

The Coming Golden Age of New Europe

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The message

- New Europe has never had it so good. Its income, quality of life, and level of happiness have never been higher.
- After the trauma of the global crisis, New Europe is „back in black“, with the growth recovery accelerating.
- The crisis has hardly weakened the long-term growth fundamentals. Fast catching-up with Western Europe will continue.
- By 2050, for the first time in the region’s one thousand year history New Europe’s income and quality of life will be almost on par with Western Europe. It will also be higher than in BRICs.
- However, New Europe needs to adjust its growth model to continue converging. The new model will be called „The Warsaw Consensus“.

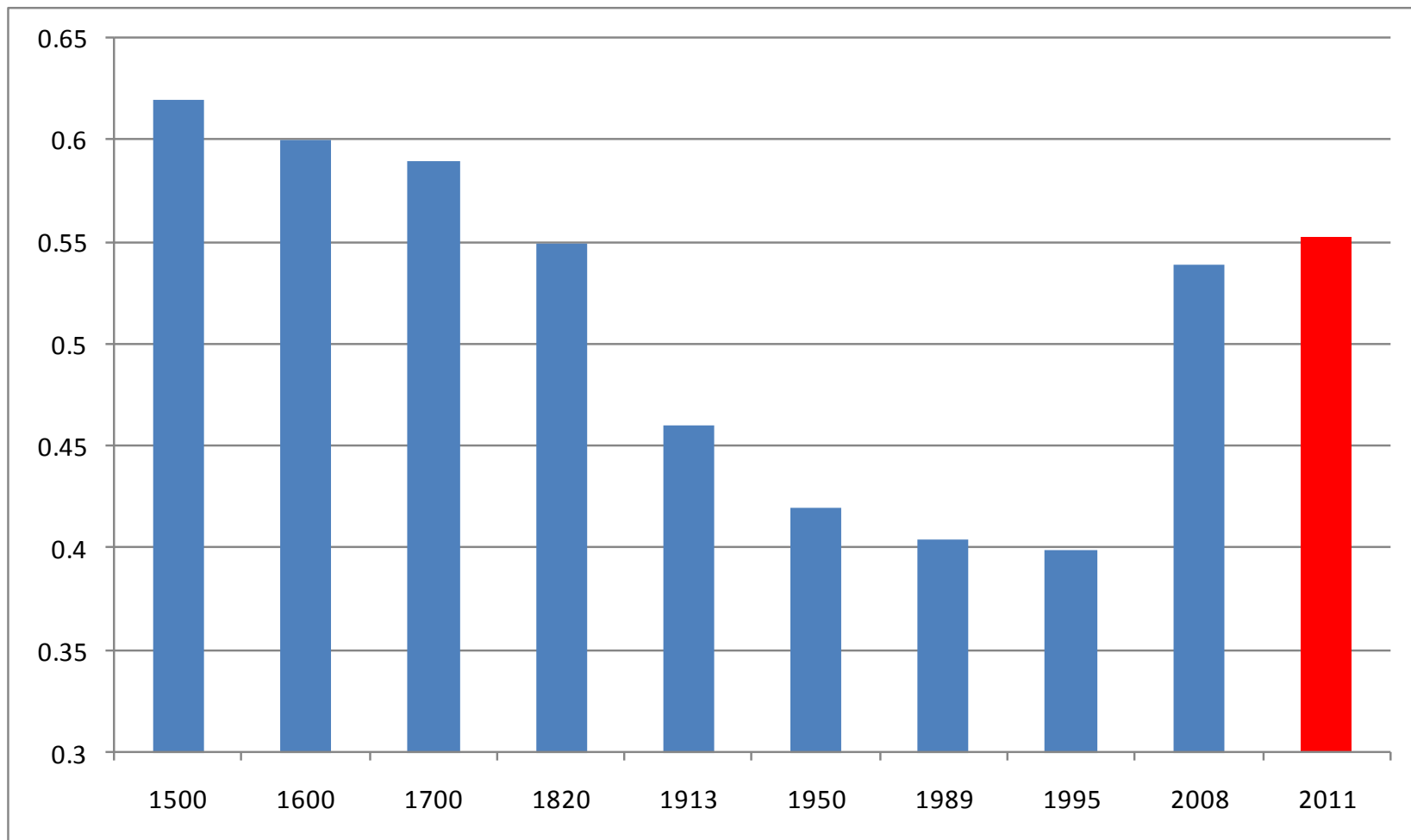
New Europe lagged behind Western Europe for centuries

GDP per capita 1500-1998, Western Europe = 100

	1500	1600	1700	1820	1870	1913	1950	1973	1998
Western Europe	100	100	100	100	100	100	100	100	100
Eastern Europe	60	58	55	52	44	44	46	43	30
Former Soviet Union	65	62	60	56	48	43	62	53	22
USA	52	45	51	102	124	153	208	145	153
Latin America	54	49	52	54	35	44	56	39	32
China	78	67	59	49	27	16	10	7	17
India	71	62	54	43	27	19	13	7	10
Japan	65	58	56	54	37	40	42	99	114
Other Asia	73	63	55	46	31	23	20	18	21
Africa	52	45	39	34	22	17	19	12	8

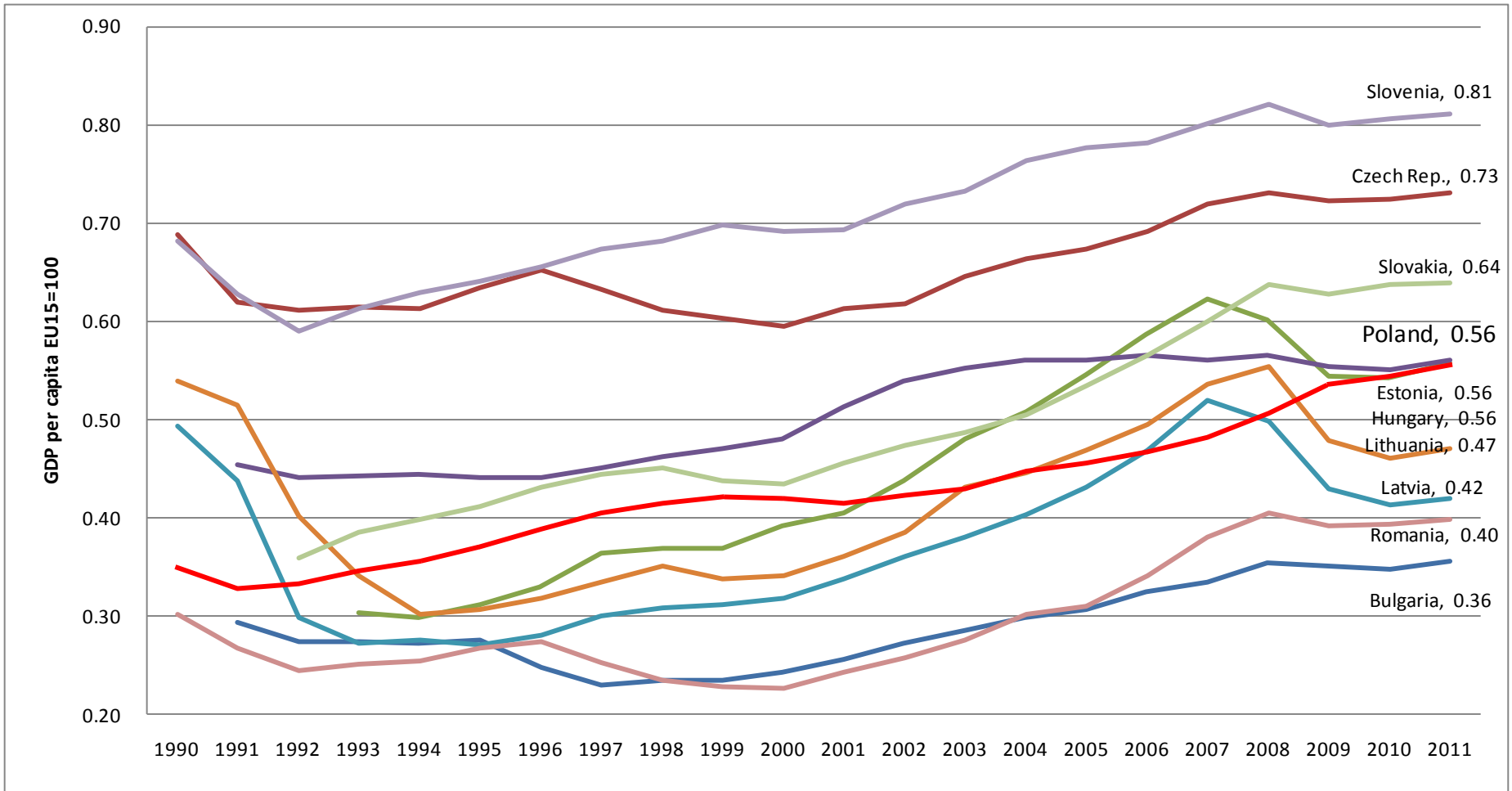
In 2008, New Europe achieved its highest income since 1820

GDP per capita in New Europe, 1500-2011, Western Europe 12/EU15=100, PPS



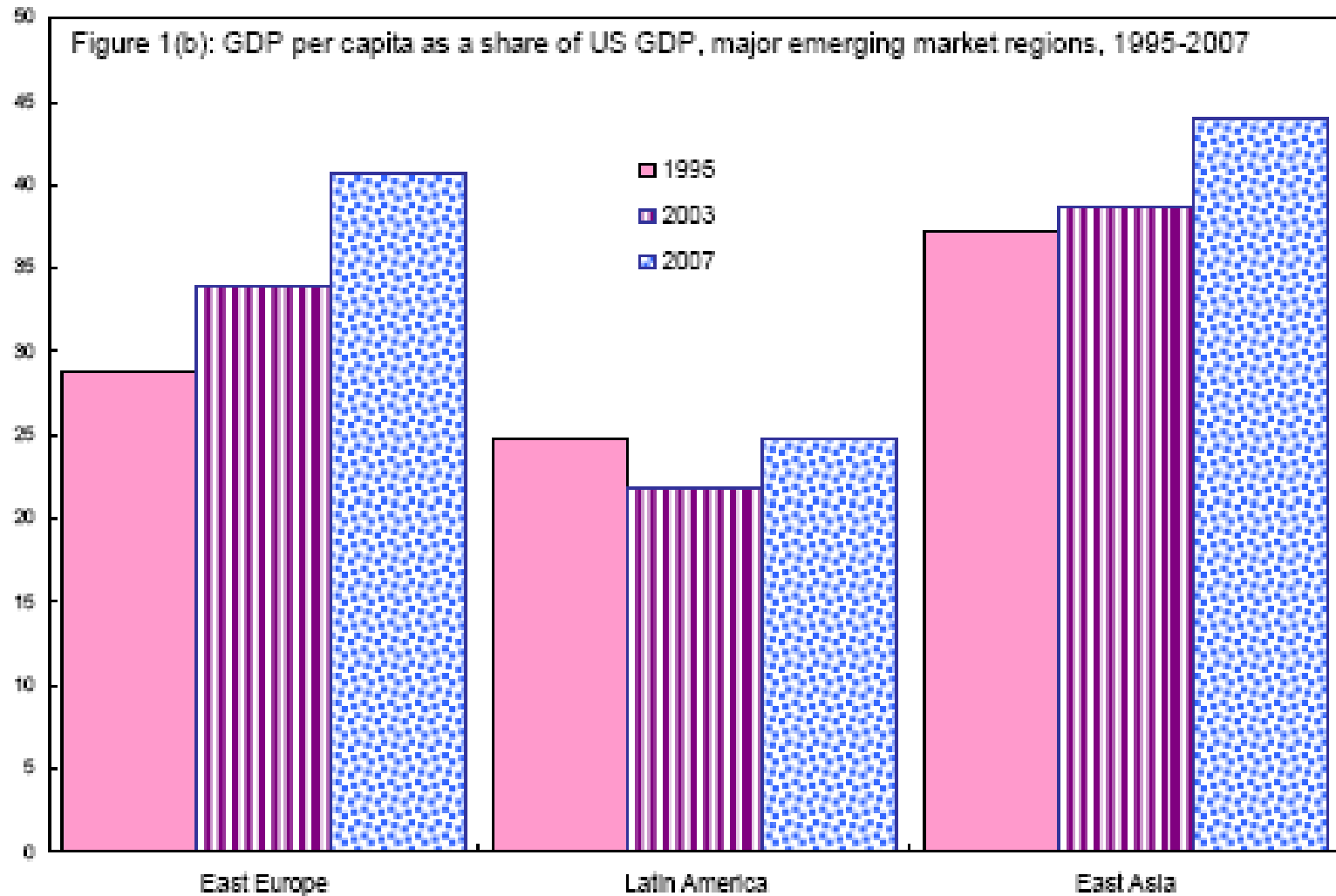
The recent pace of catching-up was unprecedented

GDP Per Capita in EU-10 Countries, 1990–2011, PPS, EU-15 = 100



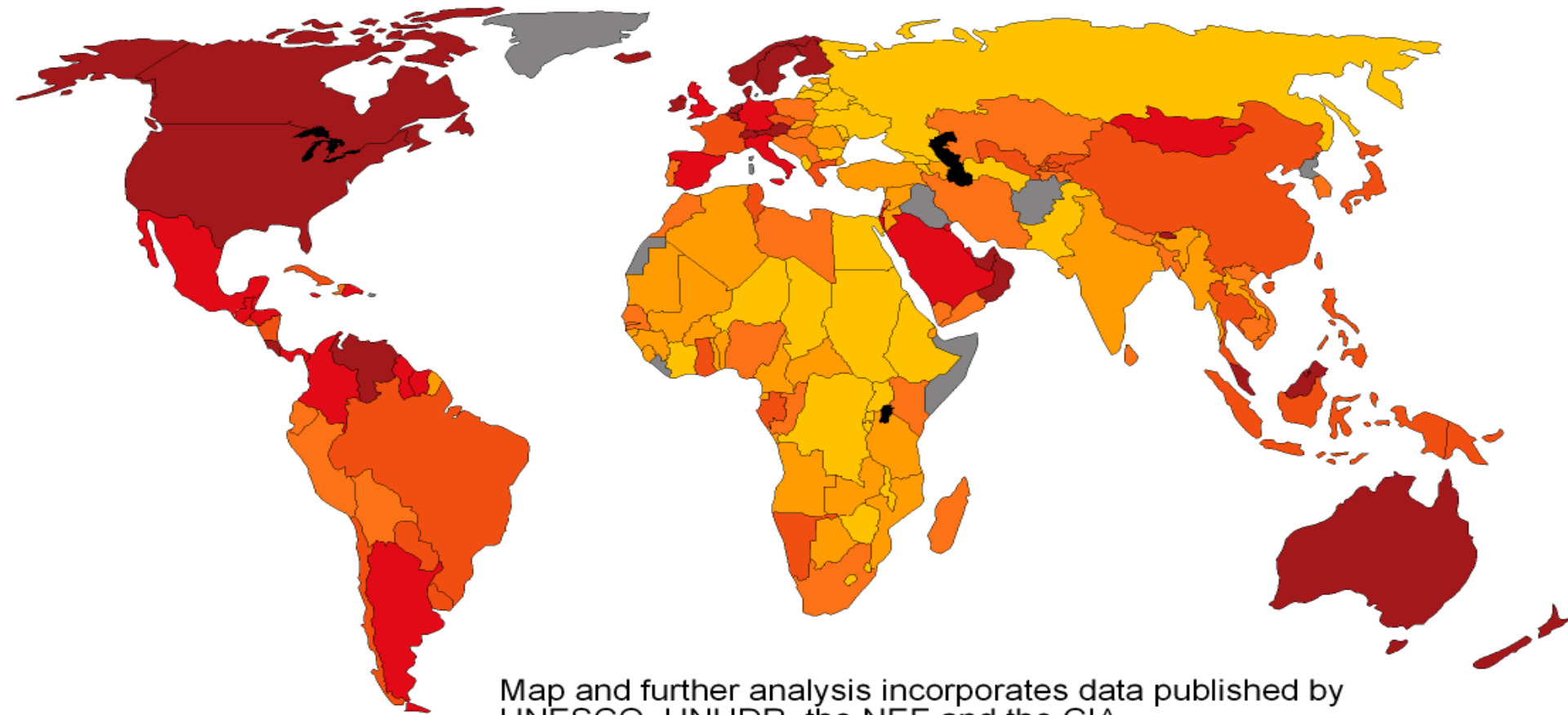
Source: Author's calculations based on the Eurostat Ameco database.

Also vs. other emerging markets

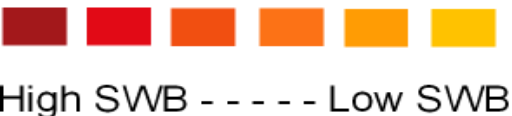


Raising the level of happiness

A Global Projection of Subjective Well-being



Map and further analysis incorporates data published by UNESCO, UNHDR, the NEF and the CIA.

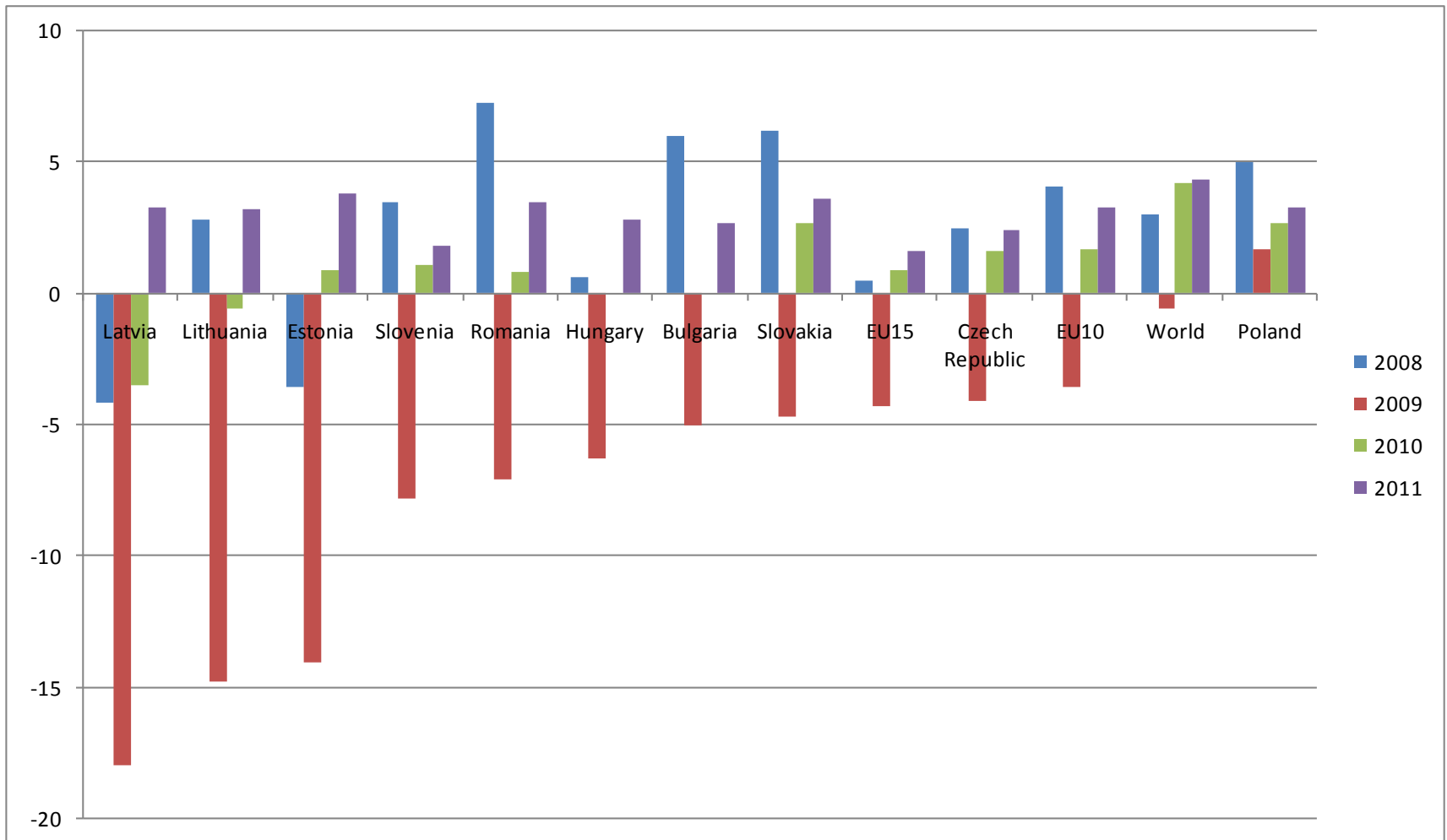


The crisis hit the region hard



With growth collapsing like nowhere else

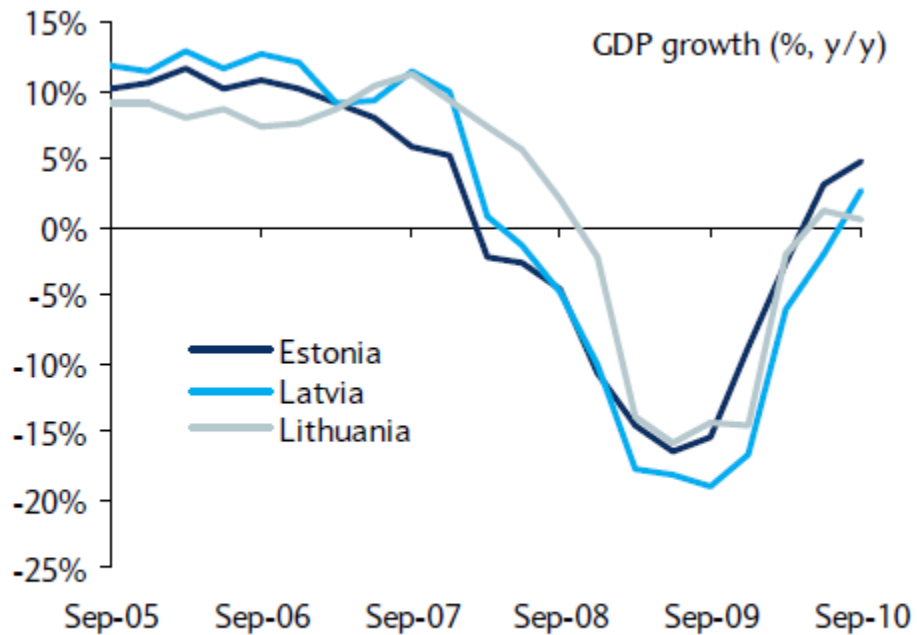
GDP Growth Rates in EU-10 and the Rest of the World, 2008–11, %



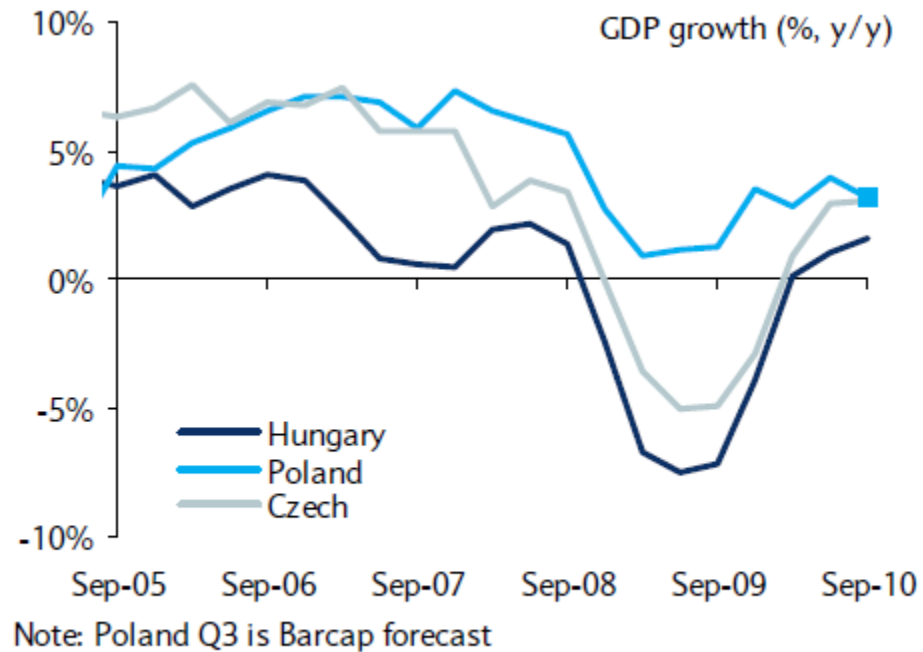
Sources: IMF 2010; Eurostat; the World Bank.

Note: Projections for 2010 and 2011.

But the recovery has started



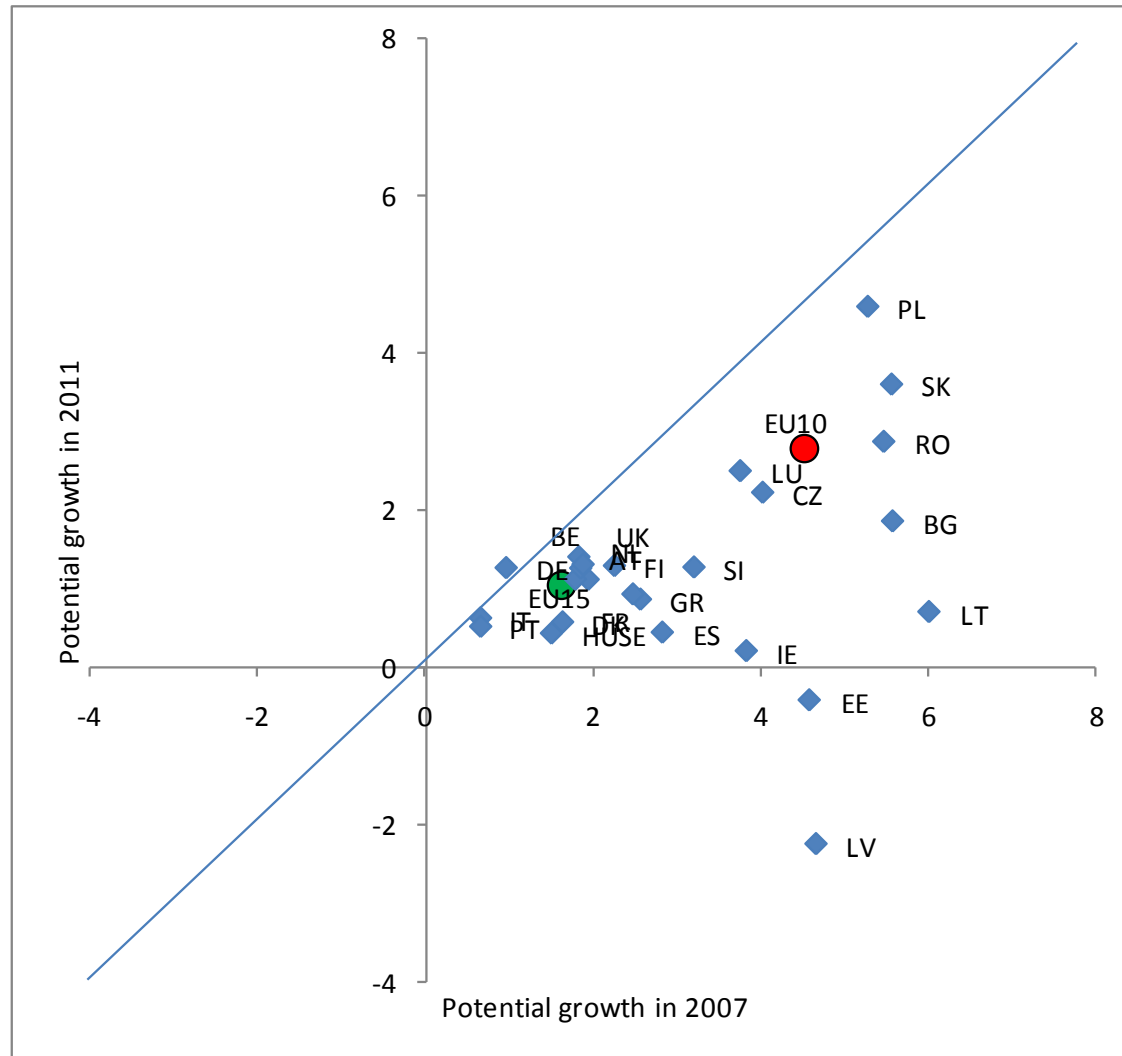
Source: Haver Analytics, Barclays Capital



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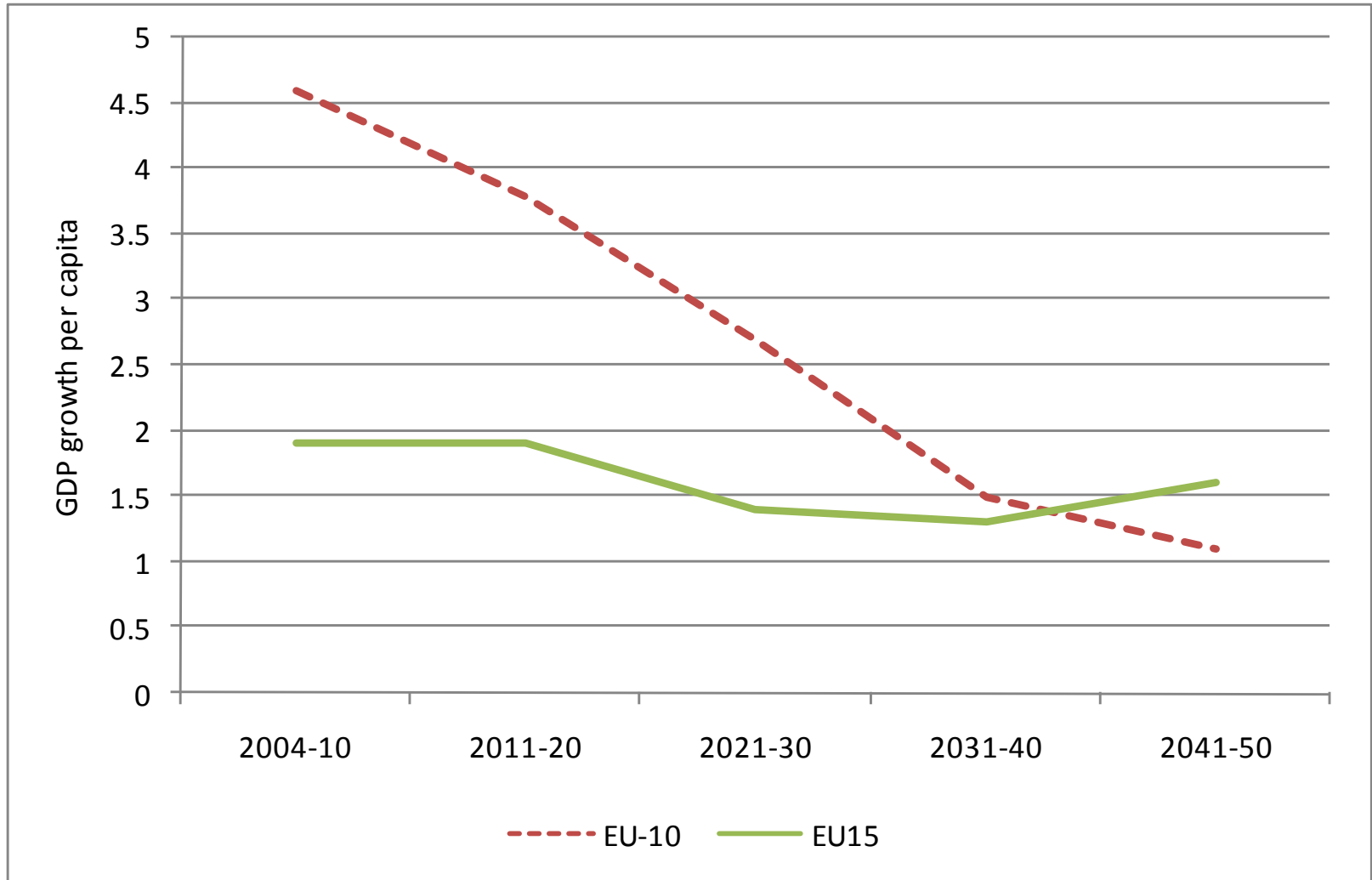
Growth in the future will be slower

Projected changes in potential growth in EU-27, 2007 and 2011



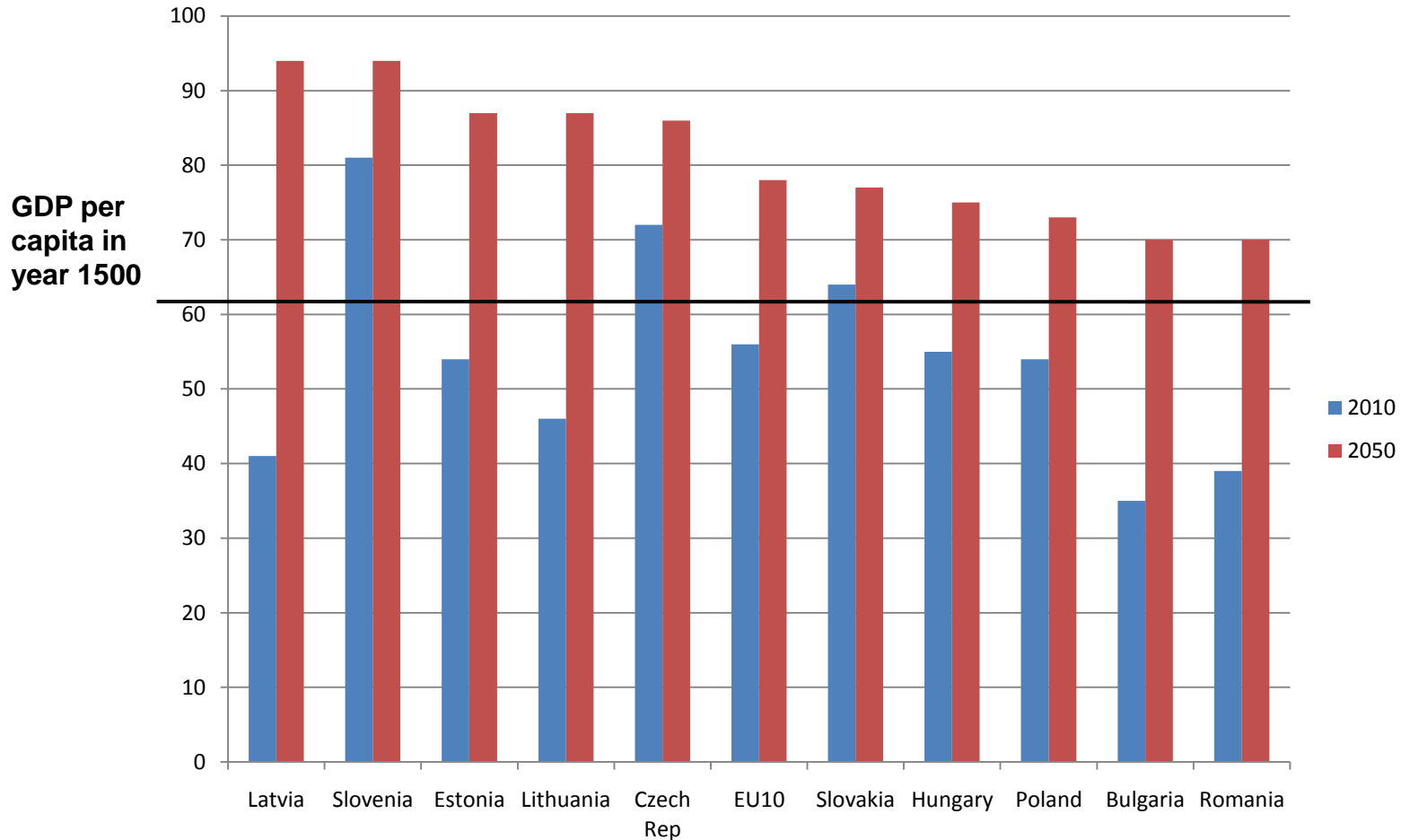
But it will continue to outstrip EU15

Projected Long-term GDP Per Capita Growth Rates for EU-10 and EU-15, 2004–50



By 2050 New Europe will have reached its Golden Age

Projected Long-term GDP Per Capita for EU-10 and EU-15, 2010–50



New Europe has strong fundamentals

- Strong institutions, supported by the EU entry
- High quality of education
- Hundreds of billion euro of future EU funds
- Geographic proximity to the largest market in the world
- Productivity growth based on TFP, not capital
- Flexible labor markets

High quality of institutions

Quality of institutions in New Europe and other emerging markets

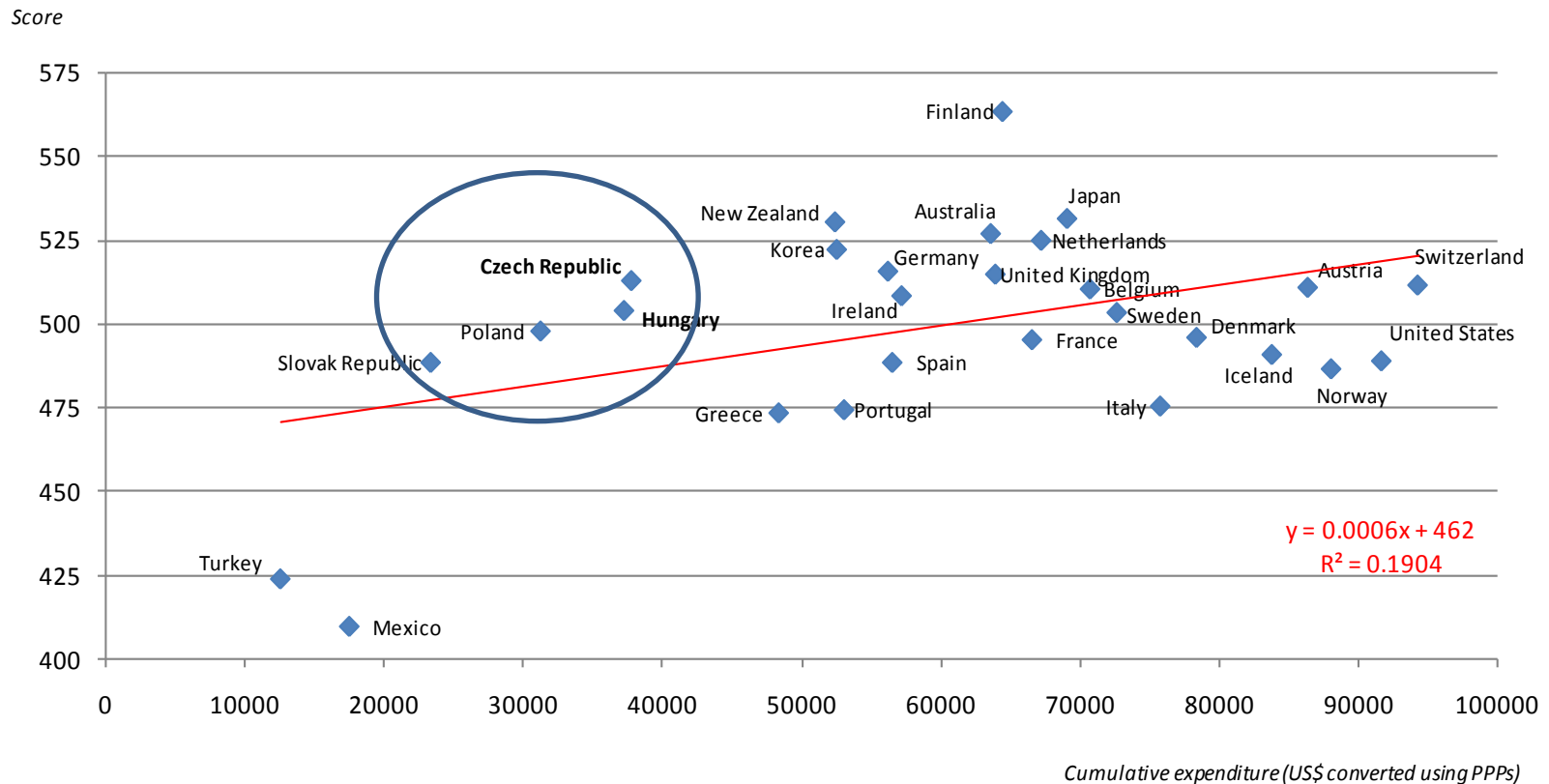
		New Europe	Other emerging markets
Rank in Ease of Doing Business (World Bank)	2006	44,4	65,3
	2009	42,8	68,3
Index of Economic Freedom (Heritage Foundation)	1999	60,6	64,5
	2008	66,9	63,7
Corruption Perception Index (Transparency International)	1999	4,3	4,4
	2007	5,0	4,4

Note: Ease of Doing Business: the lower, the more favorable. Index of Economic Freedom (from 0 to 100): the higher, the better; Corruption Perception Index (between 0 and 100): the higher, the better.
Source: Keereman et al. (2009) based on World Bank, Heritage Foundation, and Transparency International.

High quality of education

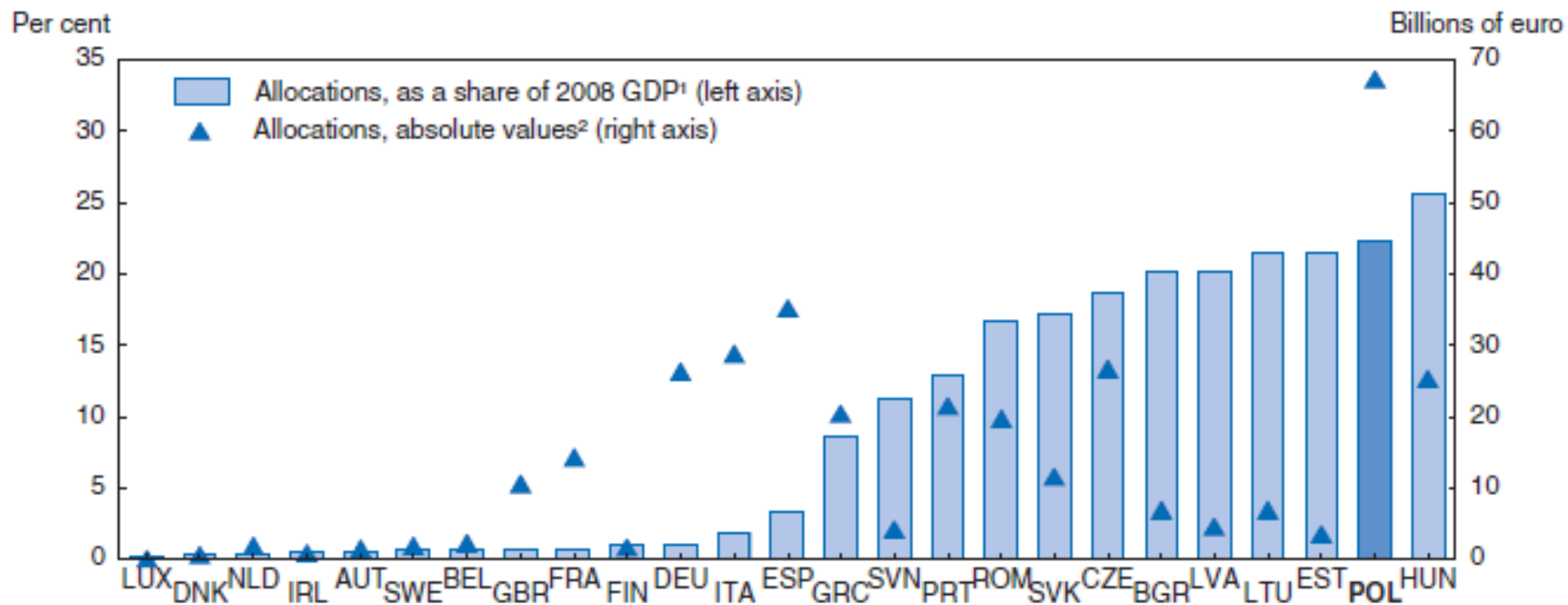
Student Performance on the Science Scale and Spending per Student

Relationship between performance in science and cumulative expenditure on educational institutions per student ages 6–15, in US\$, converted using purchasing power parities



EU funds increasing public investment

Figure 1.19. Distribution of EU funds across countries, 2007-13



1. In per cent of 2008 GDP at market prices in national currencies, converted in euros by using October 2009 monthly average exchange rates.
2. Current prices.

Source: European Commission.

Most important source of long-term growth: stability!

- Political: EU effect
- Social: lower inequality
- Ethnic and religious: homogeneity
- Military: NATO

Stability will matter a lot given three rising trends

- The rise of new powers in Asia, upsetting the world's balance of power
- Ongoing depletion of world's resources, including of water and oil
- Growing emancipation of the world's poor, who will be increasingly demanding a bigger voice in global affairs and a bigger share in the world's economic pie

Inequality in Brazil



„Rule of law” in Russia



Religious and ethnic tensions in India



Arms race in Asia

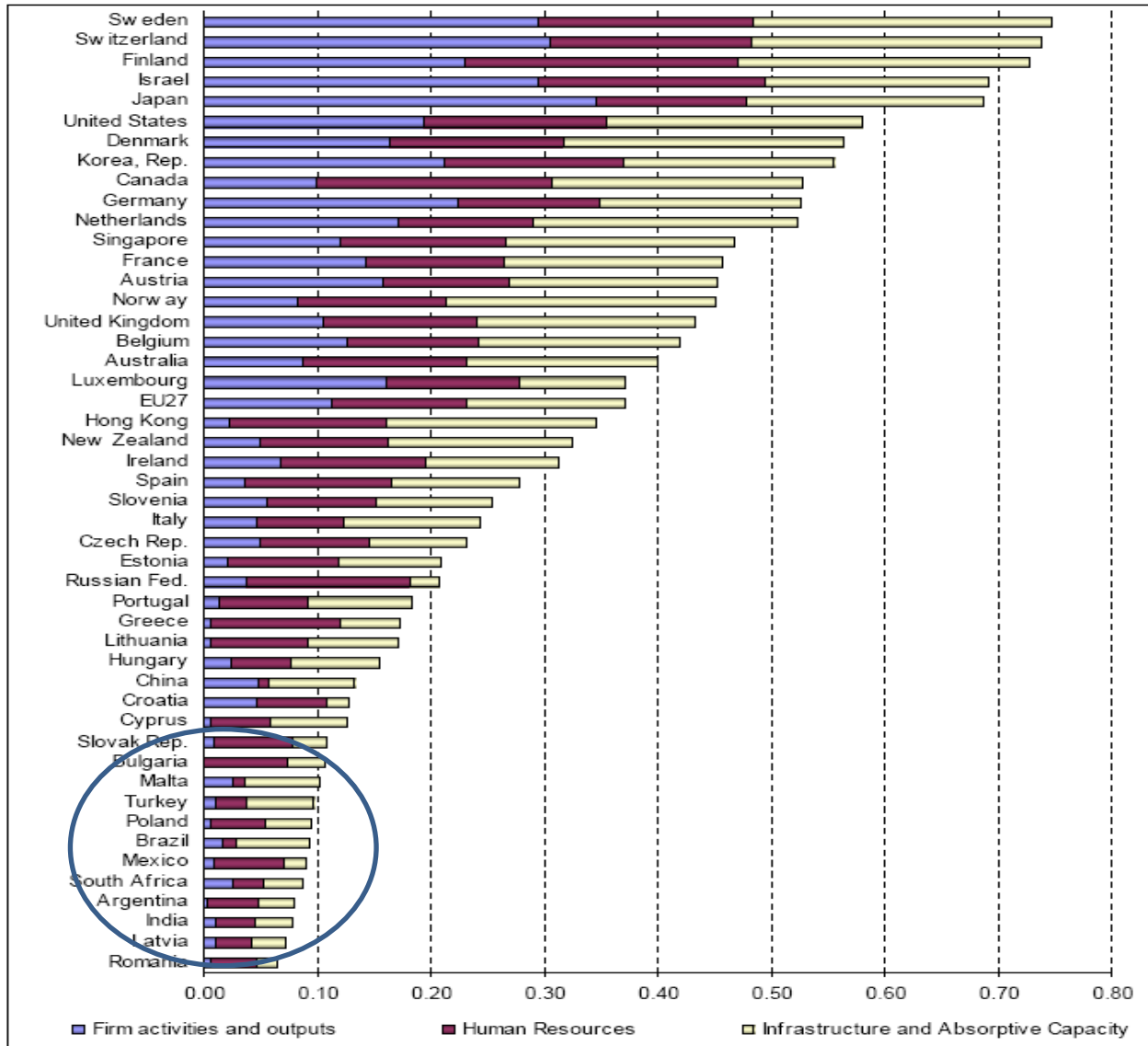


New Europe, however, has weaknesses

- Low level of innovation
- Fast population ageing and declining populations
- Low employment
- Lack of strategic thinking

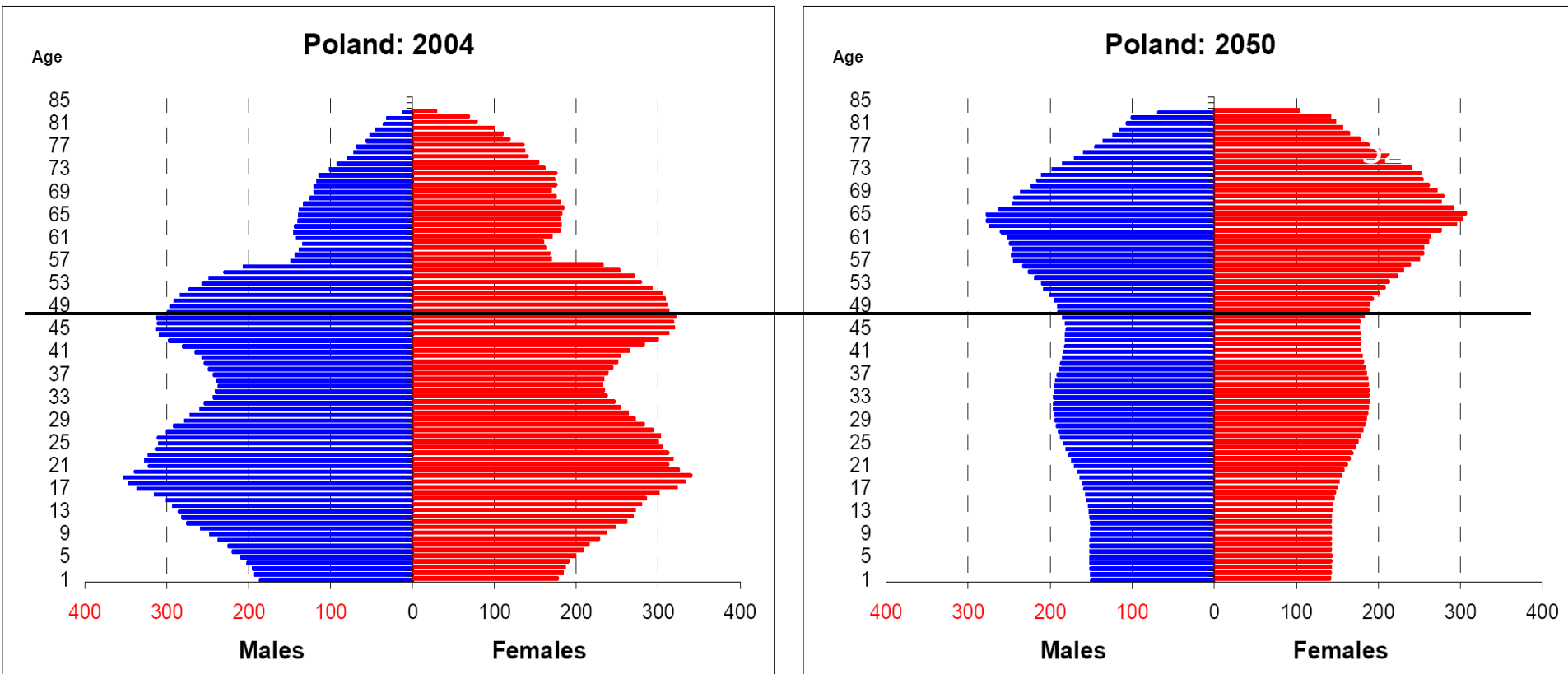
Low level of innovation

Figure 14: Global Innovation Performance – 2005



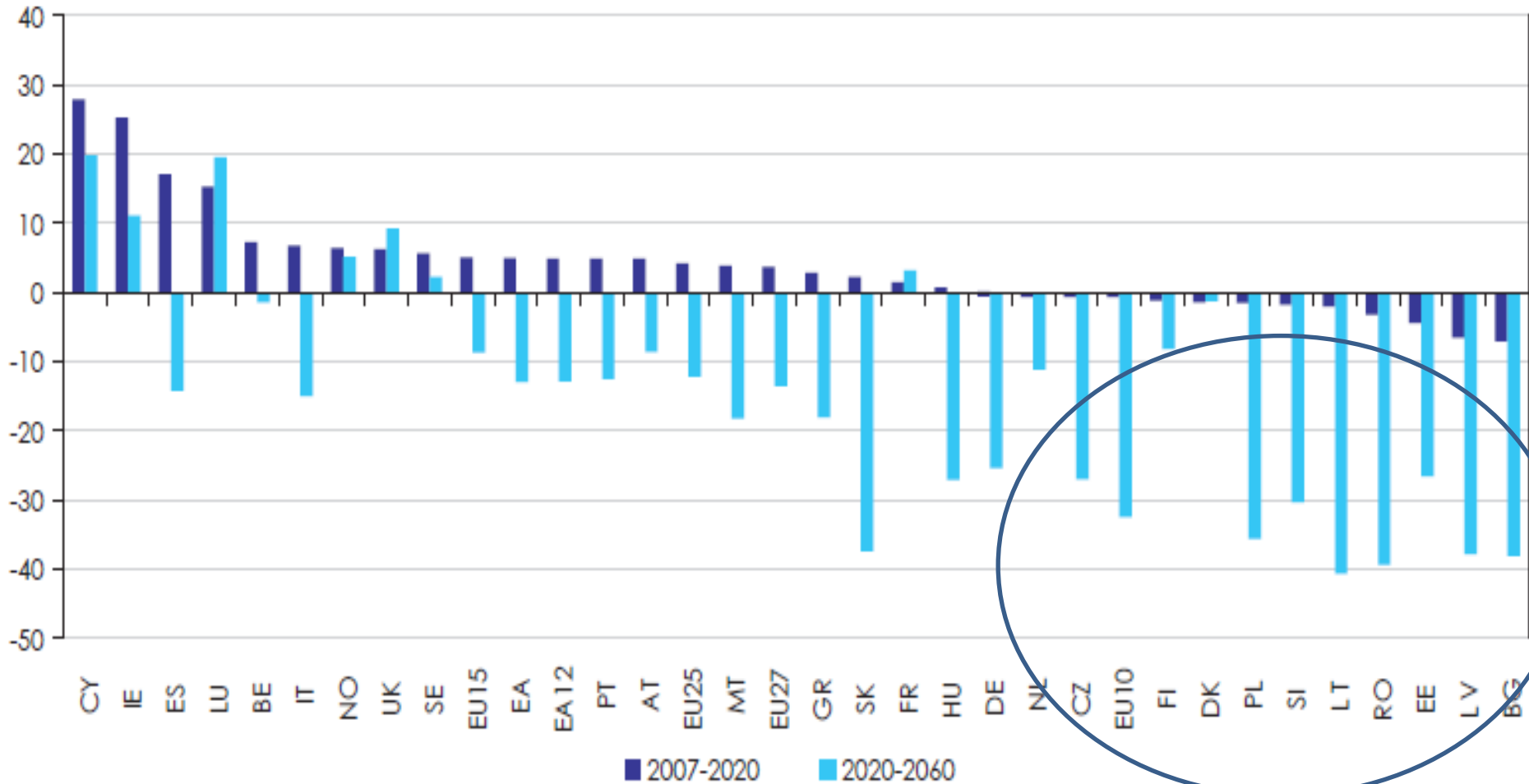
Fast population ageing

Poland: age structure in 2004 and 2050.



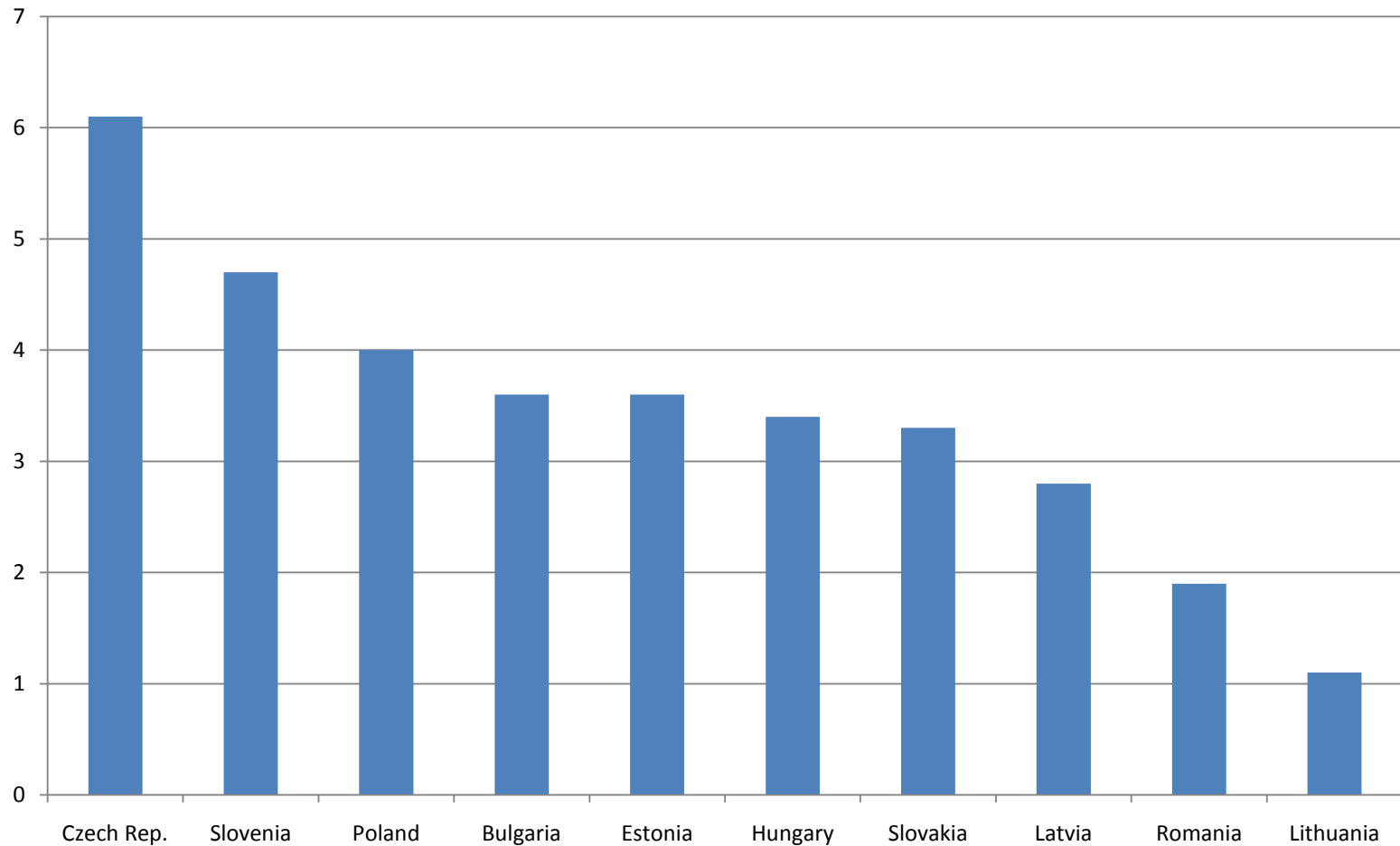
Declining populations

Labor Force Projections, 2007–60 (percentage change of people aged 15–64)



Rising need for immigration

Migration needs by 2020 to keep the labor force to population ratio constant relative to 2008, as % of total population



Source: "European Commission Ageing Report 2009."



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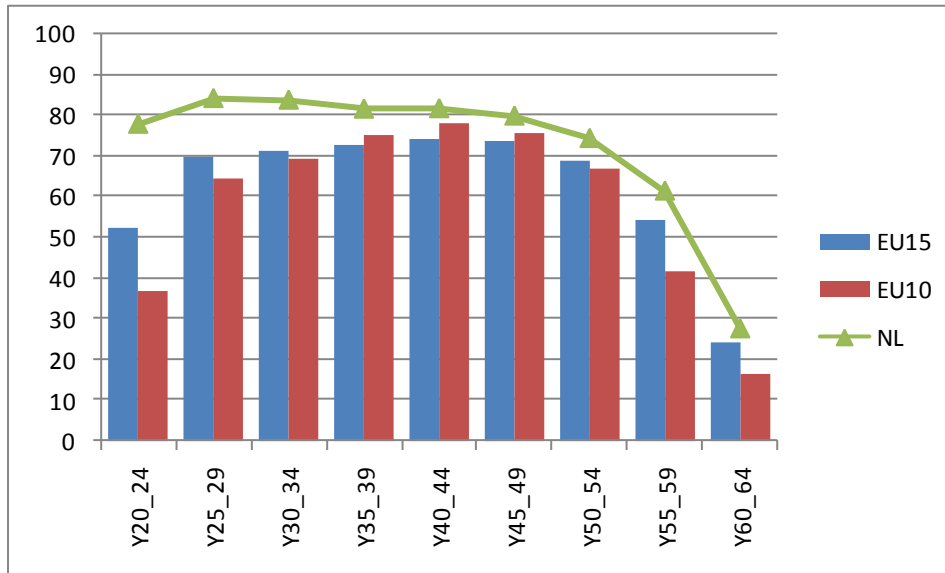
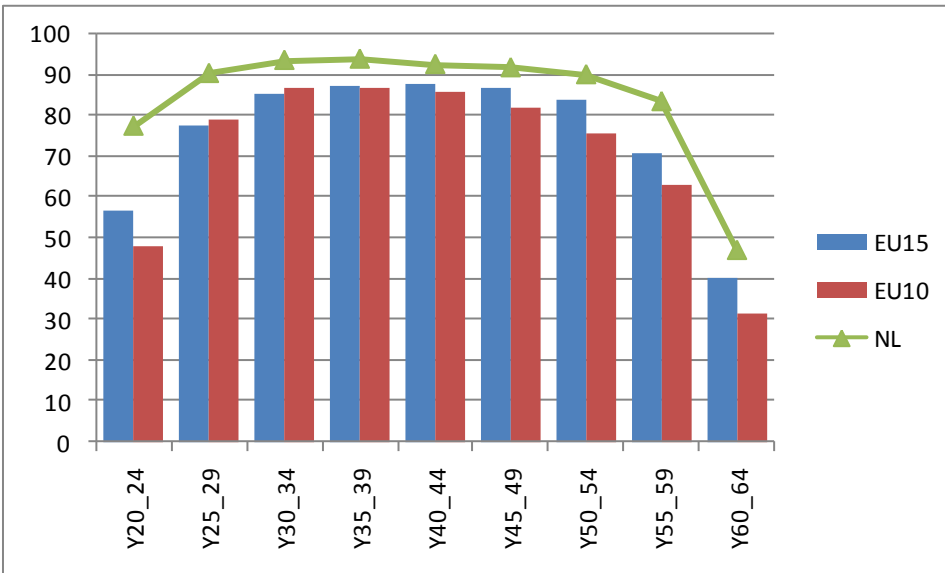
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Low employment

Employment Rates by Age in EU-10, EU-15, and the Netherlands, the Best Performing EU Country, 2009

Panel A Male

Panel B Female



The New European Growth Model: The „Warsaw Consensus”



Combine best features of the European and Asian growth models

Keep what has been good so far:

- Political and economic integration within the EU
- Openness to trade
- Flexible labor markets and free movement of labor
- Inflows of EU funds
- High quality of human capital
- Strong institutions
- Low social inequality

But at the same time...

- Increase domestic savings
- Strengthen financial sector supervision at the EU level
- Increase employment
- Promote immigration
- Control real exchange appreciation and adopt the euro at a competitive exchange rate
- Diversify exports
- Emphasize strategic thinking

Thank you!





The World Bank

EU10

Regular Economic Report

**Main Report
Sustaining Recovery
November 2010**

<http://www.worldbank.org/eca/eu10rer>

Focus Notes:

**Impact of the Global Financial Crisis on Local Government Finances
Doing Business in EU10 countries**