

Regulatory Quality and Competitiveness in Recent European Union Member States

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★ Contents of the full paper

0. Abstract & 1. Introduction

2. Economy, Society, and Policy: Analyzing the Regulatory Quality (RQ)

3. The RQ in the Recent European Union (EU) Member States (MS)

4. The Governance Quality (GQ) in the Recent EU MS

5. The Recent EU MS Competitiveness (CP)

**6. The Performance of the Recent EU MS: European Deficits,
Euroimbalances and the Euro Crisis**

**7. Conclusion: The Recent EU MS Deficits of RQ, GQ and CP and the
Need for Stabilization, for Structural Reforms and for Europe –
*The State-builder Task of the EU***

★ 0. Abstract & 1. Introduction

In this paper we consider: i) the **regulatory quality** among the Recent EU MS, **its components, dynamics and gaps**; ii) the **links** found between regulatory quality and **productivity, competitiveness and performance**; and iii) the impact on the regulatory quality of the European **multilevel economic governance** system currently under construction.

Despite the integration process, the **Europeanization of economic forms** remains somewhat **limited**. With the **crisis and debt, euro and banking difficulties** the **regulatory gaps** have exacerbated the euroimbalances and the economic divergences. For many European countries and regions, and especially for recent EU MS, the Union appears to be an **anchor** for the empowerment of democracy, rule of law and competition, and a guarantee for **minimum quality standards** and the **limitation of interventionism**. The EU is doing a key **state-building task**. Thus, there is a pressing **need for Europe**.

Keywords: Regulatory Quality; Competitiveness; Economic Policy; Governance; Europe

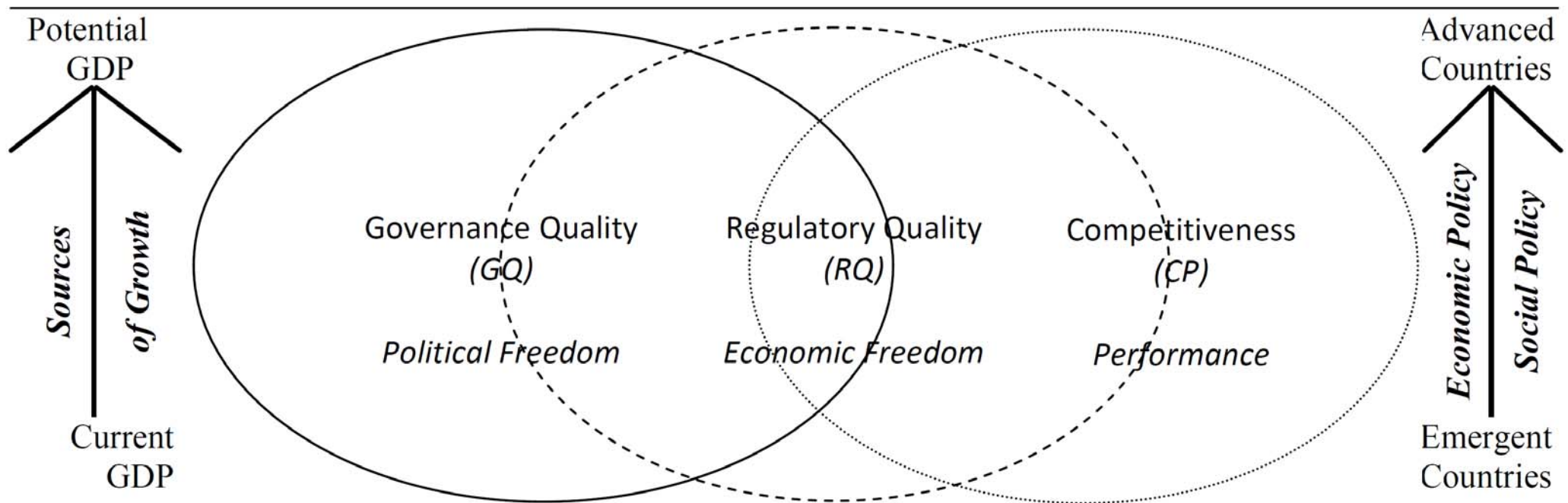
JEL F15, K83, L51. Paper length: 11,330 words

★ 2. Economy, Society, and Policy: Analyzing the Regulatory Quality

2.1. The Regulatory Quality

The **subject** of this research is the **regulatory quality** in the EU MS and its relations with **governance quality** and with **competitiveness**.

Regulatory Quality, Governance Quality and Competitiveness (Fig. 1)



★ 3 Spheres.

★ EP conclusion: The RQ and other Deficits are Sources of Growth.

This research has developed three aims and has analyzed three kinds of sources:

★ **Elaborating** empirical evidence gathered from the MS about RQ, GQ and CP

★ **Data on RQ, GQ and CP** furnished mainly by the WB (2011, 2004-2012a and 2012b: reports on *Doing Business* and on *Worldwide Governance*), the Bertelsman Stiftung (2011), the OECD (2012a and 2012c: *Regulation data base*), and the WEF (2004-2012: *Competitiveness reports*).

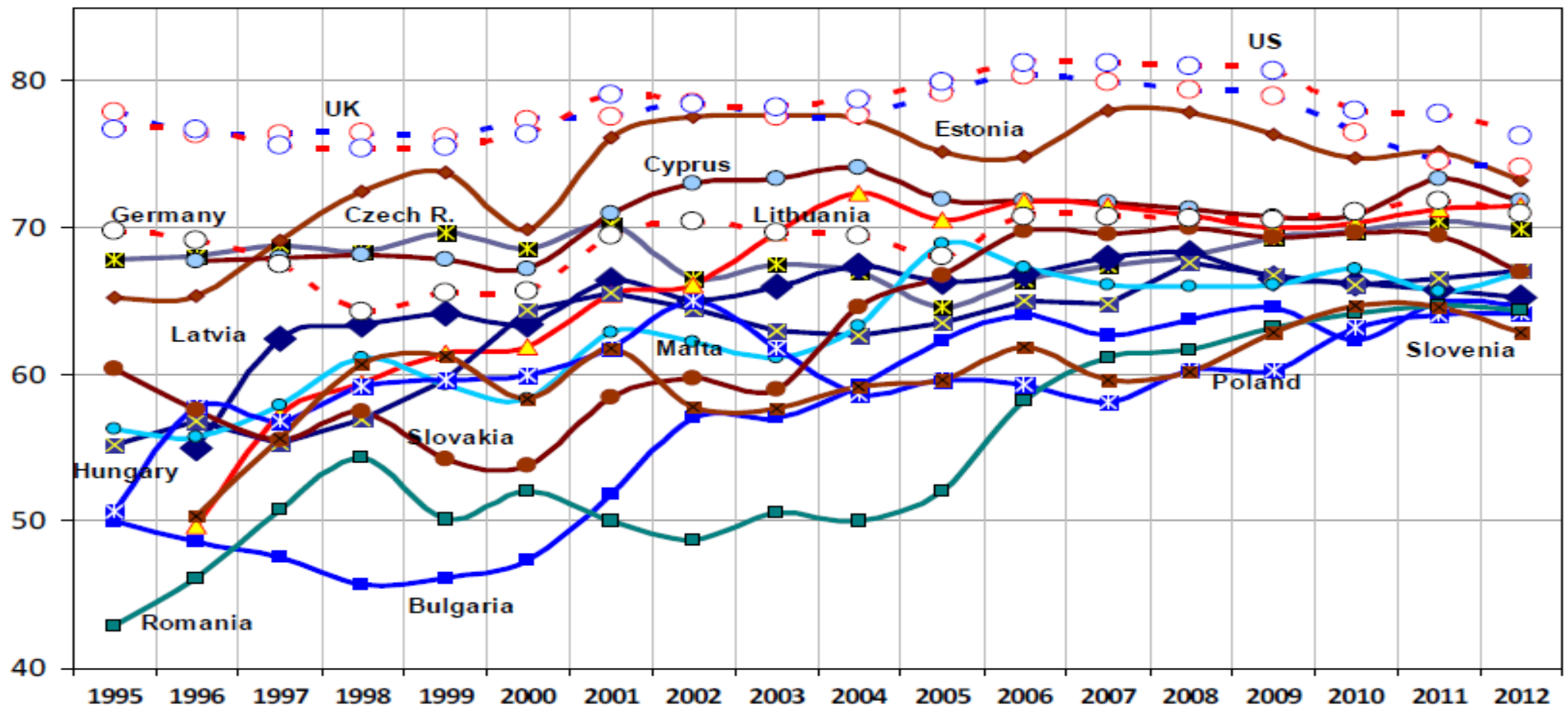
★★ **Contrasting** the above results with the European economic constitution and the common policies

★★ **Analyses of the EU economy** such as those by Martin Neil Baily and Jacob Funk Kirkegaard (2004), Alberto Alesina and Francesco Giavazzi (2006 and 2010), the European Commission-DG ECFIN (2010 and 2012), and Hans-Werner Sinn and Timo Wollmershaeuser (2011).

★★★ **Discussing** the tendencies of and the prospects for these elements all together

★★★ **Elaborations on the regulatory quality** from sources such as Claudio M. Radaelli and Fabrizio De Francesco (2007), Susana Borrás and Radaelli (2010), Alesina *et alii.* (2010) and Brunet (2011a).

2.2. The Dynamics of the Regulatory Quality in the Recent EU MS (Fig. 2)



Note to all the figures of this presentation.- Source: Author elaboration on data from the sources shown at the full paper and for 2012 or closest if other year(s) are not mentioned.

★ 4 Phases: 1995-2000: high growth, 2000-2005: growth, 2005-2010: stability, 2010-2012: decrease. ★ Convergence.

Dynamics of the Regulatory Quality and Competitiveness in the Recent EU MS (Tab. 1)

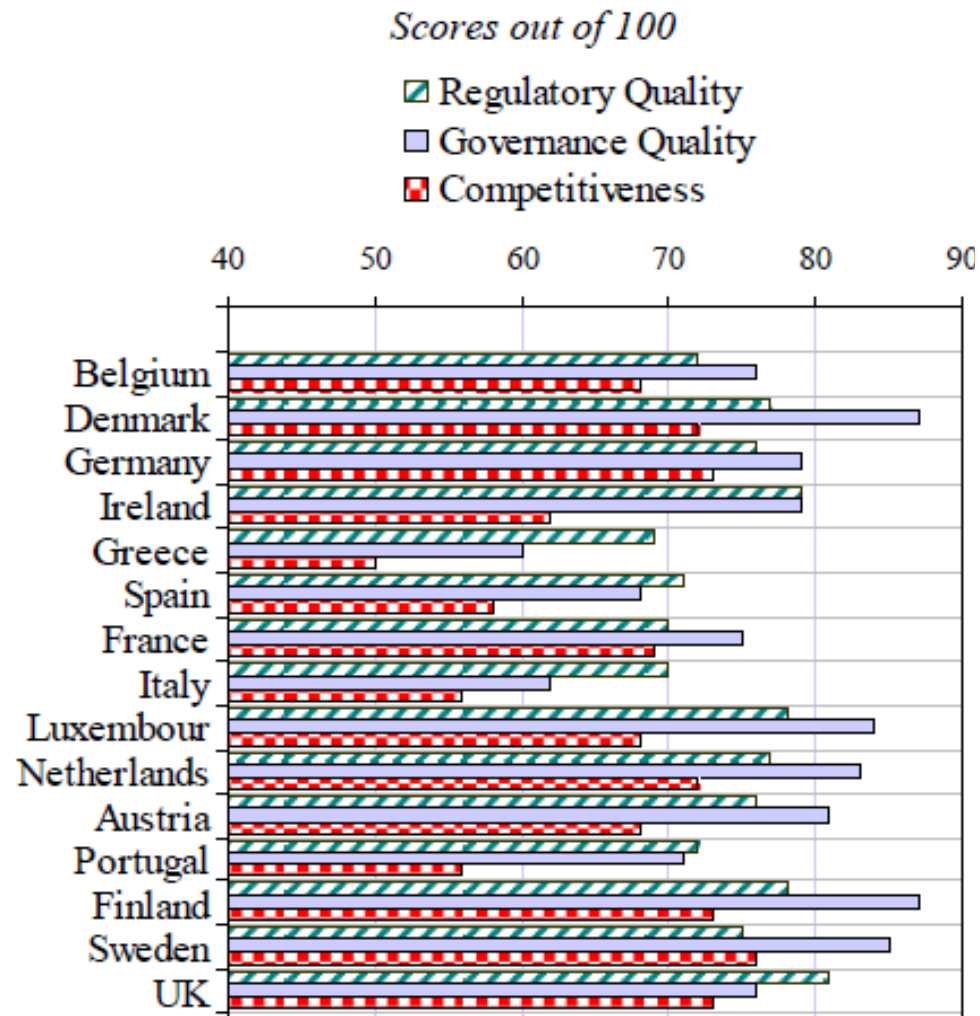
Score (out of 100)	Quality of Economic Regulation			Quality of Public Governance			Global Competitiveness		
	1995	2011	Change in p. 100	1996	2010	Change in p. 100	2001	2012	Change in p. 100
Sign for cell with Good / Bad score: > 75 < 60									
	1	2	3	4	5	6	7	8	9
	12 recent EU MS								
Bulgaria	41	69	68,3	44	56	27,6	47	52	11,1
Czech Republic	52	70	34,6	68	69	2,2	57	60	4,8
Estonia	56	80	42,9	63	72	14,4	65	60	-6,7
Cyprus	50	75	50,0	74	71	-4,1	..	58	..
Latvia	47	75	59,6	53	64	19,8	53	52	-1,7
Lithuania	55	75	36,4	58	64	11,3	..	56	..
Hungary	51	75	47,1	66	66	-0,8	65	56	-14,0
Malta	58	73	25,9	63	74	18,4	..	56	..
Poland	43	69	60,5	66	66	0,0	55	59	6,4
Romania	36	64	77,8	48	55	14,7	47	53	11,4
Slovenia	38	62	63,2	71	71	-0,7	62	57	-7,6
Slovakia	49	73	49,0	60	66	10,9	56	54	-3,2

★ QR: Best.

★ GC: Limited Progress.

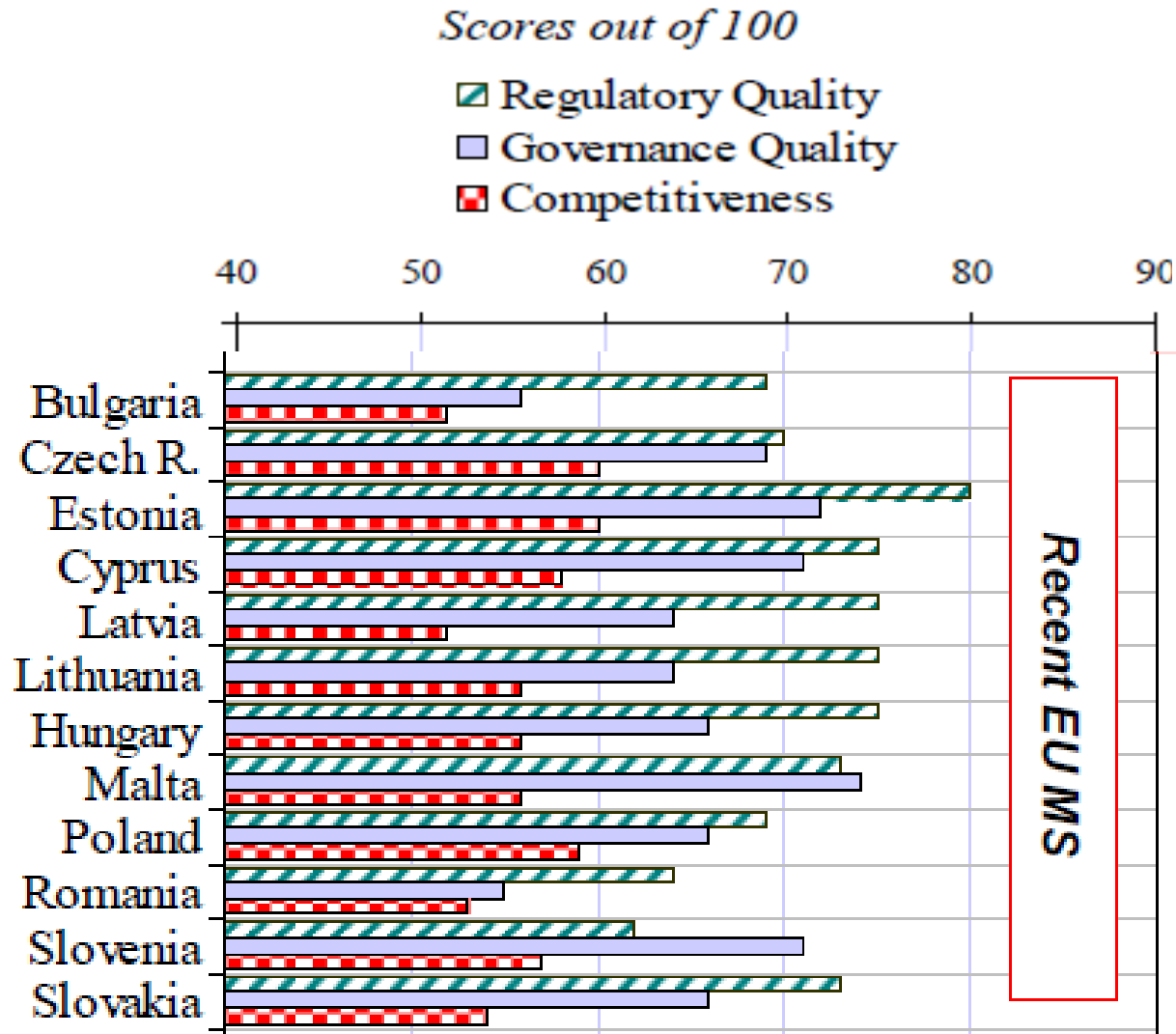
★ CP: Decrease.

2.3. RQ, GQ and CP in Old EU MS (Fig. 4)



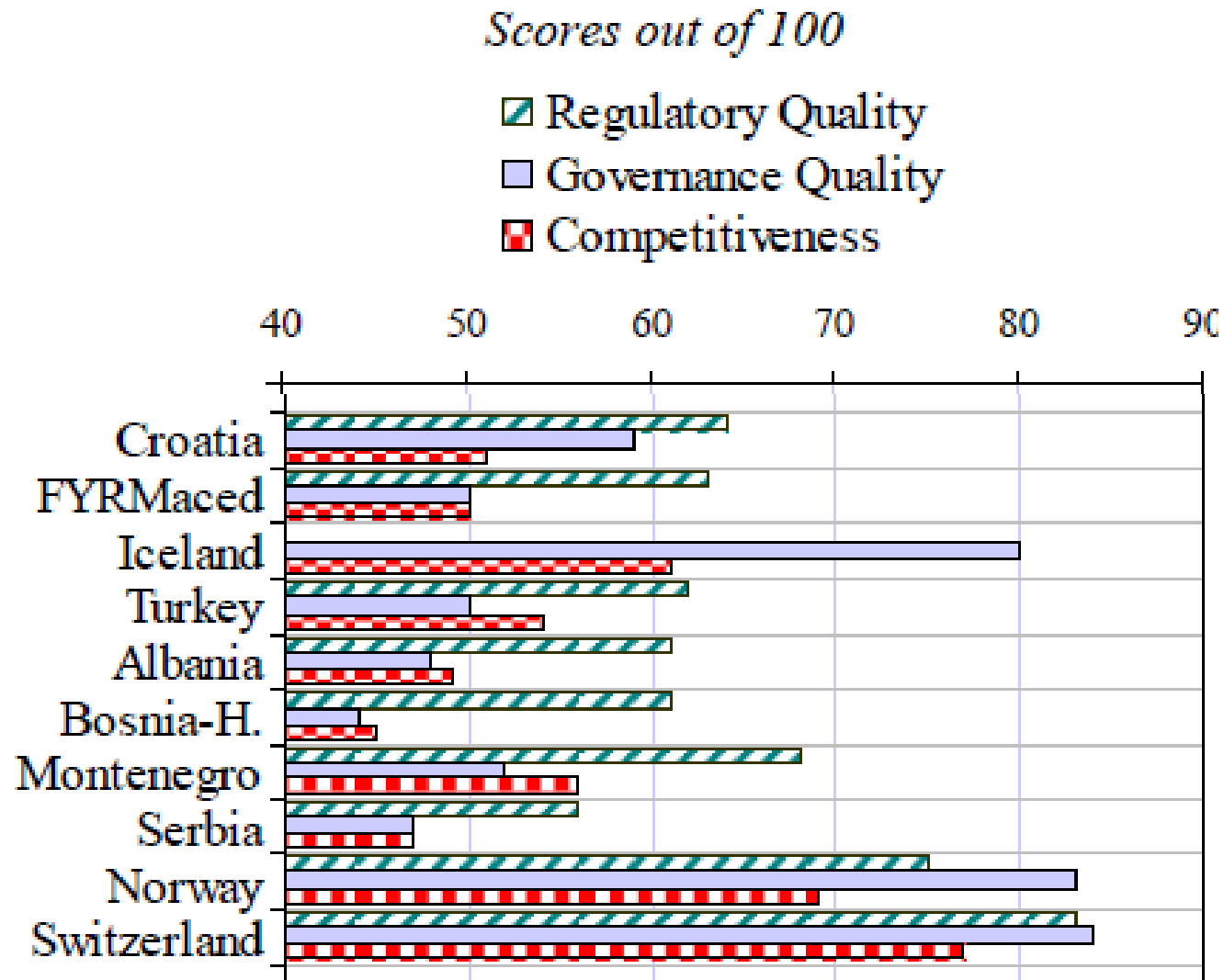
★ Old EU MS: Higher Index for GQ and for Smallest Countries.

2.3. RQ, GQ and CP in Recent EU MS (Fig. 4)



★ Recent EU MS: Higher Index for RQ ; Worse Index for CP.

2.3. RQ, GQ and CP in EU Neighbor Countries (Fig. 4)



★ Neighbors: The Candidates and the Potential Candidates have a Long Way to Go.

★ 3. The Regulatory Quality in the Recent EU MS

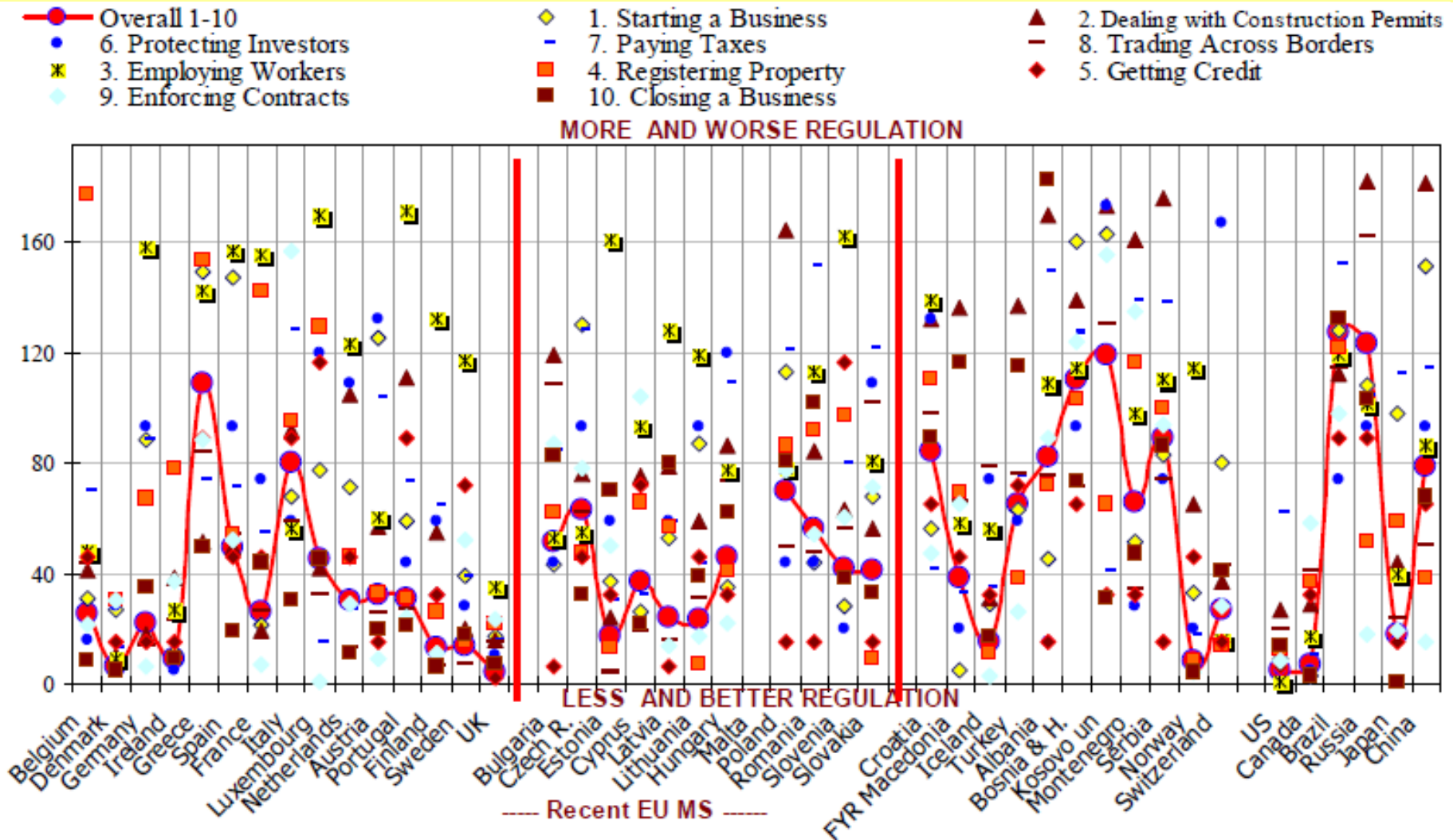
3.1. Elements of the QR in the EUMS

- ★ Business Environment
- ★ → Economic Freedom (Heritage Foundation-Wall Street Journal-Down Jones)
- ★ → Ease of Doing Business (WB):

1-10 Overall: Doing Business Index

1. Starting a Business.
2. Dealing with Construction Permits.
3. Employing Workers.
4. Registering Property.
5. Getting Credit.
6. Protecting Investors.
7. Paying Taxes.
8. Trading Across Borders.
9. Enforcing Contracts.
10. Closing a Business.

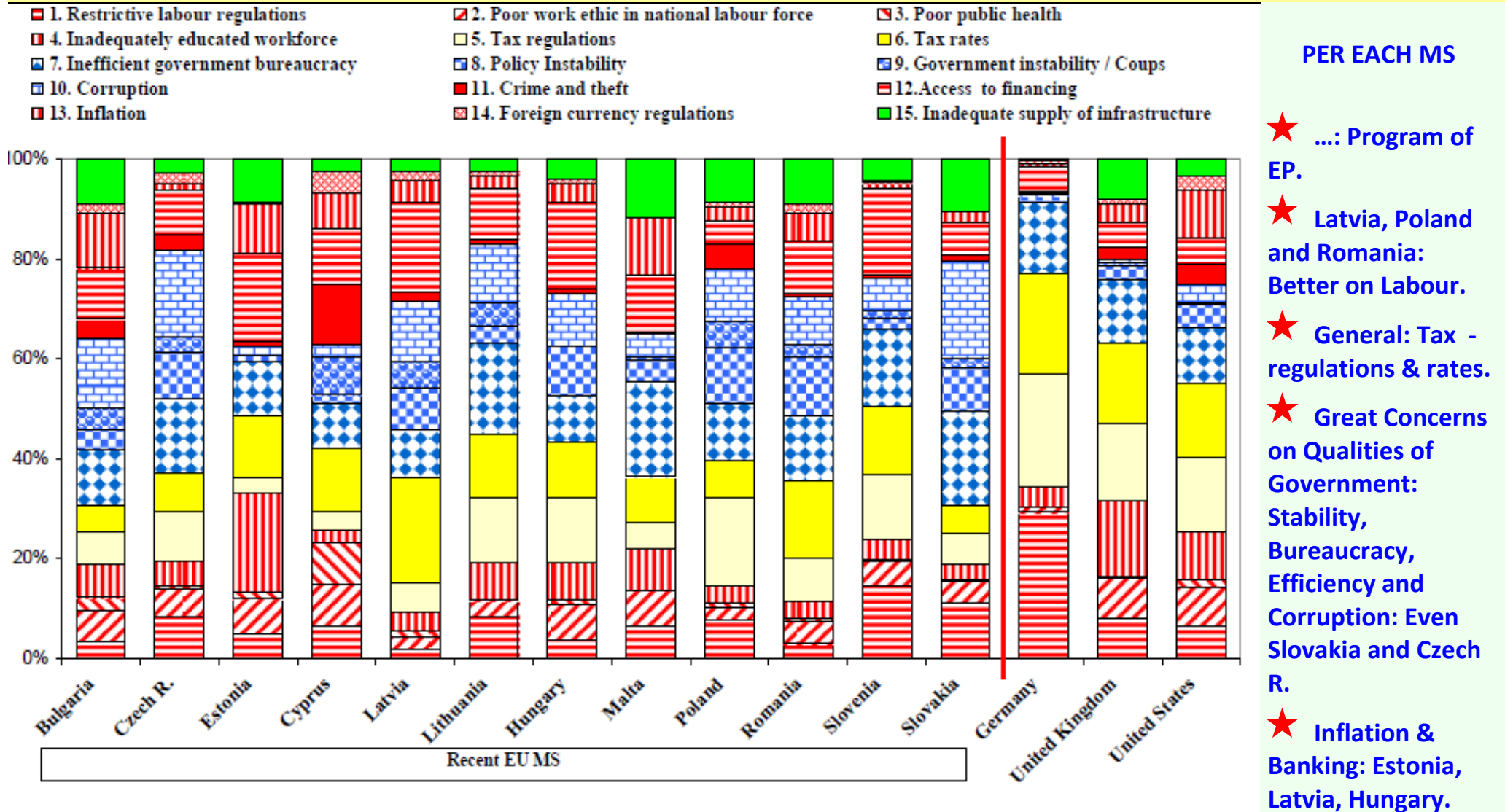
Regulatory Quality and Business Environment (Fig. 5)



★ Red Line: Overall. ★ Best Eur.: Nordic, UK. ★ Worse Eur.: Greece, Italy, Poland, Romania.
 ★ Small-New-Independent-Recent Accessed: Estonia, Latvia, Lithuania: good.

3.2. The Most Problematic Factors for DB

The Most Problematic Factors for Doing Business (Fig. 6)



★ 4. The Governance Quality in the Recent EU MS

4.1. Political and **Governance** Stances

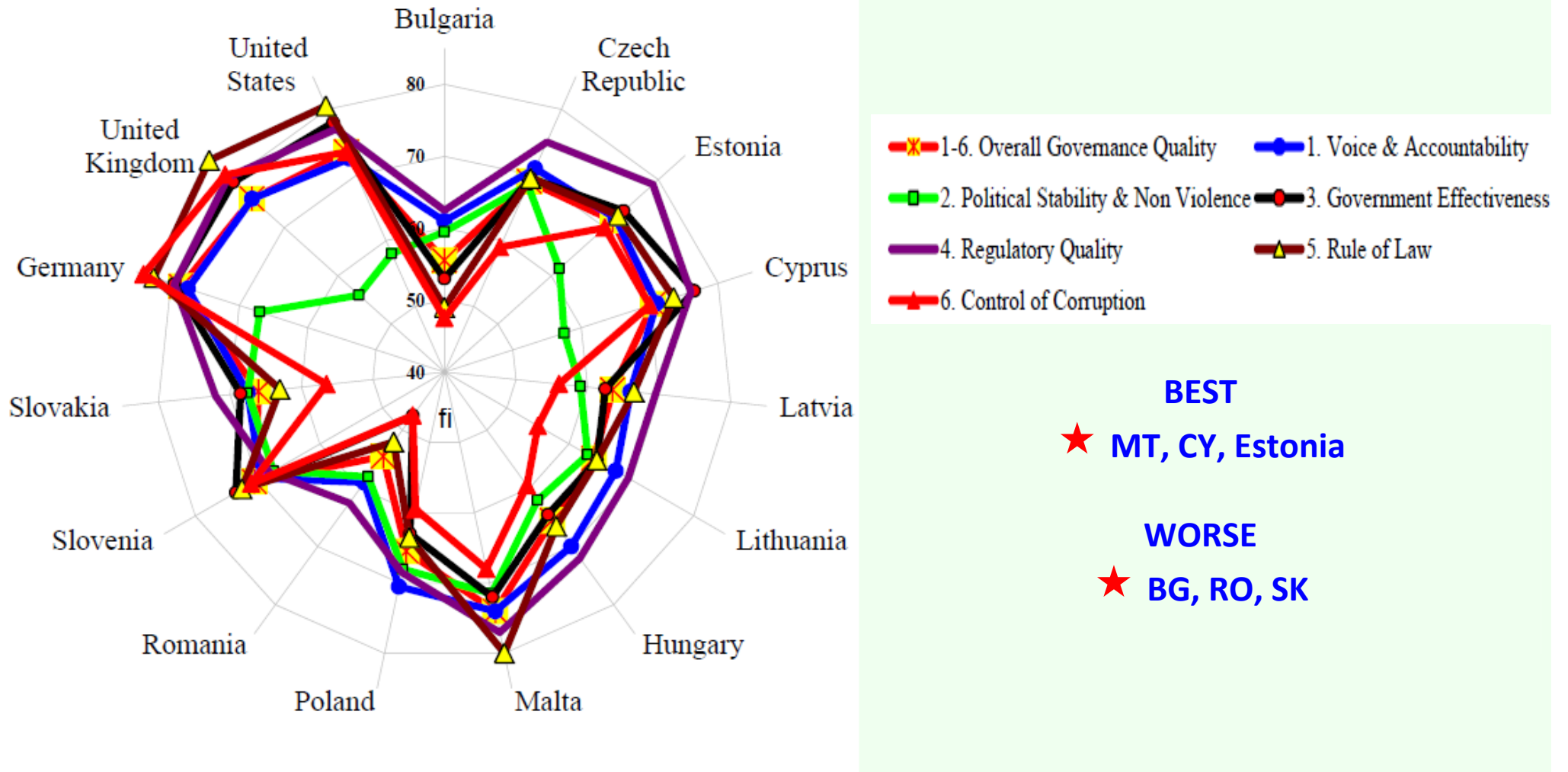
- ★ Economist Intelligence Unit – Legatum Prosperity – Bertelsman Stiftung
- ★ Freedom House – Heritage Foundation-WSJ-DJ
- ★ Governance (WB)

1-6. **Overall Governance Quality.**

1. **Voice & Accountability.**
2. **Political Stability and Absence of Violence.**
3. **Government Effectiveness.**
4. **Regulatory Quality.**
5. **Rule of Law.**
6. **Control of Corruption.**

4.2. The Quality of Governance in a Recent EU MS

From Political Stability to the Rule of Law (Fig. 7)



★ 5. The EU MS Competitiveness

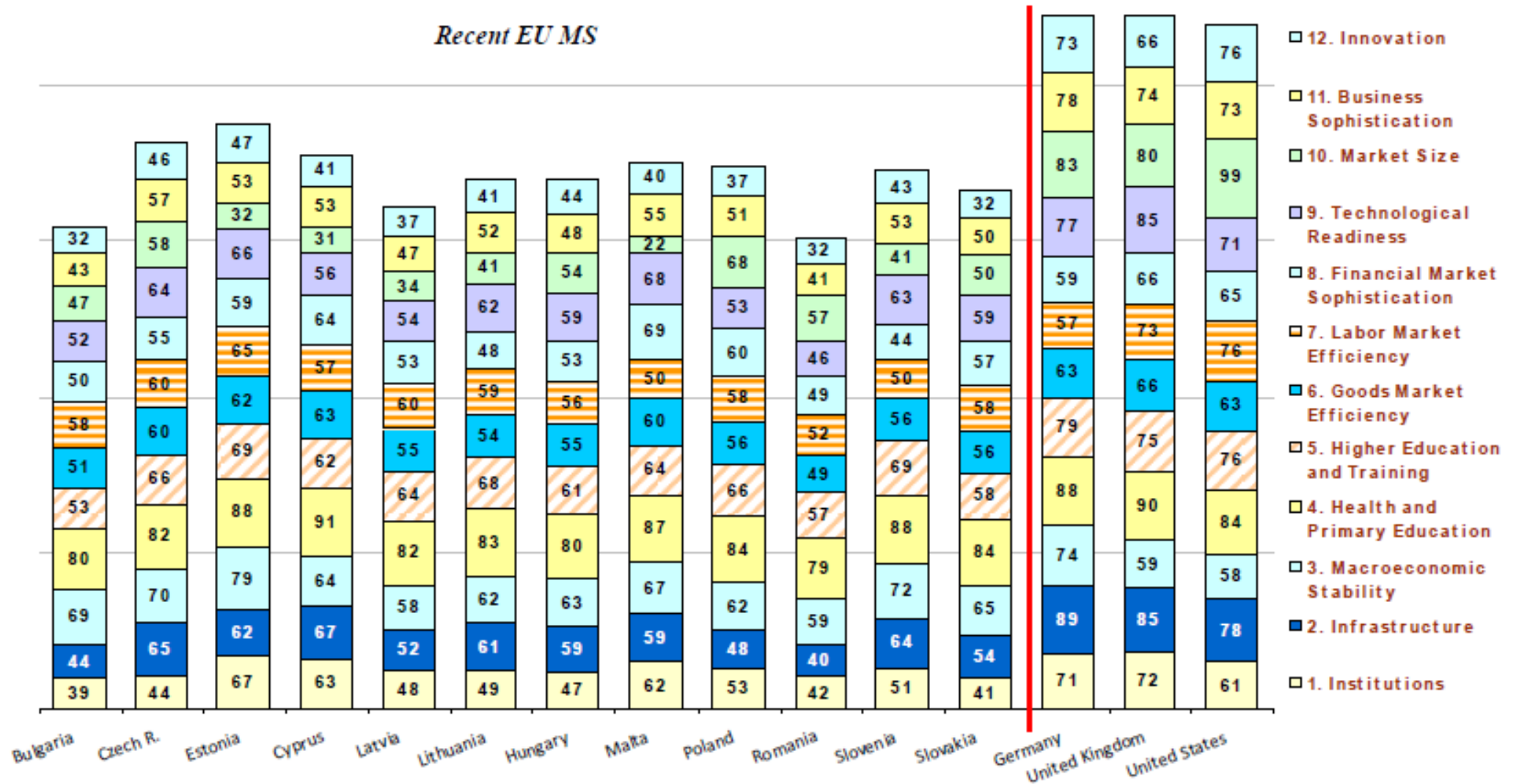
5.1. The CP World Economic Forum-Davos – *competitive industry*

★ Pillars

1-12 Overall: Global Competitiveness Index.

1. Institutions.
2. Infrastructure.
3. Macroeconomic Stability.
4. Health and Primary Education.
5. Higher Education and Training.
6. Goods Market Efficiency.
7. Labour Market Efficiency.
8. Financial Market Sophistication.
9. Technological Readiness.
10. Market Size.
11. Business Sophistication.
12. Innovation.

5.2. The Elements for Competitiveness in the Recent EU MS (Fig. 8)



★ Better: 4.Health - 9.Tech.Readiness - 3.Macroec.Stability.

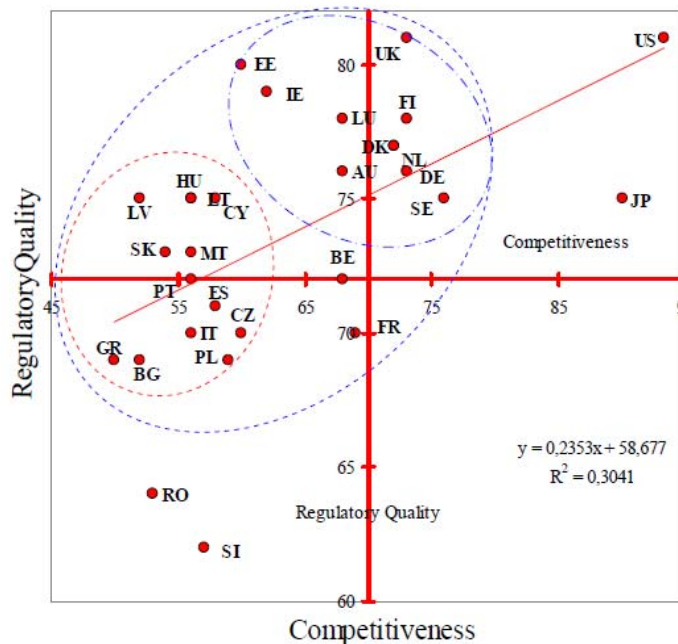
★ Worse: 1.Institutions - 7.Labor Market - 6.Goods Market Efficiency.

★ 6. The Performance of the EU MS: European Deficits, Euroimbalances and Euro Crisis

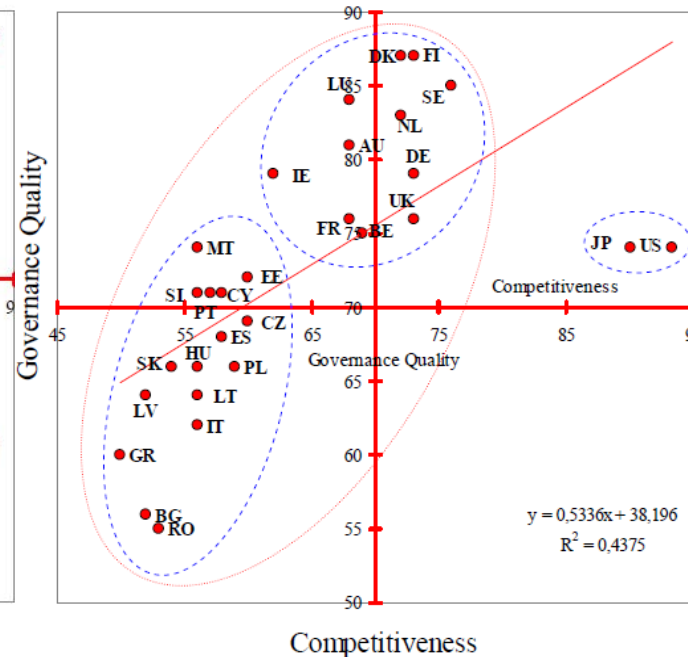
6.1. The European Models: Structure vs. Policy

RQ, GQ and Competition vs. Competitiveness in the EU MS (Fig. 9)

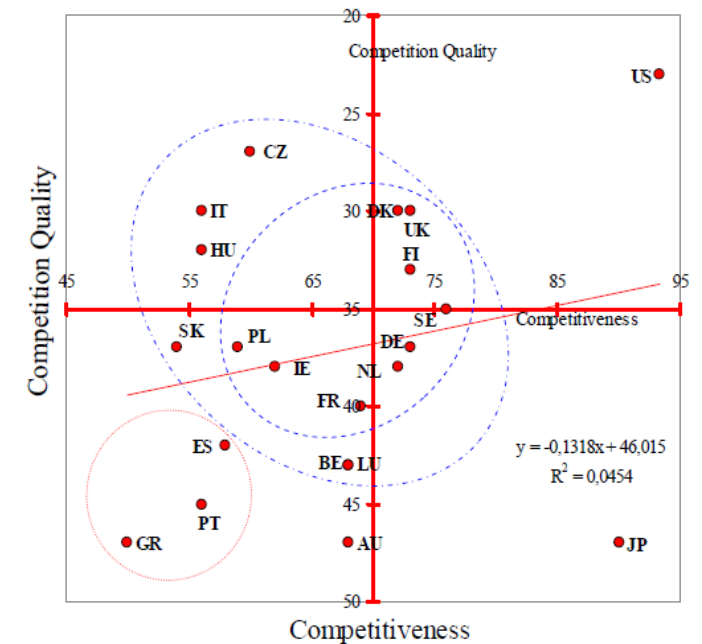
Panel A. Regulatory Quality and Competitiveness



Panel B. Governance Quality and Competitiveness



Panel C. Competition Quality and Competitiveness



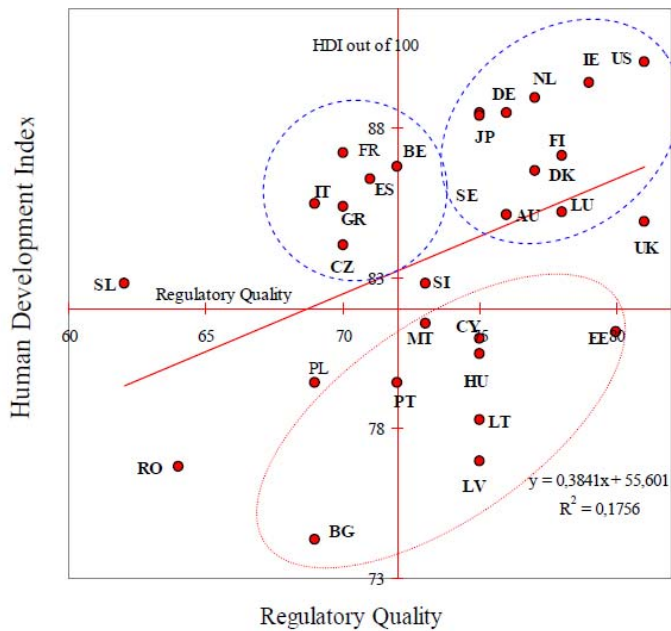
★ Clear between RQ and CP.

★ Highest correlation between GQ and CP.

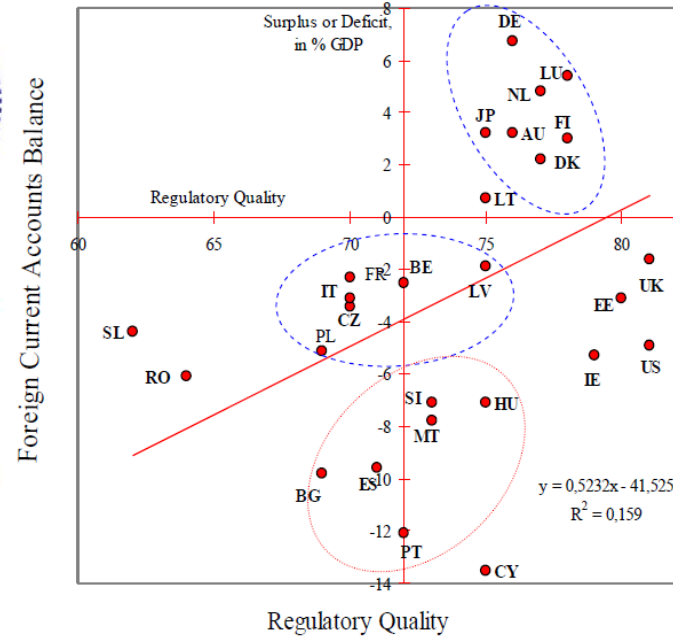
★ Some small MS are competitive despite limited Competition Quality.

Regulatory Quality vs. Economic and Social Performance in the EU MS (Fig. 10)

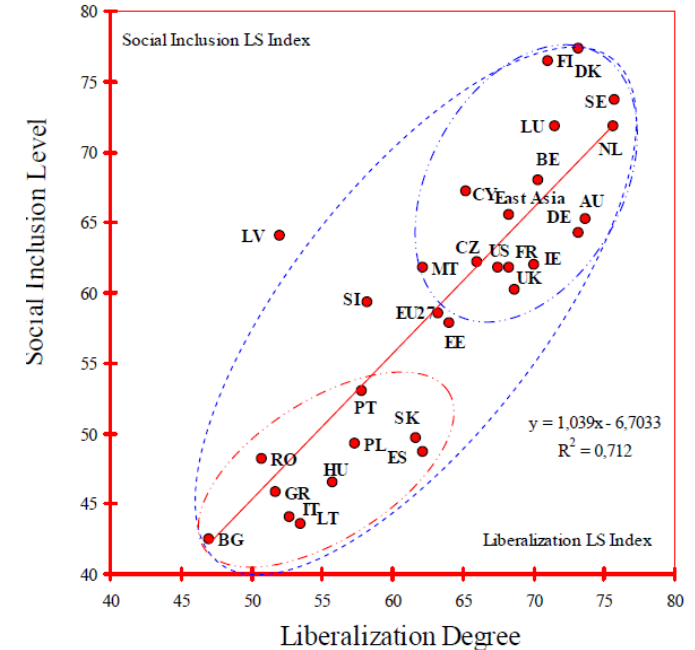
Panel C. Regulatory Quality and Standard of Living



Panel A. Regulatory Quality and Foreign Balance



Panel B. Economic Liberalization and Social Inclusion



★ The dispersion on HDI is lower than for other indicators.

★ All MS with Foreign Surplus have high RQ.

★ The Highest Correlation.

6.2. The Euroimbalances

The European Deficits:

- ★ Deficit of Employment.
- ★ Deficit of Productivity.
- ★ Deficit of Regulatory Quality.
- ★ Deficit of Governance Quality.
- ★ Deficit of Competitiveness.
- ★ Deficit of Performance.

The Recent EU MS Economic Deficits (Tab. 4)

MS Order: Grouped by origin and scored by Competition Deficit

Sign for cells with:
 - bad score: < 15
 - for col. 1; < 30
 - for other cols.

	Regulatory Quality Deficit	Employment Deficit	Productivity Deficit	Competition Deficit	Creativity Deficit	Competitiveness Deficit	Living Standard Deficit	Human Development Deficit
	1	2	3	4	5	6	7	8

Central and Eastern Large and Medium in Transition EU MS

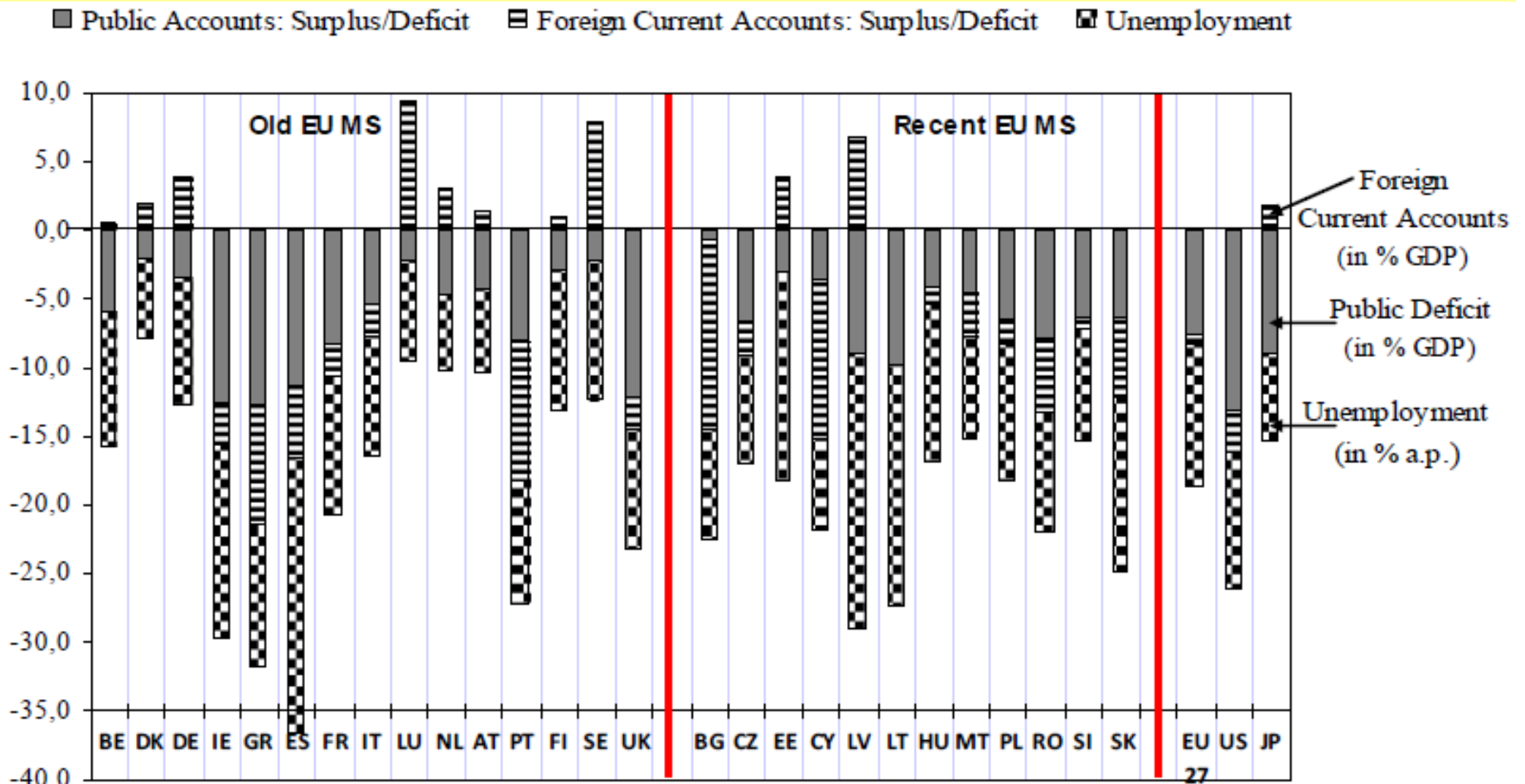
Hungary	-14.1	-13.4	-53	-32.8	..	-35.2	-57.9	-7.7
Bulgaria	-33.7	..	..	-37.1	..	-39.7	-76.0	-12.7
Romania	-38.0	..	..	-38.5	..	-41.2	-75.8	-13.8
Poland	-30.7	-12.1	-62	-40.5	..	-38.3	-65.8	-8.1

Newly Independent, Small and in Transition EU MS

Estonia	-7.8	..	..	-22.2	..	-23.4	-56.2	-9.1
Cyprus	-13.2	..	..	-28.7	..	-25.4	-39.7	-4.8
Lithuania	-18.5	..	..	-29.2	..	-32.3	-62.8	-8.9
Slovakia	-16.6	-7.1	-50	-31.3	..	-31.1	-59.0	-8.8
Czech R.	-20.5	-5.5	-56	-31.5	..	-28.5	-48.8	-6.0
Latvia	-17.6	..	..	-31.7	..	-22.2	-63.9	-9.6
Malta	-13.7	..	..	-34.0	..	-25.8	-51.2	-7.3
Slovenia	-27.3	..	..	-39.4	..	-31.5	-42.7	-3.4

★ The Largest Recent EU MS: Regulatory Deficit & Competition & Competitiveness Deficits.

The EU MS Imbalances (Fig. 11)



★ The Triplet European Skyline.

★ See Foreign Surplus Countries: Lower Unemployment and Public Deficit (except Latvia).

★ 7. Conclusions

*The Deficits of the Recent EU MS on RQ, GQ and CP
The Need for Stabilization, Structural Reforms and for Europe
The State-builder Task of the EU*

A. On RQ and CP

- ★ In a global world where factors and technology move, intangibles as economic regulation are the key for competitiveness, growth and development.
- ★ Dynamics of Economic Freedom: Elements of Business Environment, Factors More Problematic for DB.
- ★ EU Quality of Governance: Dynamics and Elements, from Representation to Corruption.
- ★ EU Competitiveness: Dynamics and Elements.
- ★ The Links between QR, QG and CP.
- ★ EU Countries: Models, Structures and Policies. Convergence & Divergence.

B. On Economic Policy

- ★ The EU MS **Deficits** are the basement for the **Economic Policy Programs**.
- ★ **Economic Policy: Converting the Gaps-Deficits on Employment, Productivity, QR, QG, CP and Performance in Sources-Opportunities for Growth.**
- ★ **Structural Reforms: Profiting from the Improvement on the RQ.**
- ★ **Wellbeing** relates to economic freedom, to political freedom and to the quality of institutions.

C. The Need for Stabilization, for Structural Reforms and for Europe

- ★ **Euro and Financial Crisis: Need for Stabilization.**
- ★ **Deficits on Competitiveness and other: Need for Structural Reforms.**
- ★ The EU as an **Anchor** → The EU as a **Torpedo**.

D. The EU as State-builder

- ★ The **New Independent Small** Recent EU MS.
- ★ The **EU Added Value**.
- ★ The **European Tendency to Over-regulation**.
- ★ The **European Sin – Less is Better**.
- ★ **Avoiding Over-regulation → For a Smart Multilevel Governance System**.
- ★ The **State-building Task of the EU**.



Thank You Very Much for Your Kind Attention!

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