Comments on “Golden Growth: Restoring Europe‘s Luster”

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Global Shifts

- The global economy is undergoing major shifts in recent years. The global financial crisis of 2007–2008 together with the emergence of the fast-growing BRICS are just two pieces of this shift.
- The report by the World Bank that we are discussing today is an attempt to examine a third piece of the global puzzleboard, namely, the current state and future of the European economies.
The Convergence Machine

- In my mind, one of the most important points raised by the report has to do with its identification of the European growth model as a “convergence machine.”
- The report makes a cogent case that the European Union has been unmatched in its power to “take in poor countries and help them to become high-income countries.”
- The report attributes this success to a common approach to institutions and policies that govern key aspects of political and economic activities.
Financial Flows

- A second intriguing point that is raised by the report has to do with nature of financial flows in Europe.
- The problems of current European debt crisis notwithstanding, the report argues that finance flows in the “right” direction in Europe, namely, from high-income, low-growth economies to low-income, high-growth economies.
  - In his provocative article, Lucas (1990) lists *political risk* as one of the factors behind the puzzling lack of capital flows from rich to poor countries.
  - Svensson (1998) argues that the lack of political stability leads to lower investment because political instability impedes the incentive to create an efficient system of property rights.
Institutions and Policies

- Evidently, judged by the direction of financial flows, the European Union has succeeded in creating the institutional and policy environment to reduce such political risk and to aid in political stability.
- Even in the case of Turkey, there has been a surge of foreign direct investment associated with the European Union accession process begun in 2006.
More generally, we can examine alternative aspects of a country's institutional environment using the Worldwide Governance indices provided by the World Bank (see Kaufman, Kraay and Mastruzzi, 2009).

Observe from Figures 2 and 3 the rapid improvement in the governance indicators for a country such as Serbia, which applied for EU membership in December 2009, and Albania, which is officially recognized by the EU as a “potential candidate country.”

- Albania started negotiations on a Stabilisation and Association Agreement (SAA) in 2003, which was successfully agreed and signed on 12 June 2006, thus completing the first major step toward Albania's full membership in the EU.
Governance Indicators

Voice and Accountability

Political Stability and Absence of Violence/Terrorism

Government Effectiveness
Governance Indicators

![Graph showing trends in Regulatory Quality, Rule of Law, and Control of Corruption over time.]
References