

LOOKING BACK TO CONVERGENCE TRENDS AND INEQUALITY DEVELOPMENTS IN CENTRAL- AND EASTERN EUROPE; ALMOST THREE DECADES AFTER THE TRANSITION

WRITTEN BY MÁRTON MEDGYESI AND ISTVÁN GYÖRGY TOTH
(TÁRKI SOCIAL RESEARCH INSTITUTE BUDAPEST)

DISCUSSED BY IRYNA KYZYMA (*LISER*)

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THE PAPER IN A NUTSHELL

- Analyzes trends in economic development and inequality in Central and Eastern European (CEE) countries from 2 perspectives:
 - Explores economic and income convergence between these countries and the EU15 group
 - Compares economic development and inequality trends among the CEE countries themselves
- The region covered:
 - Three Baltic States (Estonia, Latvia, and Lithuania)
 - Visegrad countries (Czech Republic, Hungary, Poland, Slovakia)
 - Other countries: Slovenia, Romania, Bulgaria
- The period covered:
 - From the beginning of the 1990s until the most recent year

SIMILARITIES AND DIFFERENCES AMONG CEE COUNTRIES IN THE HISTORIC AND SOCIAL LEGACY

Similarities:

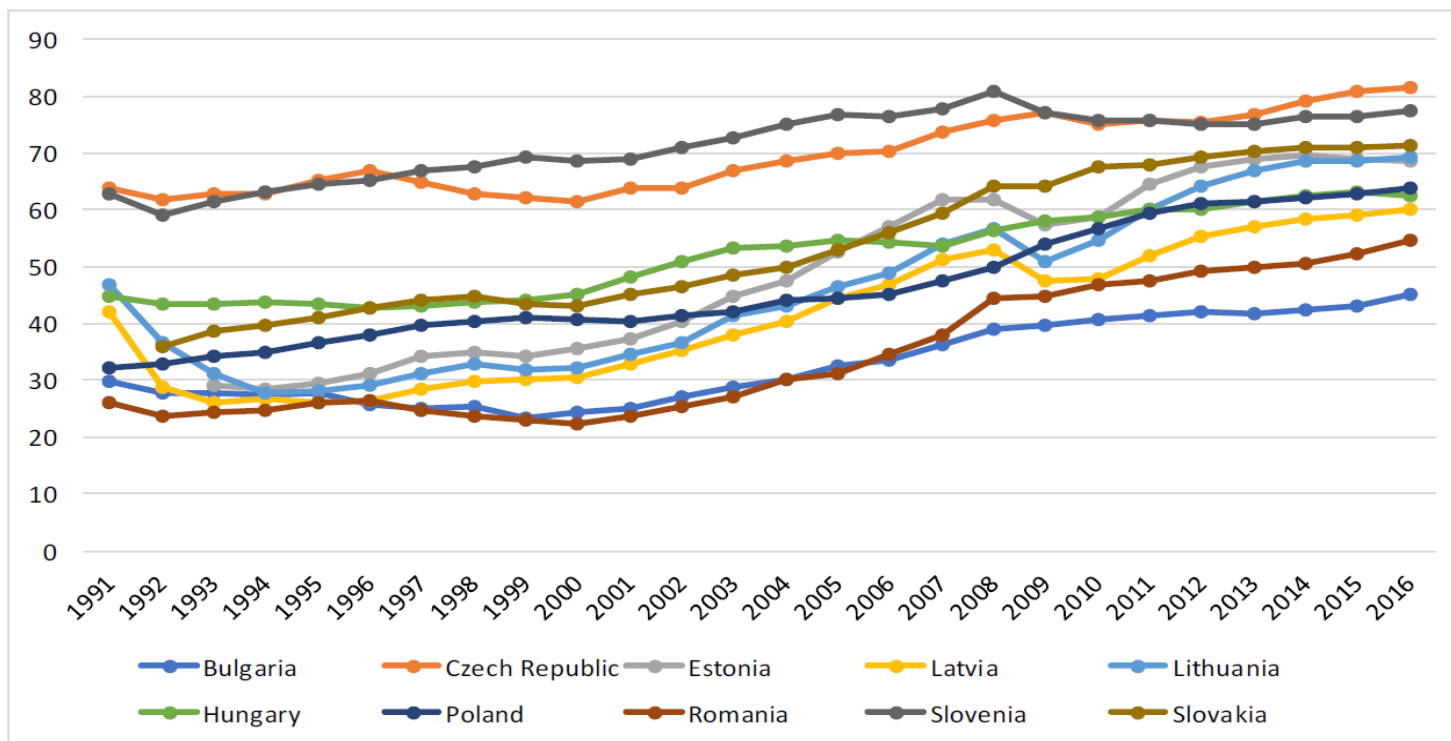
- Transition from command to market economy (1990) accompanied by structural shocks with the subsequent recessions (1990-1995, late 1990s)
- Accession to the European Union (2004 and 2007)

Differences:

- Heterogeneous levels of economic development
- Differences in the speed of reforms' implementation
- Differences in economic structures, educational distribution, and ethnical composition of the population

TRENDS IN ECONOMIC CONVERGENCE TO EU15

Evolution of relative per capita GDP, PPS, EU15=100%



Source: Ameco database, European Commission

DETERMINANTS OF ECONOMIC GROWTH IN CEE COUNTRIES

The analysis builds on other studies published in the field:

- They tend to agree that labour accumulation has had a relatively small role in economic growth in Eastern European countries. In countries, where it played a larger role, its contribution is negative
- With respect to capital accumulation, some studies argue that it had a small effect on economic growth while others define it as the main driving force
- The increasing total factor productivity had an important role on the economic growth in the CEE countries
- The initial country's level of national income is also found to be negatively associated with the growth speed

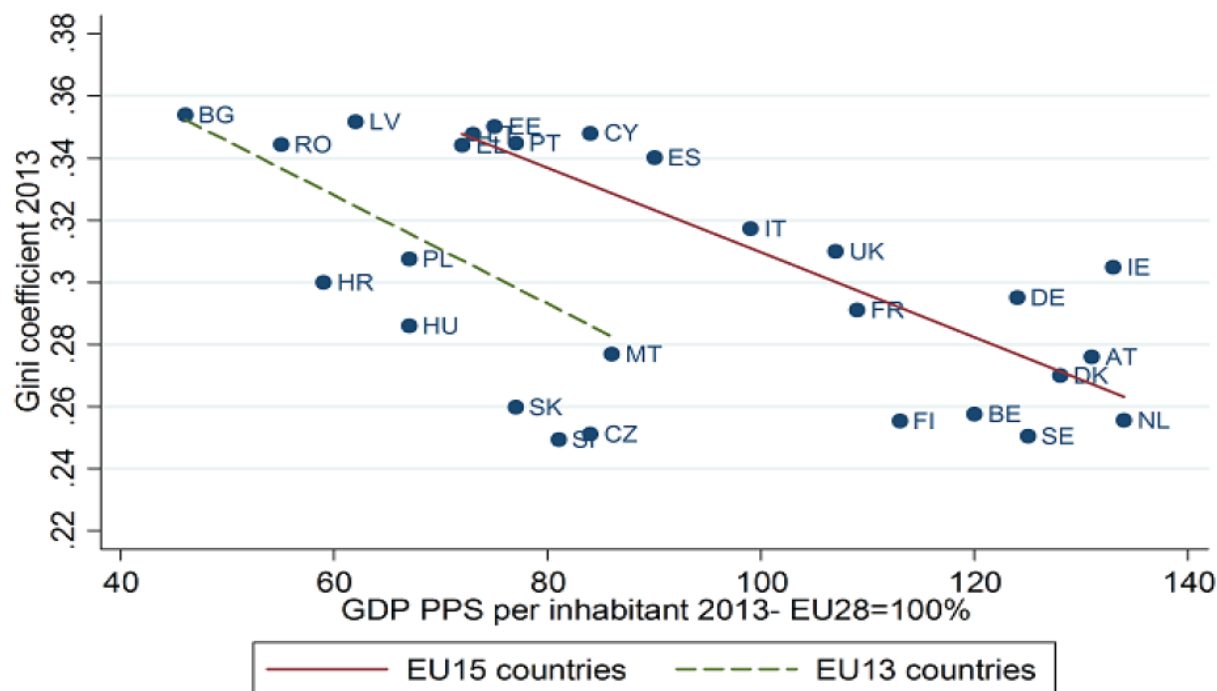
CHANGES IN INEQUALITY LEVELS (GINI COEFFICIENT) IN CEE COUNTRIES

Change in inequality levels (Gini coefficient values)

Gini coefficients	1980-1984	1996-2000	2006-2010
above 0.350		Estonia, Romania,	Latvia, Lithuania, Romania,
0.301 to 0.350		Hungary, Latvia, Lithuania, Romania, Spain,	Bulgaria, Estonia, Poland
0.251 to 0.300		Poland	Hungary
up to 0.250	Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia	Czech Republic, Slovakia, Slovenia	Czech Republic, , Slovakia, Slovenia,
no data	Romania, Slovenia		

LEVELS OF INEQUALITY 25 YEARS AFTER THE TRANSITION

GDP per capita (EU27=100) and inequality in household equivalent income, 2013

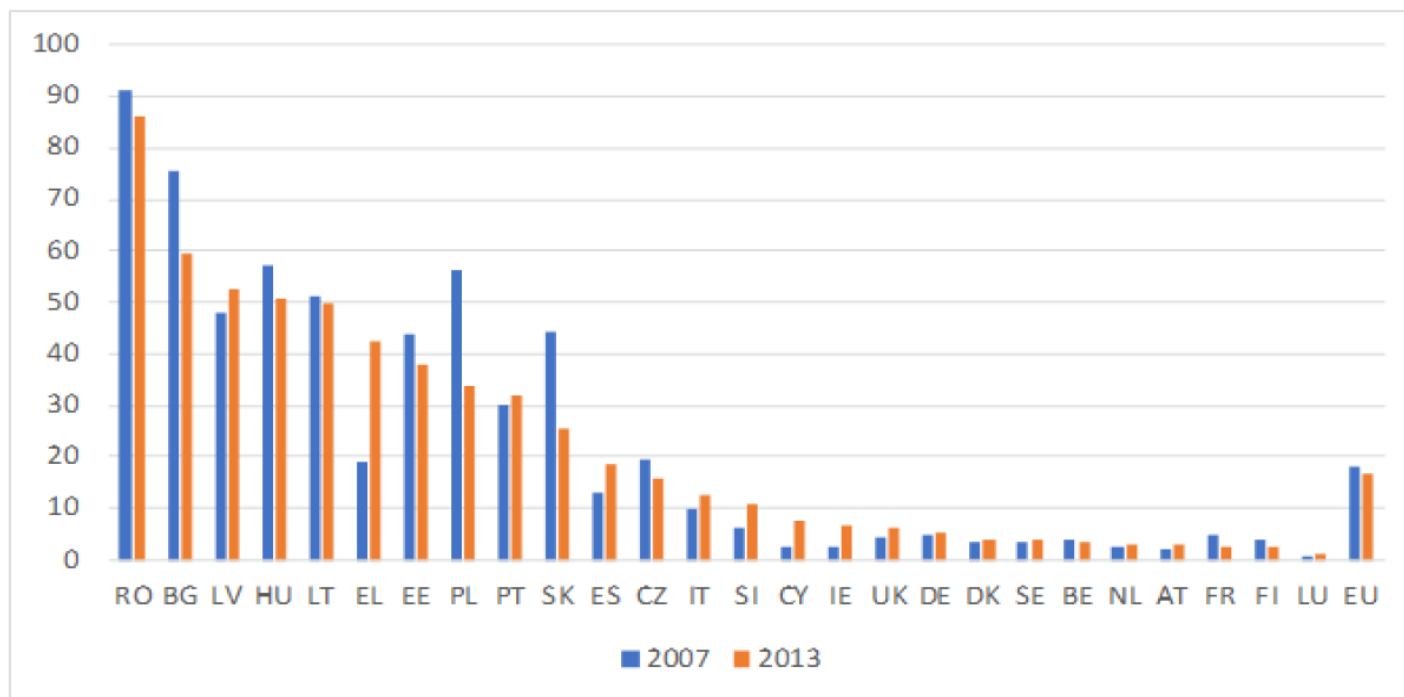


Note: Luxembourg is omitted from the graph.

Source: European Commission, Eurostat, cross-sectional EU-SILC 2014, UDB August 2016
European Commission, Social Situation Monitor

DEVELOPMENTS IN RELATIVE POVERTY RATES

Percentage of people with incomes lower than 50% of the EU median income



Source: own calculation based on EU-SILC UDB 2008, 2014

POTENTIAL DRIVERS OF THE INCREASE IN HOUSEHOLD INCOME INEQUALITY

- Falling full-time employment rate
- Increasing wage inequality, partially driven by the increased demand for highly-educated workers
- Increasing role of capital income
- Declining inequality-reducing effect of government taxes and transfers

CONVERGENCE IN WELL-BEING: DISTRIBUTIONALLY-ADJUSTED INCOME GROWTH

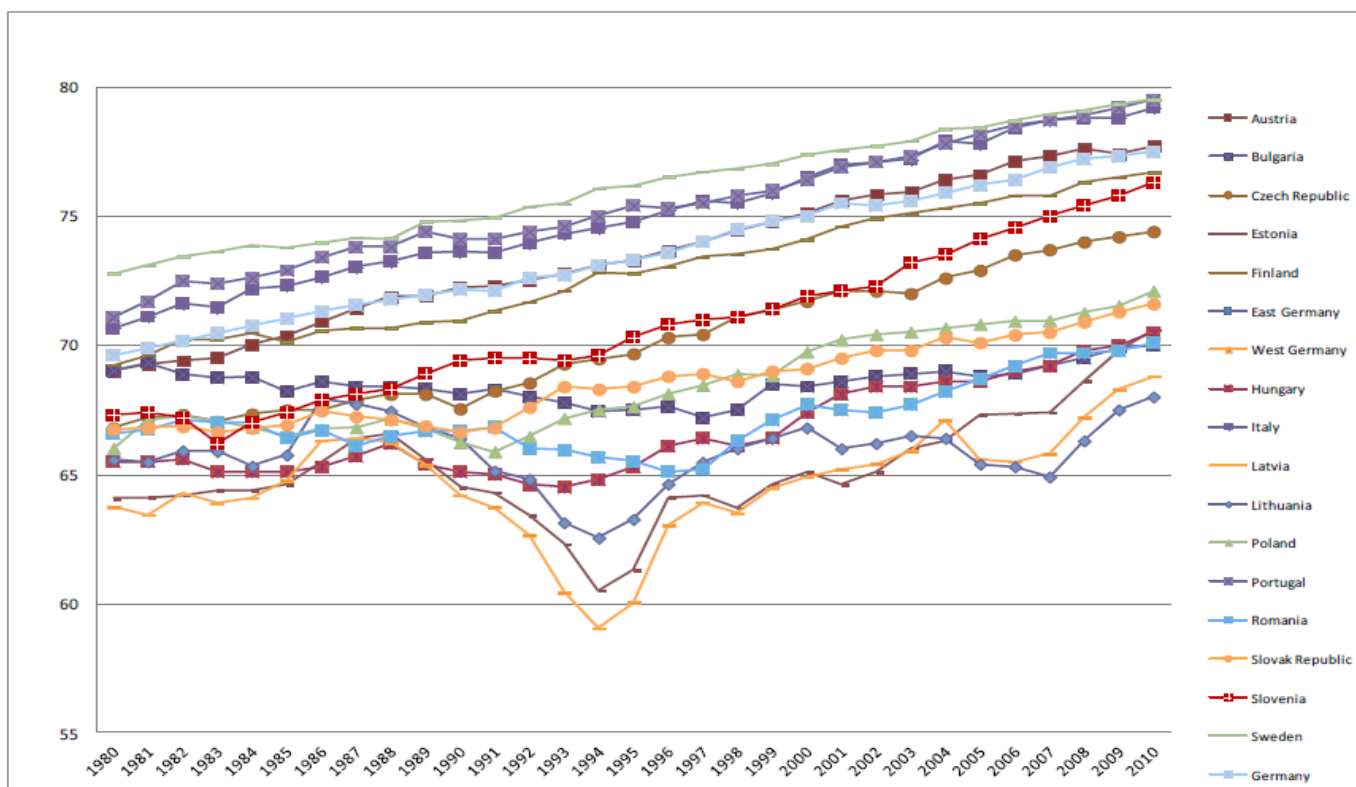
Change in GDP per capita and Sen-index (% , beginning of period=100%)

	Change in GDP per capita (%, beginning of period=100%)					Change in Sen-index (%, beginning of period=100%)				
	1990- 1996	1996- 2004	2004- 2008	2008- 2013	1990- 2013	1990- 1996	1996- 2004	2004- 2008	2008- 2013	1990- 2013
Bulgaria	85	134	134	102	155	79	138	117	99	127
Czech Rep.	100	121	121	96	141	97	115	127	96	136
Estonia	81	171	125	102	177	68	174	132	97	150
Hungary	89	140	110	93	129	84	140	114	89	119
Latvia	55	183	138	111	155	49	169	136	115	131
Lithuania	63	171	138	100	148	54	172	133	101	125
Poland	117	138	122	115	225	109	136	122	116	210
Romania	96	128	136	102	169	87	117	138	102	144
Slovakia	96	133	135	113	195	88	131	139	111	179
Slovenia	101	136	119	82	136	94	138	120	80	125

Source: Real GDP at constant 2011 national prices (in mil. 2011US\$) and population data from Penn World Tables 9.0. Data for Gini index of income inequality for 1990-2008 GINI project database (see Table A1. for details) and for 2008, 2014 EU-SILC. The Sen-index is calculated as $GDP \text{ per capita} * (1 - Gini)$.

CONVERGENCE IN WELL-BEING: LIFE EXPECTANCY

Evolution of male life expectancy at birth in CEE and selected EU15 countries



CONCLUSIONS

- The period between 1990 and 2015 has been a period of an intense social change in the CEE countries
- Over this period, all CEE countries have managed to decrease their gap in GDP per capita relative to the average GDP per capita in the EU15 countries
- The economic growth, however, was accompanied by the increase in inequality and decrease in population well-being, especially in the early years of transition
- Apart from similarities in economic and inequality developments, there are also substantial differences in the transition experiences of CEE countries driven by country-specific factors

COMMENTS AND DISCUSSION (1)

- Section 1: Introduction
 - Motivation for the study is a bit missing: Why do we need to know whether there was a convergence between the CEE countries in economic growth and inequality development?
- Section 2: Economic development and income convergence to EU15
 - The structure of the Sub-section 2.2 is a bit confusing. The authors aim to present the development of the growth components (labour force, capital, and productivity), but the names and the content of the sub-sections are a bit different
 - While discussing trends in the labour force, it would be relevant also to discuss changes in the composition of the population by age, education, and migration background

COMMENTS AND DISCUSSION (2)

- For capital, the trend is unclear. Some graphical evidence with this respect would be very helpful
- It would also be helpful to have an explicit discussion of the trends in productivity growth in this part of the paper
- The discussion would be more consistent if the comparison of the CEE countries were always done with the EU15 (rather than interchangeably with EU27/EU28)
- The sub-section also lacks a comparative cross-country analysis, which would allow to quantify what drives the economic growth the most – labour, capital, or changes in factors' productivity

COMMENTS AND DISCUSSION (3)

- Section 3: Evolution of income inequality in CEE countries
 - For the discussion of poverty trends, it would be nice to see a graph depicting the evolution of relative poverty rates in CEE countries with the application of country specific poverty thresholds + the convergence of these poverty rates with the average EU15 level
 - While considering the factors, which drive changes in income inequality over time, it would be nice to quantify their relative contributions to the trends in inequality in each country of interest
 - A detailed discussion of the changes in the structure of government taxes and transfers in CEE countries is missing in the discussion of the potential factors standing behind changes in inequality over time

COMMENTS AND DISCUSSION (4)

- Section 4: Convergence in well-being
 - While analyzing changes in life-expectancy, it would also be nice to consider changes in life-expectancy of women or population in general
 - Trends in life-satisfaction: Is it possible to support the discussion with some graphical evidence plotting changes in the level of life-satisfaction over time?

Thank you!