

Olga Radzyner Award winners 2016

Compiled by
Markus Eller

The Olga Radzyner Award is bestowed annually on young economists from Central, Eastern and Southeastern Europe (CESEE) for excellent scientific work on European economic integration. The Oesterreichische Nationalbank (OeNB) established this award in 2000 to commemorate the former head of its Foreign Research Division, Olga Radzyner, who pioneered the OeNB's CESEE-related research activities.

In 2016, the OeNB received 20 submissions for the Olga Radzyner Award from candidates from 12 countries. In comparison to previous years, these submissions focused particularly strongly on labor market questions (e.g. labor market effects of educational reforms, female employment, determinants of labor productivity, role of demographic factors in explaining unemployment, or the link between wage inequality and international trade). On top of that, the submitted papers covered a variety of topical issues ranging from real economic to financial sector questions, among others: real convergence in Europe and the middle-income trap, reasons for lengthy economic stagnation or sluggish recovery after banking crises, macroeconomic stabilization effects of monetary and fiscal policies, impact of FDI on productivity growth, financial stability risks, drivers of euroization in South-eastern Europe or capital market developments in CESEE.

From these submissions, the jury of OeNB reviewers chose three papers for distinction with the Olga Radzyner Award because of their outstanding originality, quality and state-of-the-art analytical methods. The awards were conferred by OeNB Governor Ewald Nowotny on November 28, 2016, on the occasion of the 21st Global Economy Lecture at the OeNB. The winners are (in alphabetical order):

Ernests Bordāns (from Latvia) and *Madis Teinmaa* (from Estonia) – for their paper “Baltic tigers facing the middle-income trap?”. *Bordāns* and *Teinmaa* are financial analysts at an investment fund in Riga and the award-winning paper is based on their joint BA thesis written at the Stockholm School of Economics in Riga. Although its title suggests that it only focuses on the Baltic countries, the paper is characterized by an impressive effort to, first, provide an assessment whether a given country (out of 152) was trapped in middle income in a specific year (1960–2014) and, second, to study which impact a variety of (more than 100) macroeconomic, financial and institutional variables have on the probability of a country being trapped in middle income, using multivariate panel logit models. The results show that qualitative public institutions, business-friendly regulation, a lower degree of income inequality, a stable macroeconomic environment, prudent fiscal policy, a higher share of tertiary education or higher technological and innovation advancement decrease a country's probability of facing a middle-income trap (MIT). Moreover, historical predictions show that MIT probabilities did significantly increase in several euro area periphery countries well before the trap actually occurred. This paper is of strong relevance for the award, as being captured in an MIT would hamper economic convergence among European countries, thus threatening further European economic integration.

Edvard Orlić (from Croatia) – for his paper “Cross-sectoral FDI spillovers and their impact on manufacturing productivity.” Orlić is a lecturer at Bournemouth University and the awarded paper is part of his PhD thesis written at Staffordshire University. The paper examines the role of FDI in affecting a country's long-run productivity growth rate through intra- and inter-industry spillovers. For this purpose, firm-level data and annual input-output tables for five CESEE countries for the period 2002–2010 were investigated. On the one hand, the estimation results from a dynamic panel model point to negative intra-industry FDI spillovers: An increasing

share of foreign firms in the same manufacturing industry apparently has a negative impact on productivity, probably reflecting incentives for foreign firms to prevent the leakage of embodied knowledge and technologies to their direct domestic competitors. On the other hand, there is evidence for considerably positive inter-industry FDI spillovers: Local manufacturing firms gain productivity if their service suppliers (especially knowledge-intensive service providers) or their manufacturing customers largely consist of foreign firms. Disentangling the impact of vertical linkages according to industry source adds substantial value to existing research.

Oana Peia (from Romania) – for her paper “Banking crisis, R&D investments and slow recoveries.” Peia is a PhD student at ESSEC Business School, Cergy, in France and the award-winning paper is part of her PhD thesis. This paper proposes a new channel for medium- to long-run effects of banking crises on real economic growth, namely the disproportionate discouragement of investments in innovative, growth-enhancing technologies. The theoretical part of the paper integrates a bank-run model into an endogenous growth model. Assuming that creditors are sufficiently pessimistic about the liquidity needs of the real sector following a systemic banking crisis, this model setup predicts that credit supply constraints are tightened, prompting firms to shift their investments to short-term, low-productivity ones. These theoretical predictions were tested with industry-level data for 13 OECD countries by applying difference-in-difference estimations for both panel and cross-sectional data. The respective estimation results show a strong support for a differential impact of banking crises on investments in innovation, as industries more dependent on external finance and located in more strongly bank-based economies invest disproportionately less in R&D following episodes of bank distress. A direct policy implication of these results is the necessity to support R&D spending after banking crises, e.g. by alleviating financial constraints for firms investing in innovation.