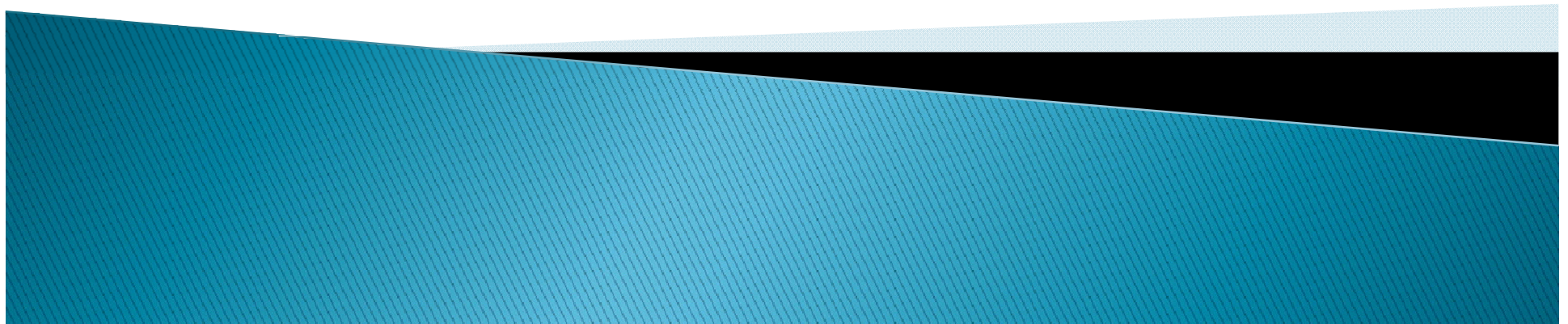


# Comments on “Golden Growth: Restoring Europe’s Luster”

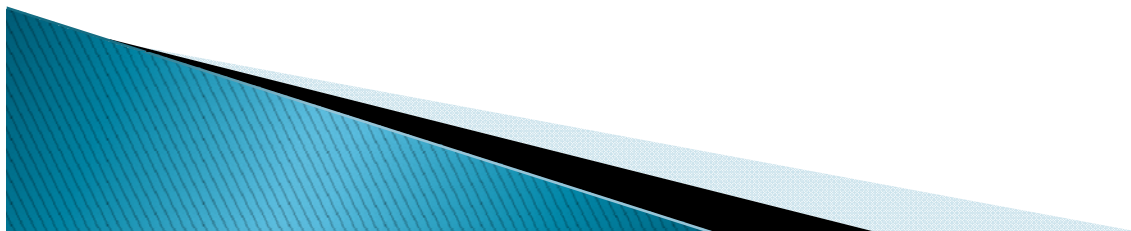
Sumru Altuğ

Koç University, CEPR  
and KU-TUSIAD ERF



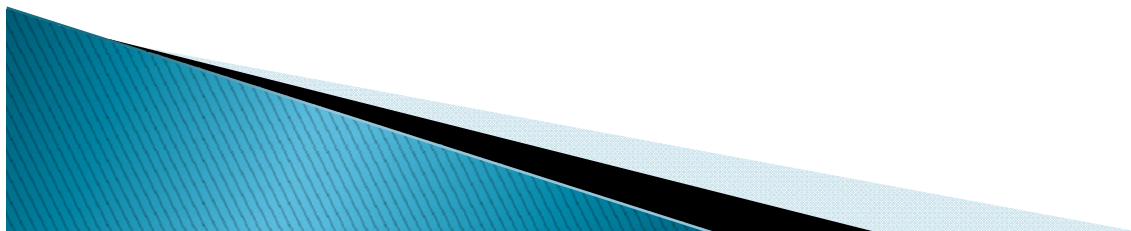
# Global Shifts

- ▶ 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.



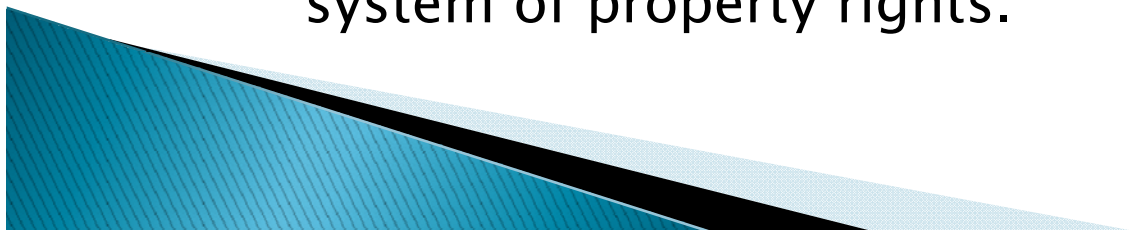
# The Convergence Machine

- ▶ 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.



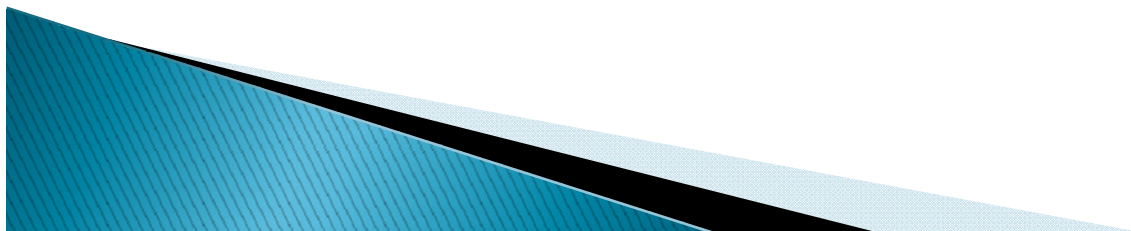
# Financial Flows

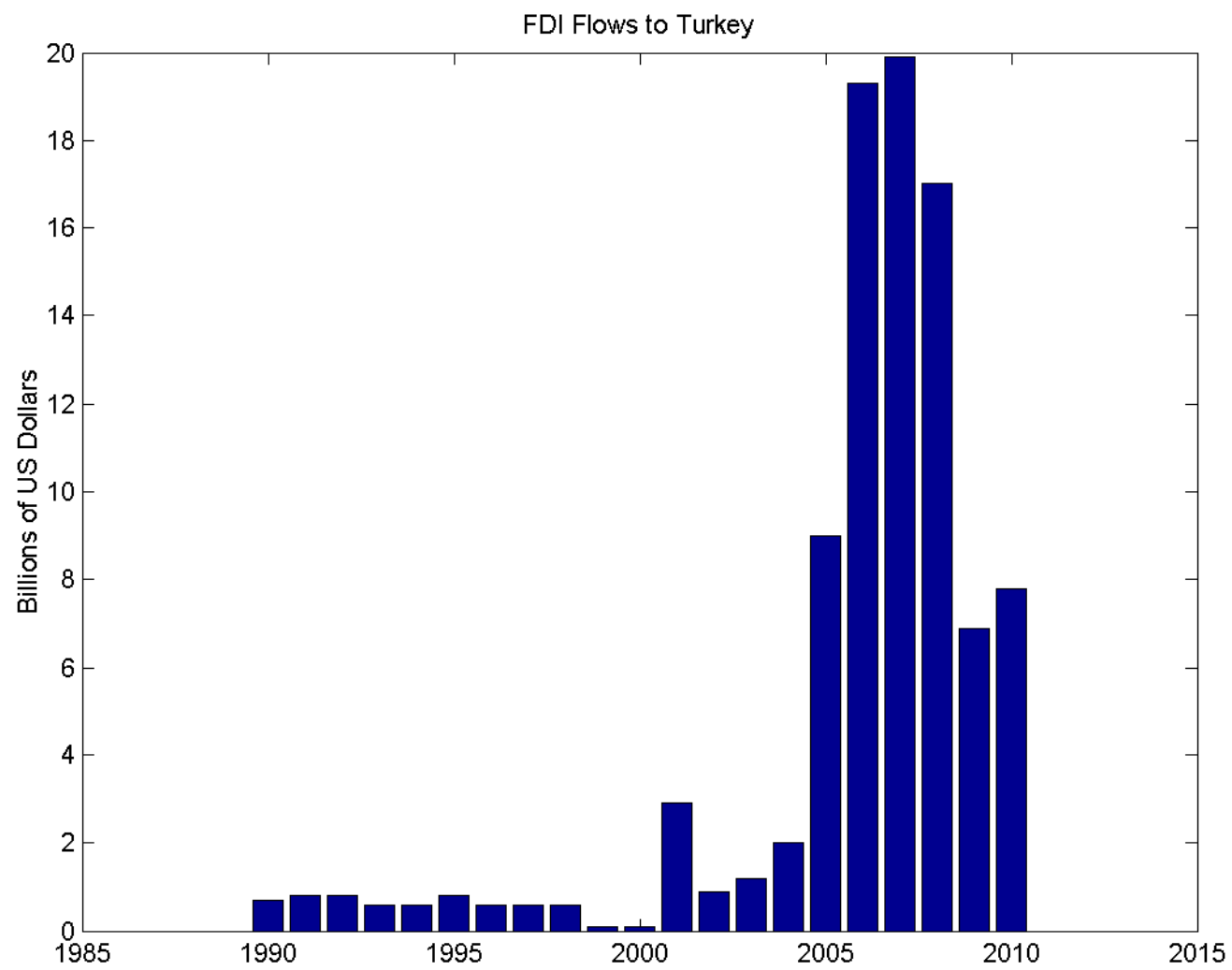
- ▣ A second intriguing point that is raised by the report has to do with nature of financial flows in Europe.
- ▣ The problems of current European debt crisis notwithstanding, the report argues that finance flows in the “right” direction in Europe, namely, from high-income, low-growth economies to low-income, 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

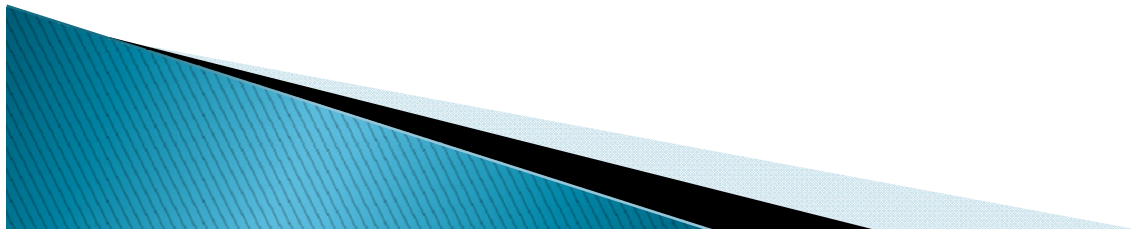
- ▣ Evidently, judged by the direction of financial flows, the European Union has succeeded in creating the institutional and policy environment to reduce such political risk and to aid in political stability.
- ▣ Even in the case of Turkey, there has been a surge of foreign direct investment associated with the European Union accession process begun in 2006.





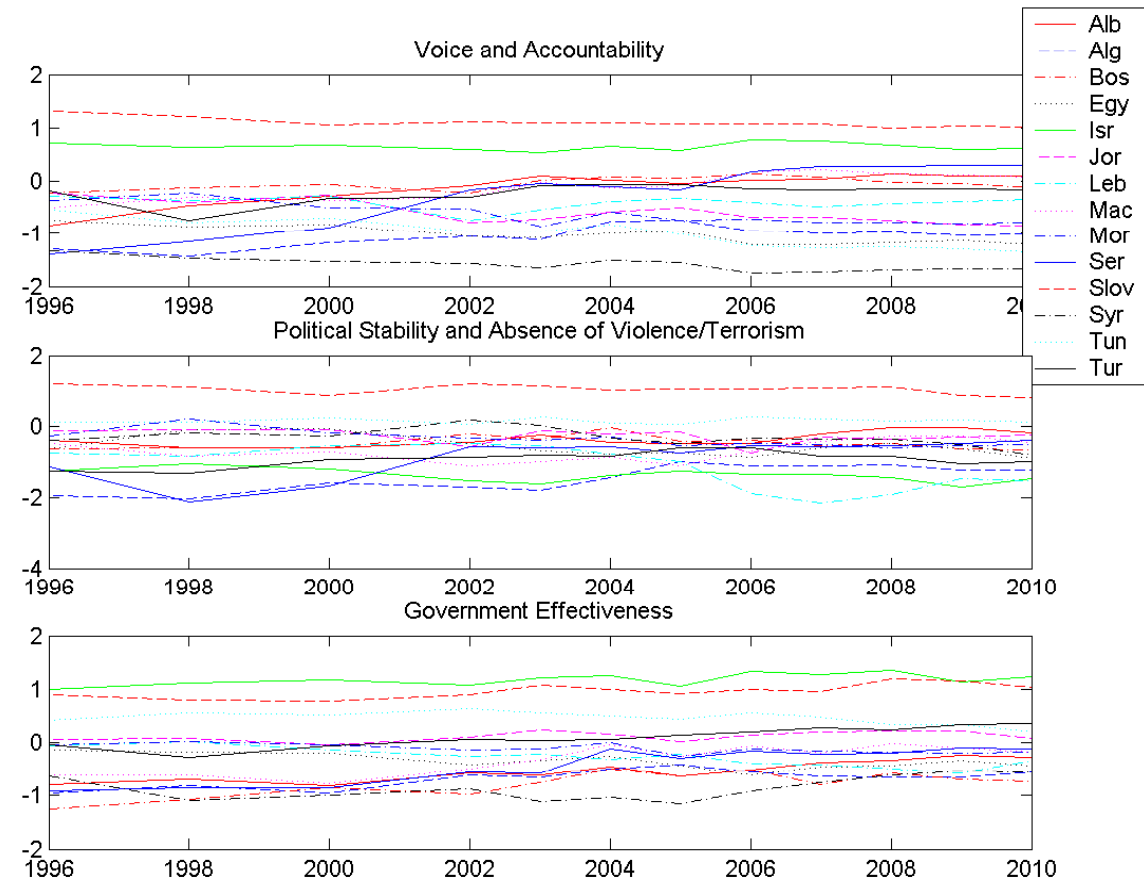
# Governance and the EU

- ▶ 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 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.



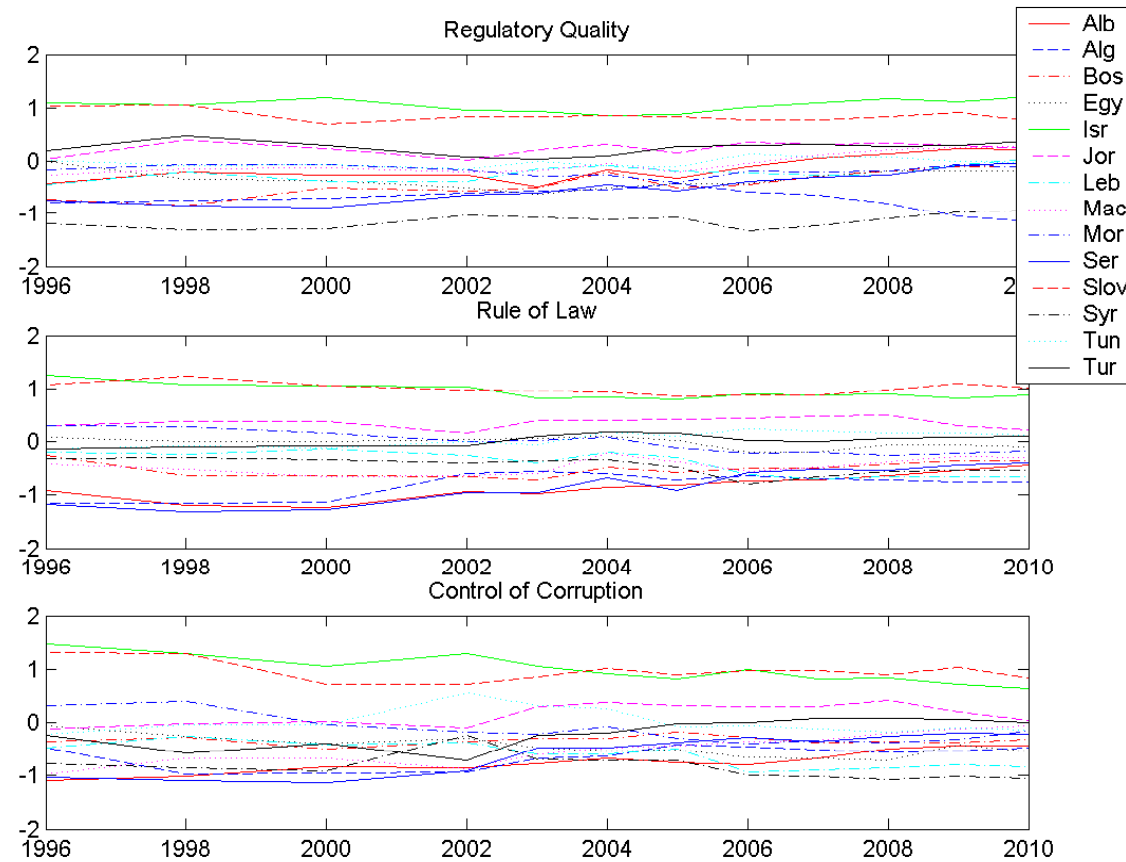


# Governance Indicators





# Governance Indicators



# References

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