A Commentary on the Article 'Welfare against Growth Gains in Post-Transition Countries: What are the Consequences for Stability?'

This is a very original and interesting article about the sources of rapid growth before 2008 and the causes of post 2008 recession in the post-transition countries. Emphasis is also given on the increased instability of those economies for both periods. The conventional story (e.g. EBRD, 2010) mainly refers to exogenous factors; namely, the 'rapid integration' of those countries 'into the world economy, through international trade, financial flows and the migration of the labour force (… remittances)' (p. 2). The author explores another causal pathway based on the post-Keynesian literature about the drawbacks of the finance-led capitalism. She shows that, even in the case of post-transition countries, there also endogenous causes in process: the changes in the labour market (deregulation, high unemployment, rise of wages far below the rise of labour productivity) in combination with the diffusion of Western consumerism and the availability of credit enabled by foreign financing 'resulted in rapid growth of households indebtedness' (p.2).

The author shows the case for the post-Keynesian scenario (easy credit -> consumption + residential investment -> unsustainable growth) through a mass of comparative data (15 tables). The most impressive is Table 10, which compares the ratios of households' debts to the disposable income in EU-17 and in a series of post-transition countries. It follows that the ratio of household's indebtedness in post-transition countries 'was finally not higher than in the countries of euro era, but it had increased drastically (4 to 20 times)' (p. 10).

I think, however, that the argument needs to be strengthened in the following points:

1. The evidence about the growth of inequalities (Table 7, p. 8) seems to be inconclusive. Author's data show rather the opposite: the Gini coefficient for new EU member states has fallen from 37.4 to 30.3 between 2004 and 2010.

2. The relative excess of profits (or the relative small part of wages) in the value added could characterize a primitive accumulation growth regime led by FDI and exports. Two questions are raising here: Was profit-based

consumption unimportant? Was domestic consumption more important than exports as a source of growth?

3. The author claims that households' borrowing 'made consumption growth in some CEE volatile' (p. 11). Which is the rationale supporting this claim? One could expect the opposite, that easy credit to households could smoothen the instability created by FDI inflows.

4. More generally, why not supposing that growth and instability follow a classical Keynesian pathway, like (FDI ->) I -> Y -> C? In fact, the growth rates of consumption (Table 11, p. 11) could be explained in a large part by the corresponding growth rates in GNP (and the euphoria created by them). On this question, an econometric test would be helpful. A simple idea would be to put consumption as dependent variable and GNP and household's borrowing as independent variables.