

The JVI Policy Research Conference 2007

“Economic Governance and Sustained Growth in the Balkans”

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Eduard Hochreiter

Opening Remarks

Ladies and Gentlemen,

Let me start out by very warmly welcoming all of you at this year’s policy research conference. As you know, the JVI is, in the first instance, a teaching institution, whose mission is capacity building. Our mandate is to “provide instruction of the highest standard to help countries making the transition to full market-based economies”, which includes S.E.E., the region of specific attention today and tomorrow. Regarding the JVI’s output I just want to mention that since 1992, the year of establishment of the JVI until the present, we have trained more than 20.000 officials and private sector staff. We counted no less than at least 20 participants are JVI alumni!! A very special welcome to you. For details regarding the JVI please see our little exhibition that is scattered around our premises, or consult our website.

In addition to teaching, we also offer, from time to time, a few high-level non-teaching events such as this conference.

I am very gratified that DG ECFIN agreed to become a (full risk sharing) partner in this important event. My special thanks go to Klaus

Regling and his team at DG ECFIN, Antonio De Lecea and Peter Grasmann, for their intellectual, organizational and financial support. Both organizers are very gratified that we could induce so many first rate academics and policy makers to accept speaking obligations in one form or another, and that such a large, high powered group of officials and other practitioners from S.E.E. and elsewhere have positively responded to our invitation to take part as an active participant. Many thanks for coming.

Let me now bring you closer to the conference and our motivation. You just heard about the important role of the Balkans for the EU and the associated challenges of developing governance, of institution building and of the need for a rapid economic catching up. We at the JVI, as well as the JVI's member organizations, fully share these views. Consequently, it is only natural that we want to explore the conditions, the framework and the policies that are conducive for macroeconomic stability and the attainment of sustainable economic growth in the region. Clearly, we also want to see which policy lessons emanate from academic research and from previous experiences, so that we can take something useful home from a hopefully memorable event.

The importance of labor and capital for economic development has long been intensely studied. But there are also other factors that might be decisive for rapid growth and development. Today, it is more and more recognized, accompanied by a rapidly growing literature that the quality of institutions and good governance can make key contributions to the generation of sustained economic growth. In passing I also want to mention that the new IMF Research Director and Chief Economist, Simon Johnson,

is known for his path breaking work that focuses on the role of institutions that affect growth and crises.

Incidentally, this Monday, Klaus Regling, Director General of DG ECFIN, gave this year's JVI ANNUAL LECTURE on "The Western Balkans and the EU: What is needed for a common future?" In his address he also stressed the need for improved public sector governance and of institution building in the Western Balkans. This need, of course, has a lot to do with the legacy of governance within ex-Yugoslavia, state building and the related problems of transition to market-oriented governance, all topics that are important for our deliberations.

Formally, institutional and governance factors are included in TFP. TFP comprises not only more traditional factors such as technology and efficiency, but other "non-traditional" factors as well. These factors stress institutions and governance. Governance itself may be split up into business sector, fiscal, monetary, financial and external governance, each consisting of a number of components. The examination of some of these "unbundled" governance factors is, in fact, exactly what our conference is all about and what the speakers have been asked to focus on.

Let me now say a few words about the structure of the conference and how it ties in with what I outlined above.

We will start out with an overview lecture. It sets the stage and will help us to integrate the themes of the presentations that follow to the overall conference topic. This is the task of Thor Gylfason, who has also done a lot

of research on growth theory. As a sideline I might also mention that he has been teaching at the JVI.

Frank Berry will present us a very interesting comparative paper on institution building capacity in Ireland and in the Balkans. To my mind the success of Ireland has a lot to do with improved governance, better institutions, and better business governance. In short, I believe that in Ireland there has been a positive impact of EU rules on fiscal governance: spending restraint and the absence of fiscal dominance.

The following two presentations of Session 1 take up a few “unbundled” governance and institutional variables and rejoin them in various ways to yield general indicators that have been developed to empirically measure advances in institution building and governance structures. This is the task of Anthony O’Sullivan and Peter Sanfey.

Anthony O’Sullivan, will present the result of his work on the OECD’s Investment Reform Index, while Peter Sanfey, will discuss the latest EBRD Transition indicators. Both indices deal amongst others, with facets of the development of “business sector governance” - business climate, including bankruptcy laws, property rights, anti-corruption provisions, of “fiscal governance”, such as a transparent tax system and fiscal frugality, as well as of “financial” and “monetary” governance.

Session 2 takes another approach. It will look at factors that influence the development of governance and institutions from abroad. Two such external levers come to mind immediately: (a) globalization in general and

financial globalization in particular, and (b) the prospects of future EU-membership. Both can set powerful positive incentives for institution building and the strengthening of governance.

Eswar Prasad's part is to share with us the results of his research on the effects of financial globalization on growth, institutional quality and governance. I think that one interesting perspective coming out of his work is that in addition to the traditional channels through which financial globalization raises growth and reduces consumption volatility (more efficient allocation of capital, capital deepening and international risk sharing) there are increasingly(?) "non-traditional channels", i.e., "collateral benefits",

while Othon Anastasakis takes up the second external lever, the "EU-lever". He discusses the EU's capacity to bring institutional transformation and institution building and sets his analysis into our regional context.

Further more, we have put an empirical paper of a young economist working for the CNB on the Program. Oxana Bebetaia-Kukharchuk studies the influence of the quality of institutions for the integration of trade of SEE and central Asian countries. I think this is a neat and well done paper which perfectly fits to our core theme.

In session 3 we return to specific governance issues. Max Watson, in a very focused paper, takes up key dilemmas for policy emanating from rapid financial sector growth in S.E.E. and studies the prerequisites for institutional frameworks in the fiscal, monetary and structural areas for good

outcomes. In these respects his inclusion of the EU-10 (the “2004 wave of enlargement”) is especially relevant.

Per Molander’s focus is on fiscal governance and institutions. He uses the successful Swedish fiscal reforms as an example for his discussion. While not related to S.E.E., he nevertheless will show some possible linkages to the Balkans and, I believe, that something can be learned.

After the end of the discussion of Per’s paper we will be all exhausted and we will have earned our dinner at Nowak’s.

Friday will be “Panel” day. In the first panel, the “Accession Panel” we will learn from outstanding experts from selected former transition economies

- how they managed to build institutions and governance structures that made EU accession possible,
- about the problems they encountered on the way,
- and, if at all possible, we would also like to hear from them how substantial the contribution of “non-traditional” factors of TFP to economic growth was.

The second panel, “the key results panel” then is the absolute highlight of the conference. There we should learn about some key results the deliberations have brought, something we can take back home and something that makes the conference memorable.

But before that we have an “overview address”, delivered by one of the highly rated polish economists, and somebody who can tune us in to the two panels. Marek Dabrowski is the president of CASE (Center for Social and Economic Research) and, incidentally, Simon Johnson is on the International Advisory Board of CASE. So, perhaps, there will now be some rapprochement of views regarding the IMF?

Be that as it may, today Marek will deal with the political economy of the reforms required by the EU accession process and the role of this process in providing incentives to economic and institutional reforms. In a way his lecture forms a bridge to some of yesterday’s lectures, in particular those that dealt with the anchoring of reforms.

This brings me to the end of my remarks. Once again, thanks to everyone who has contributed to the program, to the arrangements here at the JVI and to all who participate in one function or another. We are very much looking forward to an intensive and lively debate.

Tatiana Arnhold has a few housekeeping issues and then we are on our way.