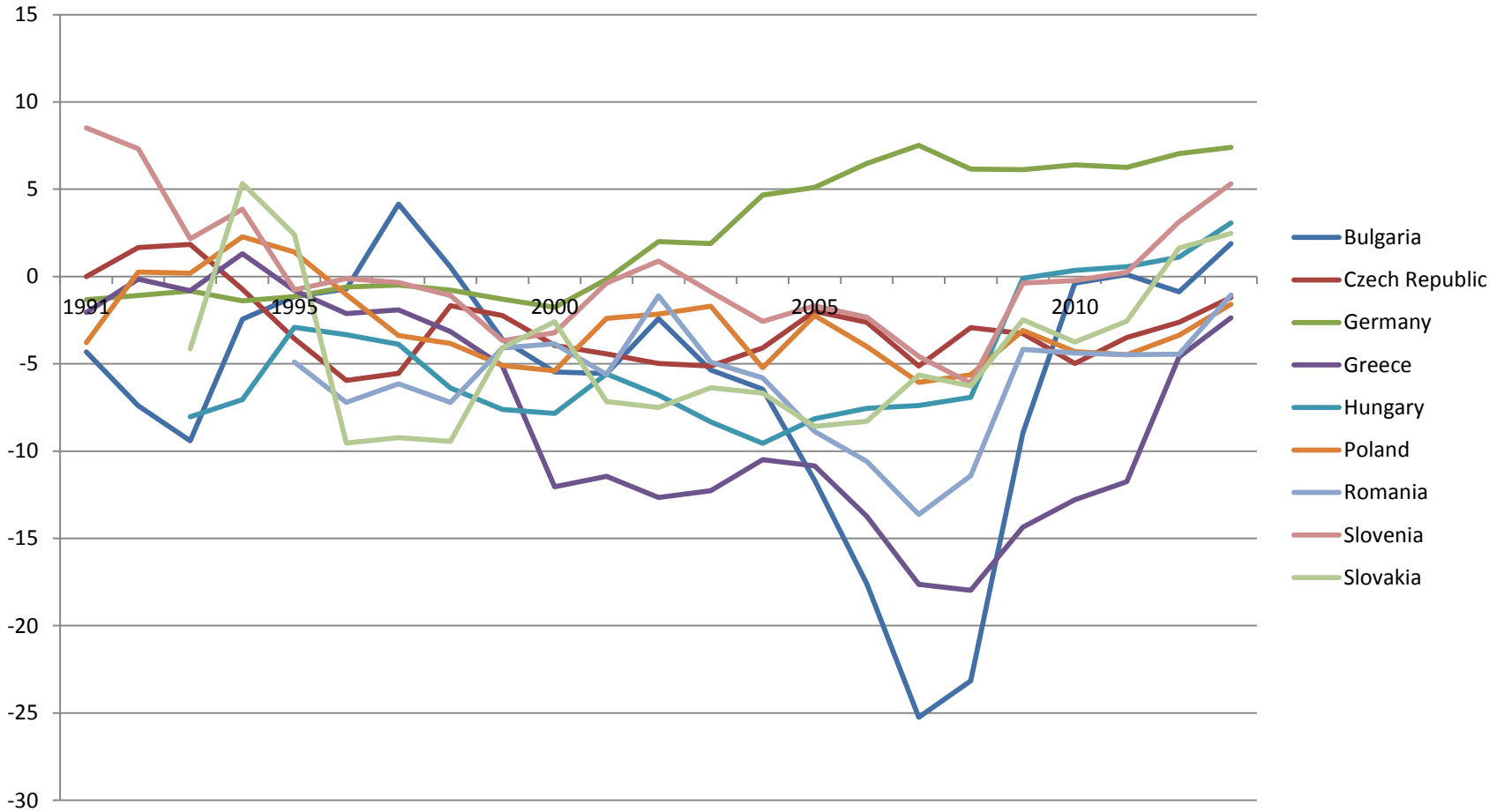


„INTEGRATIVE MODEL“

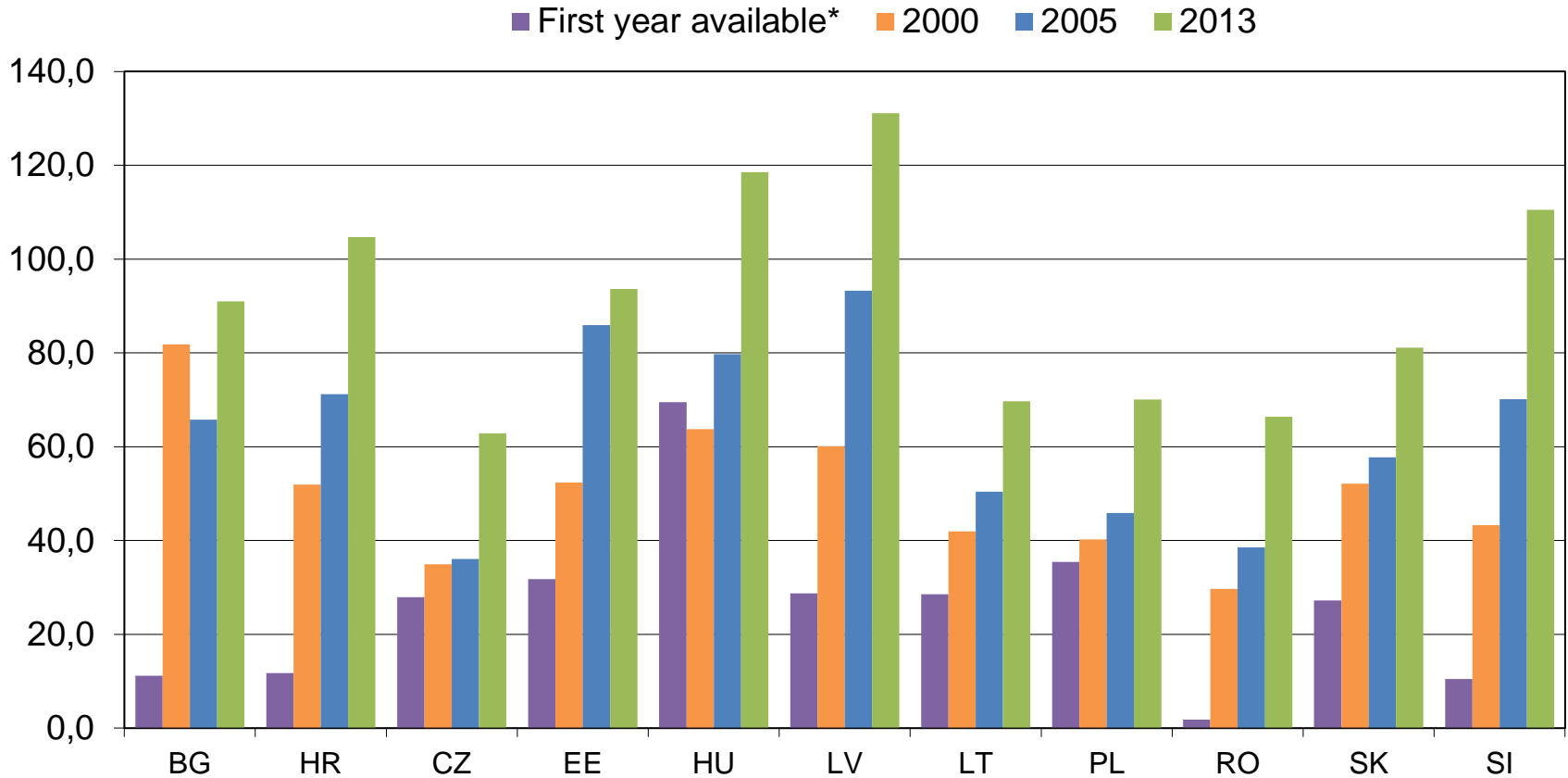
1. Liberalisation → Current Account Deficit → EXTERNAL DEBT

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)

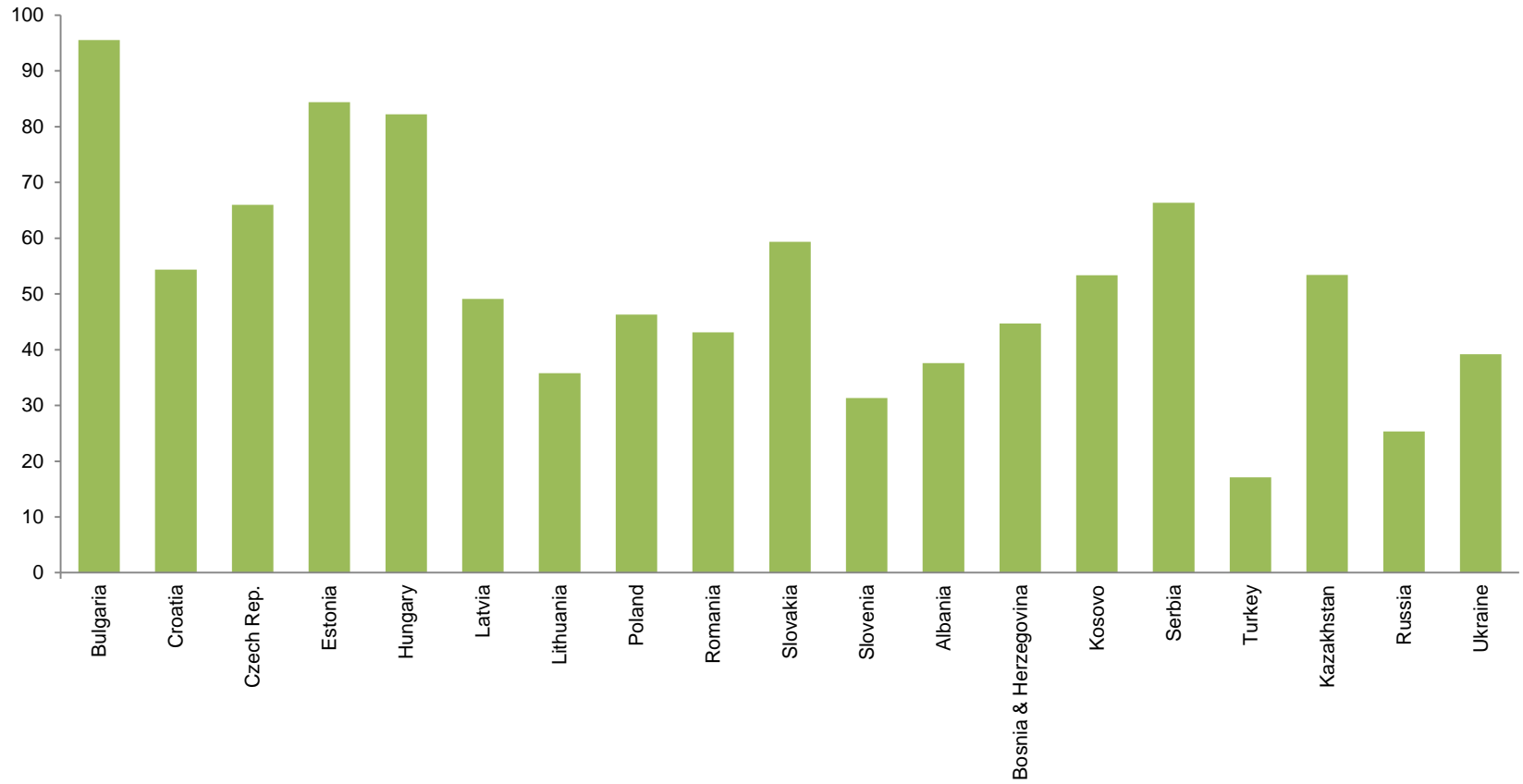
	1995	2004	2008	2013
EA12	79.5	89.9	96.4	103.7
Bulgaria	64.3	81.9	82.8	92.4
Czech Rep.	38.9	67.1	95.6	102.9
Germany	105.6	104.8	98.9	100.1
Estonia	43.9	66.1	104.6	113.2
Latvia	40.6	59.5	108.1	94.6
Lithuania	37.8	70.2	106.0	95.1
Hungary	44.1	84.0	103.9	108.1
Poland	48.2	70.2	108.4	97.0
Romania	109.3	122.6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

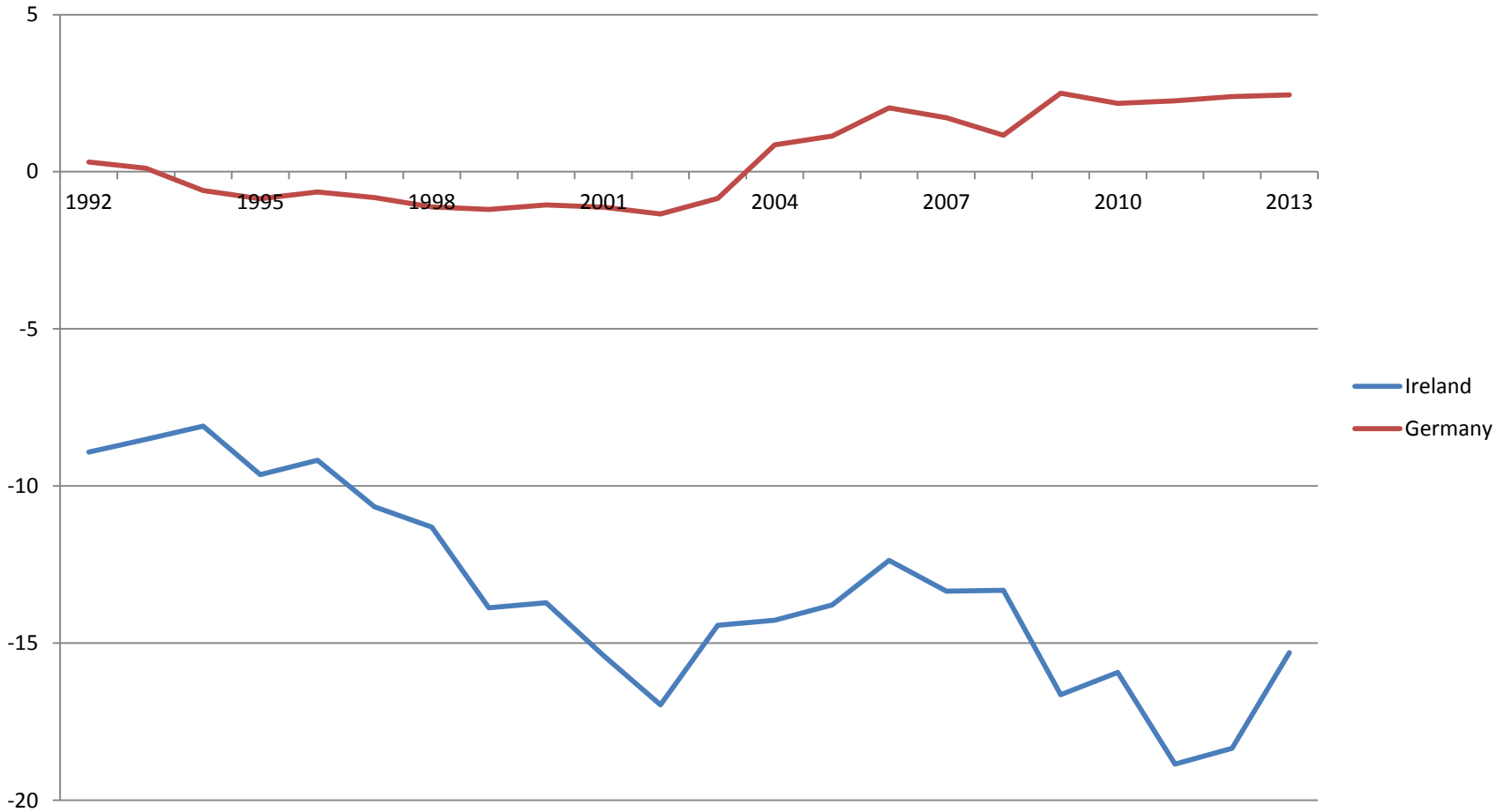
FDI: a success at all?

	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!



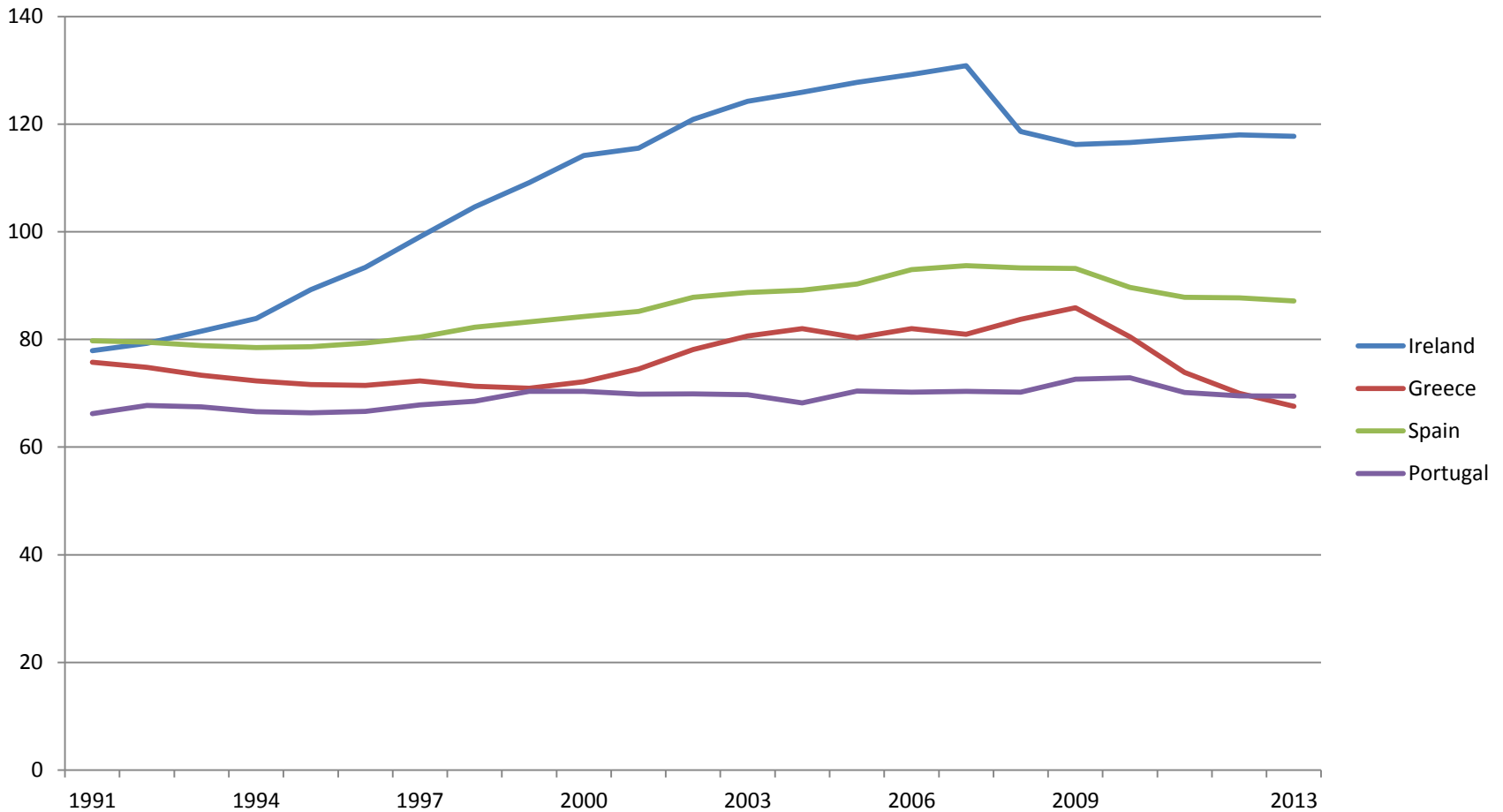
- Improving TB does not make up for stagnant domestic demand



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

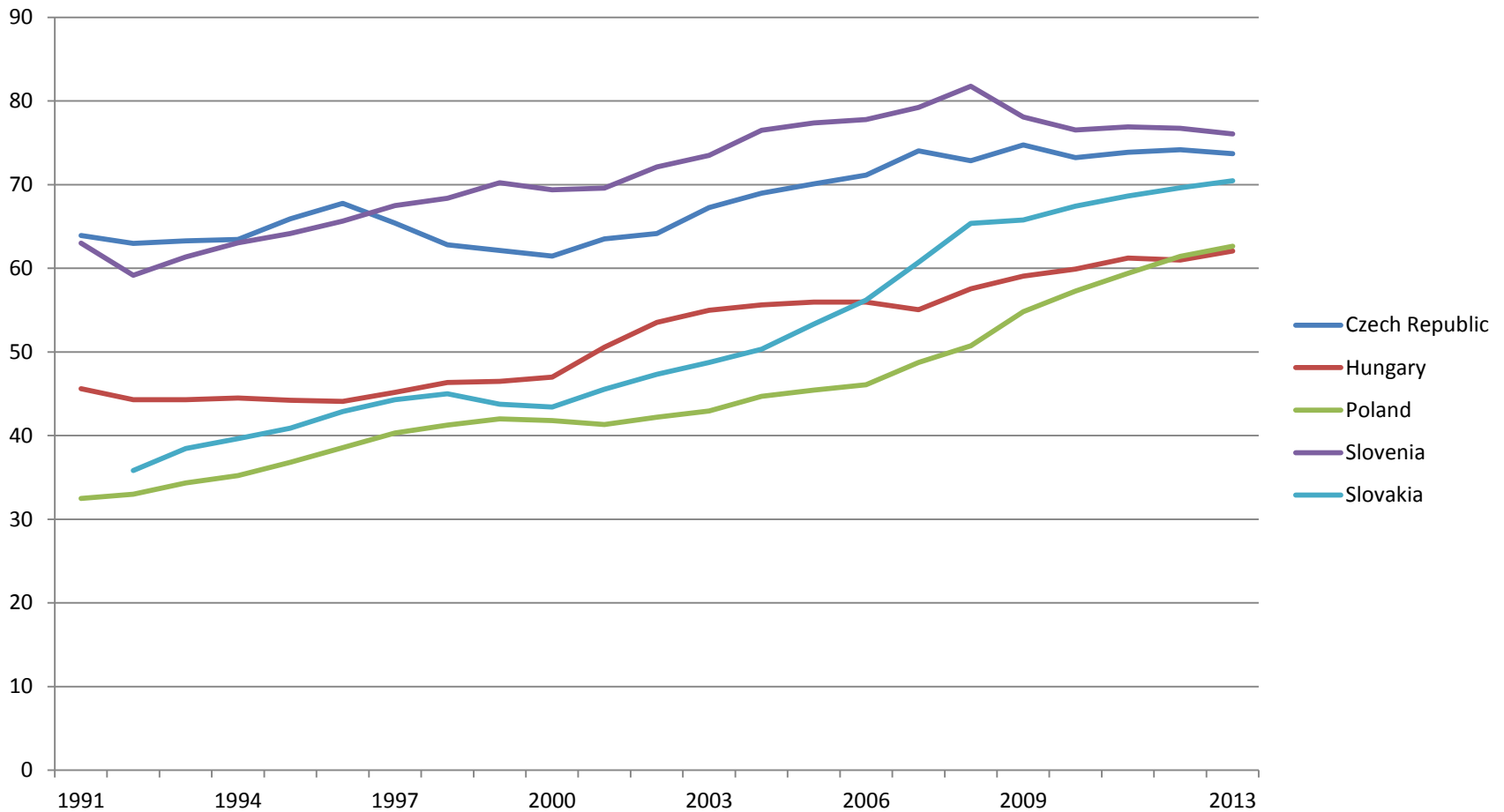
Convergence in EU: an invisible roof ?

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



Convergence in EU: an invisible roof ?

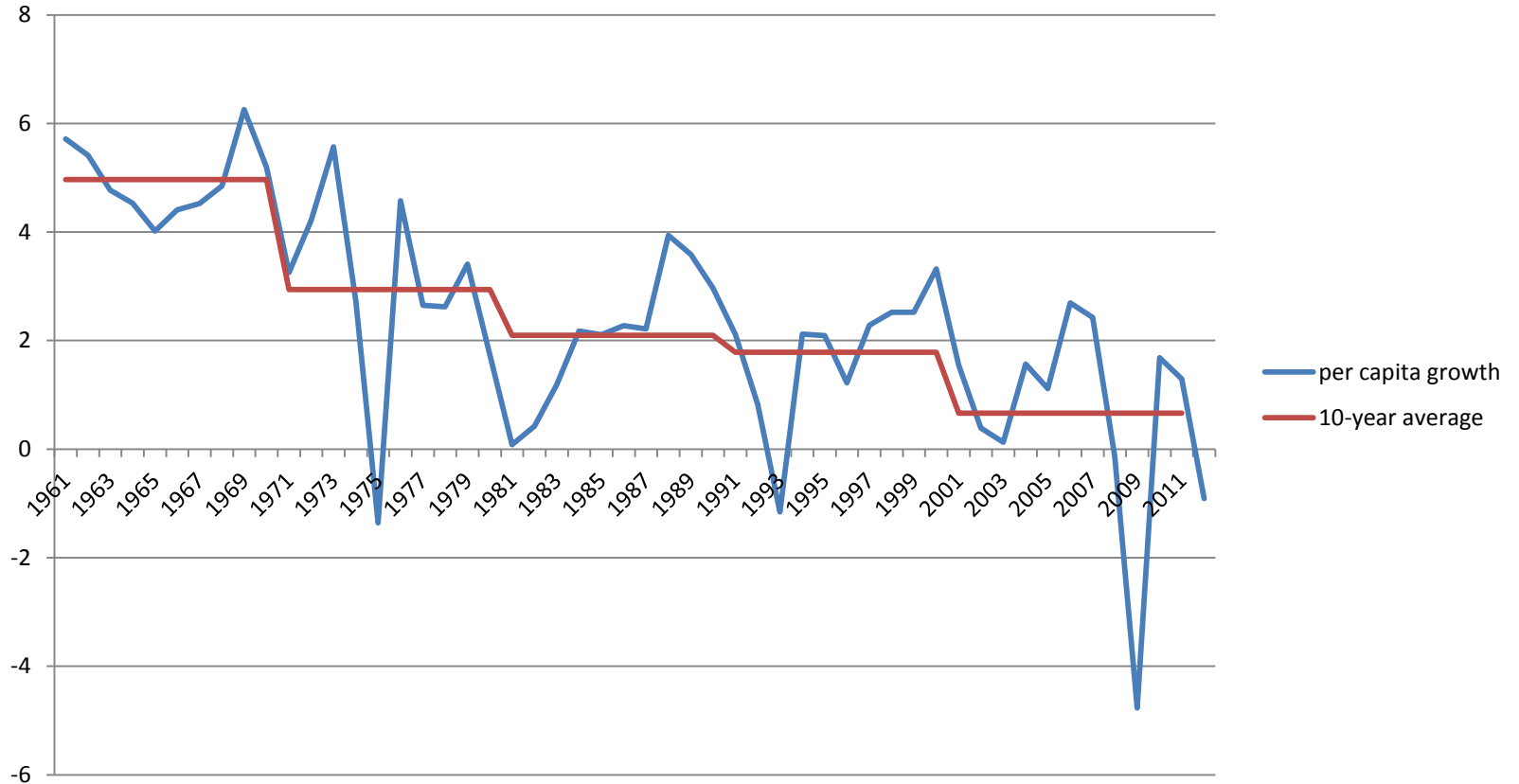
p.c. GDP, PPP, EU-15=100



Convergence with a **stagnant** area!

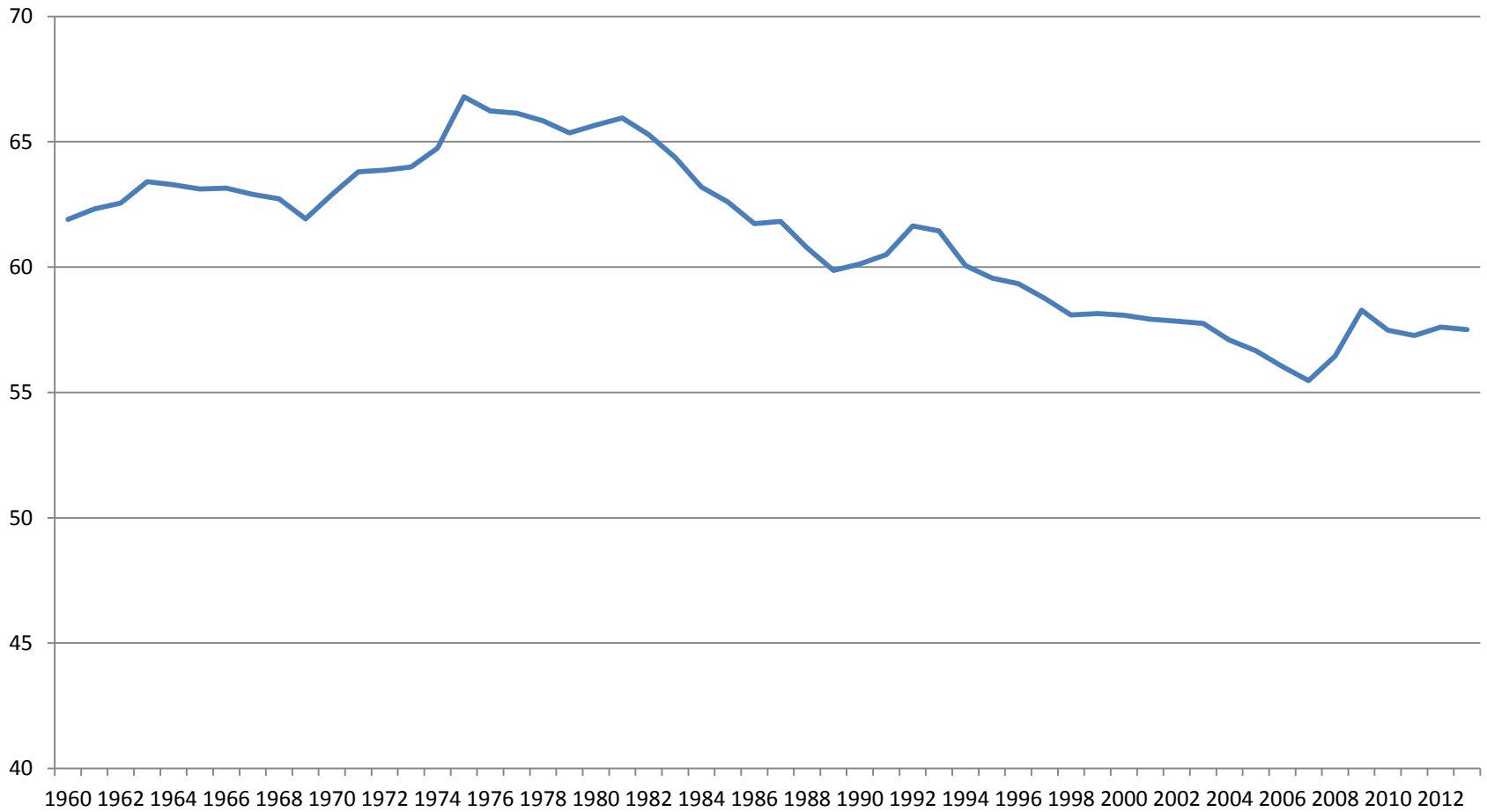
p.c. GDP growth

EA-12

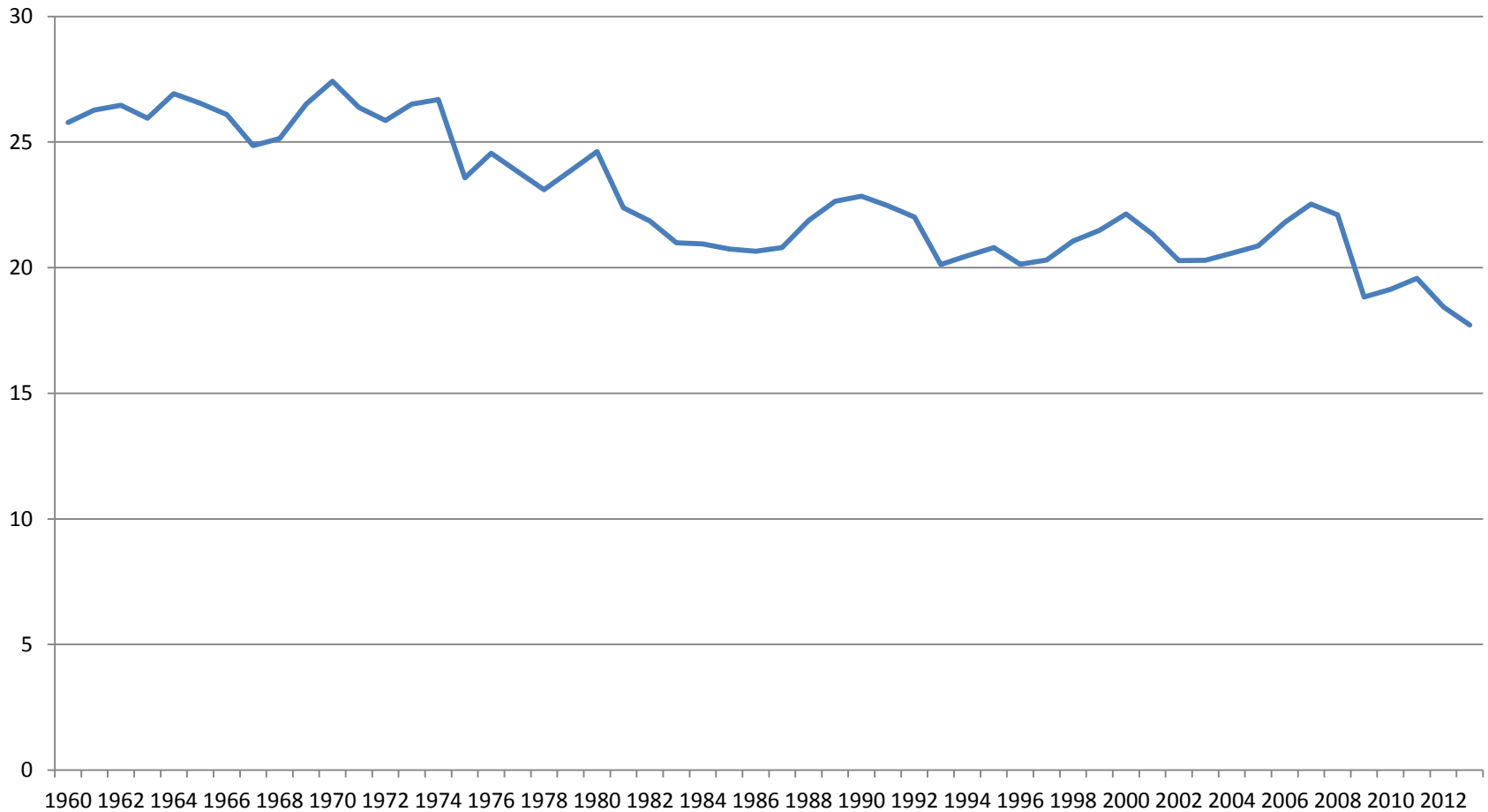


What's behind? A paradigm change

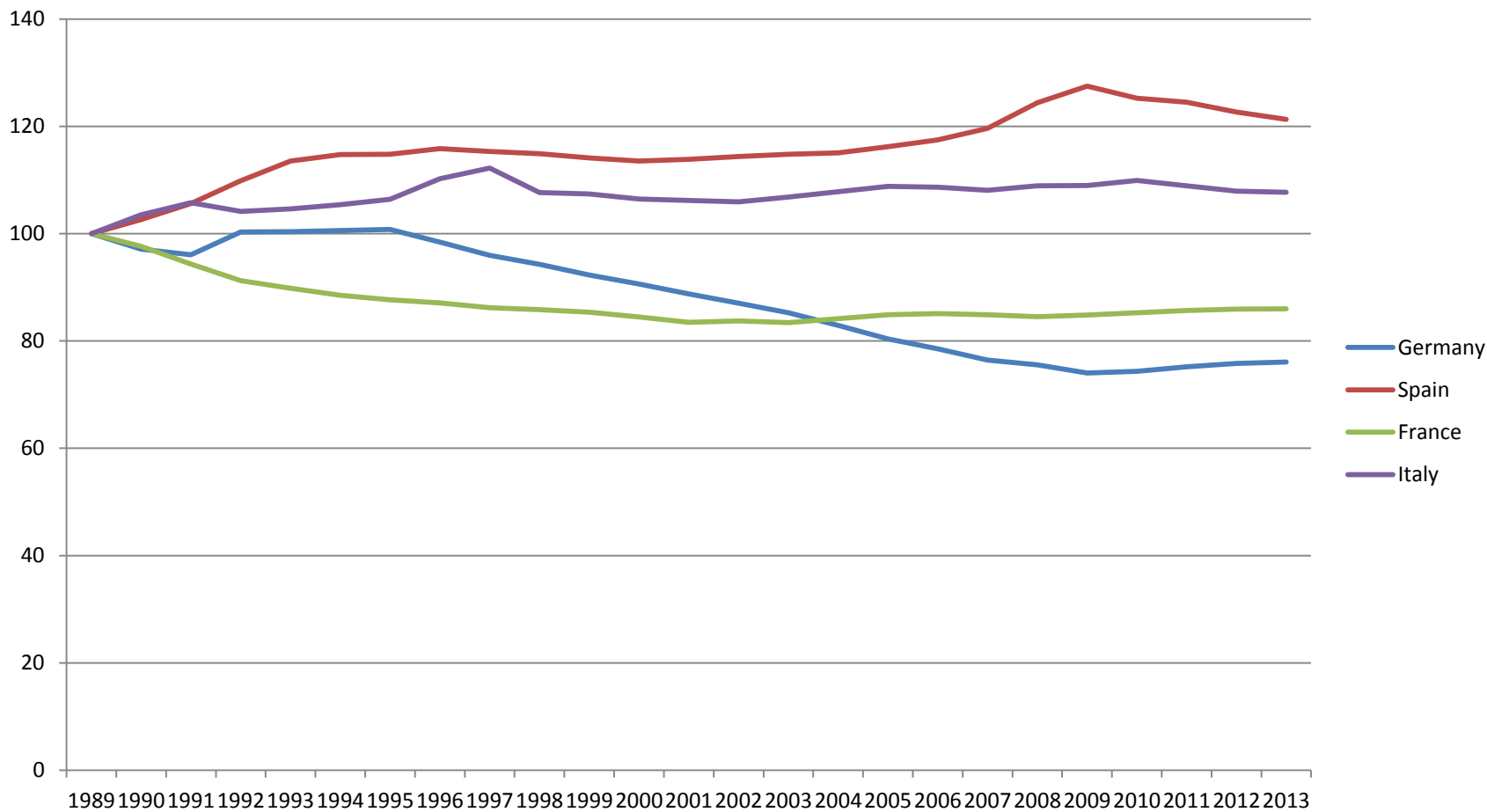
EA-12: „wage share“ ↓



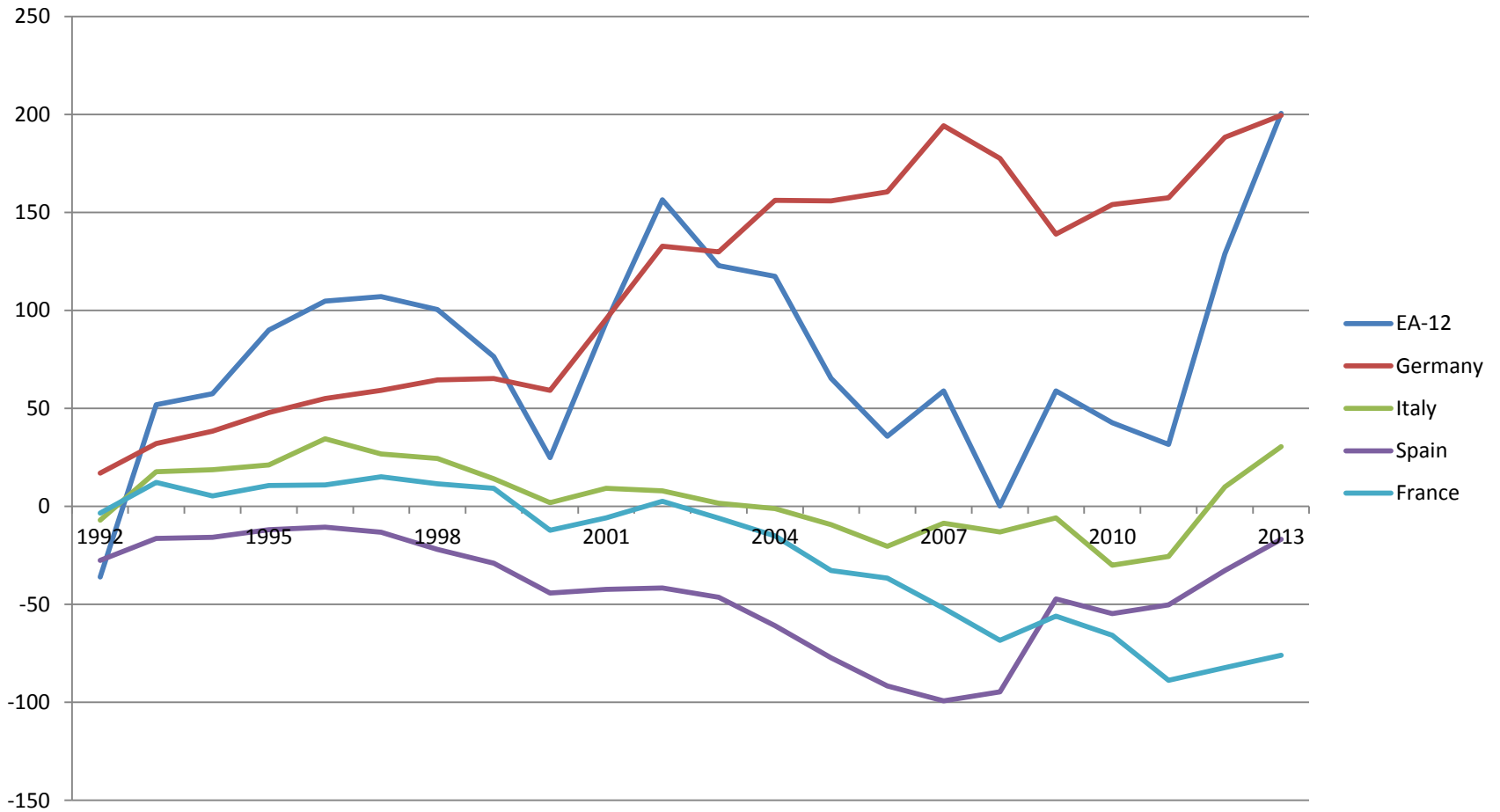
Profits (↑) do not translate into investment: EA-12: Investment share ↓



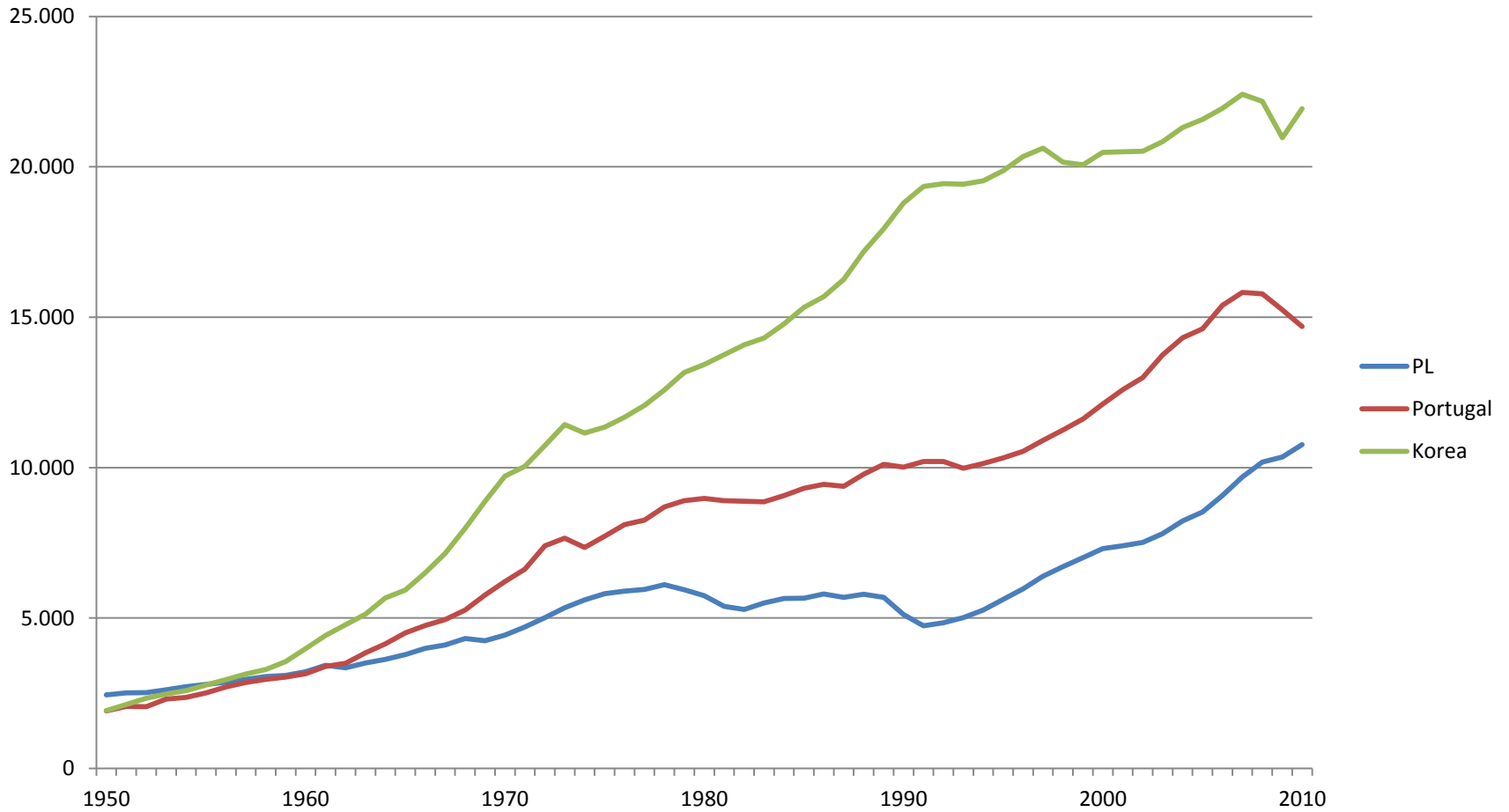
Germany above all? Beggar thy neighbour (and thyself!) ULC dynamics



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>