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

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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
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)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>above 0.350</td>
<td></td>
<td>Estonia, Romania, Latvia, Lithuania, Romania,</td>
<td></td>
</tr>
<tr>
<td>0.301 to 0.350</td>
<td></td>
<td>Hungary, Latvia, Lithuania, Romania, Spain,</td>
<td>Bulgaria, Estonia, Poland</td>
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<tr>
<td>0.251 to 0.300</td>
<td></td>
<td>Poland</td>
<td>Hungary</td>
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<tr>
<td>up to 0.250</td>
<td>Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia</td>
<td>Czech Republic, Slovakia, Slovenia</td>
<td>Czech Republic, Slovakia, Slovenia,</td>
</tr>
<tr>
<td>no data</td>
<td>Romania, Slovenia</td>
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</table>
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%)

<table>
<thead>
<tr>
<th></th>
<th>Change in GDP per capita (%)</th>
<th>Change in Sen-index (%)</th>
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<tbody>
<tr>
<td>Bulgaria</td>
<td>85</td>
<td>134</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>100</td>
<td>121</td>
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<tr>
<td>Estonia</td>
<td>81</td>
<td>171</td>
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<tr>
<td>Hungary</td>
<td>89</td>
<td>140</td>
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<tr>
<td>Latvia</td>
<td>55</td>
<td>183</td>
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<tr>
<td>Lithuania</td>
<td>63</td>
<td>171</td>
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<tr>
<td>Poland</td>
<td>117</td>
<td>138</td>
</tr>
<tr>
<td>Romania</td>
<td>96</td>
<td>128</td>
</tr>
<tr>
<td>Slovakia</td>
<td>96</td>
<td>133</td>
</tr>
<tr>
<td>Slovenia</td>
<td>101</td>
<td>136</td>
</tr>
</tbody>
</table>

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 per capita*(1-Gini).
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
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
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!