

The Baltics in World Statistics

**George J. Viksnins
Georgetown University**

It is often said that economists can determine a price for everything, but cannot judge the value of anything. Indeed, the market economy uses money as the only indicator of value--there is a charming American saying: "If you're so smart, why ain't ya rich?" In macroeconomic terms, the primary assessment of progress for any country is its Gross Domestic Product (or Gross Domestic Income) per capita, which has a geographic definition, or the closely related Gross National Product, which has a political scope. Single-minded identification of all progress with GNP growth rates led to the Japanese saying "Kutabare GNP" (roughly translated, "to hell with GNP").

The so-called World Bank Atlas methodology collects the market value of currently produced final goods and services in local currency, divides that number by mid-year population, and then by the three-year moving average exchange rate of the U.S. dollar and we get the year 2000 numbers for the Baltics: Estonia at \$3,614, Lithuania at \$2,725, and Latvia at \$2,586. Economists have known for many years that the Atlas method suffers from at least two major weaknesses. First, all relatively poor countries look a lot poorer than they really are due to the use of the U.S. dollar in this calculation. The dollar is the major reserve currency and also is a "vehicle currency"--it is used in many transactions (the Brits buying wood products in the Baltic), where the U.S. is not at all involved. Second, most consumer prices in relatively poor subsistence economies are considerably lower than in the highly specialized and interdependent countries of the Organization for Economic Cooperation and Development (OECD, which has recently expanded from G-20 to G-24 and now G-30). This tendency is illustrated sharply by some anecdotal comparisons--the price of a liter of milk in a Washington Safeway is about \$1.50, but it is 25 santimi or less in Riga (about 40 cents), and much less in rural areas. A local bus or street car in Riga is 20 santimi, but \$1.10 in Washington itself--going to work costs much more for people living in the suburbs; my friend at the World Bank spends \$2.85 each way from a Virginia development beyond the Beltway. The price of rice in China is about 20% of the U.S. level--fresh cabbages relatively even less. These facts were recognized more than 30 years ago in the mammoth "re-pricing project," sponsored by the UN and the World Bank, and headed by the late Prof. Irving Kravis of the University of Pennsylvania.

He suggested using "binary comparisons," which would not need to involve the U.S. dollar at all. If we wish to compare Latvia and Thailand, we should go to Bangkok with prices charged in lats and re-price all production in Latvian prices, to get one comparison. Then return to Riga, and express the GDP of Latvia in Thai bahts (about 70 baht=one lats). The average of these two per capita numbers would give a "true" comparison of economic output, though there would be practical problems in getting this done. Thailand produces very little milk and dairy products--the locals claim they smell bad. On the other hand, bananas, mangosteens, and rambutans are not grown in Latvia--not to speak of Durians, a very expensive large fruit that really stinks, but is considered a great delicacy in Southeast Asia. Still, if we have enough clever statistical consultants

willing to make heroic comparisons, these issues can be resolved, and a comparison can be made.

Of course, one of the 150-plus countries for such comparisons is the U.S.--and we can re-price every GNP in U.S. prices, called the PPP ("purchasing power parity") statistics. Around 25 years ago, a British economist named Paul David proposed the "rule of 4/9," having found that the Atlas data, on average, came out to be around 4/9 of the PPP numbers for poor countries. Thus, for the mathematically adept, we could multiply the "official" statistics by 2.25 to get a better assessment of the level of output. In recent years, the gap has grown, and we can replace the 4/9 rule with 1/4 for about the poorest 30-40 countries. In China, the multiplier for 2000 would have been 4.22, but in somewhat poorer India, 4.77. Turning to the Baltics, where the price differences are not as great, we get the following PPP numbers: Estonia, \$8,714; Lithuania, \$6,704; Latvia, \$6,627. The corrective multiplier in all three countries is about 2.5, meaning that prices in the Baltics are considerably lower than in the U.S. (and the comparison is even greater relative to the EU). It should be noted that official GNP numbers do not include a lot of non-market activity of an economic nature--hunting, fishing, mushrooms-and berry-picking, and all of the private gardening done by city dwellers. My cousin growing vegetables on the farm theoretically is counted, but my professor friends' backyard fruit-trees and spices plots are not. The bottom line however, is not very encouraging--even on the PPP adjusted basis, Estonia ranks 74th, Lithuania 83rd, and Latvia 89th, slightly above the world median rank.¹

The Human Development Index

It has long been recognized that the GNP/GDP measure is excessively concerned with production of final goods and services. When a hundred-years-old tree is exported or burned as fuel, GNP rises. If a pulp-and-paper plant dumps hydrochloric acid in a river, and a city's sewage plant must then clean it up, GNP spending rises doubly. About ten years ago, following the lead of Morris D. Morris of the Overseas Development Council, the developer of the Physical Quality of Life index (QLI), the United Nations Development Program (UNDP) began assembling data for the Human Development Index (HDI). The HDI combines GNP statistics on the PPP basis with life expectancy statistics and a couple of education measures (literacy and school attendance). To reflect the leftist, anti-capitalist biases of the UN staff, however, the contribution of higher levels of GNP to the HDI is capped at around \$6000. Thus, your human development would be the same in both Argentina and Switzerland, if the other three numbers would be identical. As can be seen in Table 1, the Baltics were all in the top 30 in terms of this index at the start of the transition decade. One might say that they were the "poster children" for advanced socialism, the western-most republics of the wealthy and powerful Soviet empire, Lithuania (curiously enough) ranked 28th, Estonia 29th, and Latvia (once again last) at 30th. As the empire imploded, the ranks for all three fell precipitously- for example, Latvia fell from No. 30 to No. 92 by 1994, where it remained for three long and painful years. Not only did GNP collapse- from \$7540 to \$3332 in 1994- so did life expectancy, from 71 to about 68, and caloric intake for the average person, which fell by about 1000 calories from its 1989 level. In the second half of the decade, however, all three countries experienced a strong recovery, despite the dislocations caused by the 1999 crisis in Russia.

According to the Human Development Report 2001 data,² Estonia and Lithuania rank 44th and 47th respectively, and are included in the “high human development” category. Latvia ranks 50th, with an HDI score of 0.791-- not very far below the “magic number” of 0.8. In passing, it is interesting to note that Trinidad and Tobago rank just above Latvia with a 0.798- since in the dim past history of both, Tobago was once briefly a colonial possession of the Duchy of Courland! We can expect pretty confidently that Latvia’s ranking will continue to advance, since the 1999 improvement moved Latvia up by 13 places (Estonia improved by two, but Lithuania by five). In both the year 200 and 2001, economic growth in Latvia was in the 6-7% range. It can be noted that a few changes have recently taken place at the very top of the HDI league standings- Norway this year ranks first, Australia second, but Canada only third, after occupying first for six years. Sierra Leone continues to be last among 162 ranked countries.

The Corruption Index

For most economists, the acronym CPI means the Consumer Price Index, but specialists in economic development have had to add another meaning to those three letters--the Corruption Perceptions Index, an annual measure compiled by a German group called “Transparency International,” in cooperation with Goettingen University.³ Latvia appeared in this list with a shockingly bad rating in 1998, when it had to share the 71st place with Pakistan (85 countries were covered). Estonia by way of contrast, ranked 26th, while Lithuania had not yet been included. At the head of the table, Denmark was in with a 10, Finland had a 9.6, and Sweden 9.5. The index for Latvia was 2.7. By 2001, the situation had improved, but only slightly- Latvia was now tied with Ghana, with a CPI of 3.4. Lithuania was in the 38th spot with a 4.8, and Estonia in the 28th, with a 5.6. It is of course, possible that Latvian survey results are more brutally honest than those in our two neighbors, but the reality is not likely to be very different, since the “blat” system for getting things done existed there as well. A Latvian NGO called “Delna” (“palm of an open hand”) has been in operation for several years, but has been gaining public support for its work rather slowly.

Country Risk and Economic Freedom

There are a number of international databases in which the Baltics fare a good deal better, to end on a positive note. The assessment of country risk is a profitable business, with many specialized services charging thousands, but it is possible to assess this quite cheaply. There are several services, which issue sovereign bond ratings -- Standard & Poor’s and Moody’s are the best known and their ratings of Baltic government bonds have been quite favorable. A more detailed database is available from the publication *Euromoney*,⁴ which covers some 185 countries. Luxembourg ranks first, Switzerland second, and Norway third. The maximum score for this index is 100, and Luxembourg came in with 99.75, while Estonia ranked best among the Baltics with 63.75 (earning 44th place). Latvia is 61st and Lithuania 69th. All three countries have more than doubled their scores since 1992. Estonia has improved from 23 to 63, Latvia from 22 to 54, but Lithuania from 21 to 53.

There exist two well-known databases, which attempt to assess economic freedom. The oldest⁵ of these, associated with Professor James Gwartney at Florida State

University, ranks Estonia 36th in the world for 1999, up strongly from 68th in 1995. Lithuania has improved from #77 to #62 over this same time period, but Latvia has leapfrogged our southern brothers, gaining spot #46. The other index of economic freedom is maintained by the Heritage Foundation and the *Wall Street Journal*.⁶ A year ago, Estonia ranked 14th (up from 28th in 1996), Lithuania 42nd, and Latvia 46th. The 2002 yearbook ranks Estonia a surprising 4th in the world- a ranking it shares with four other countries, including the US. The rankings for the other two have also risen, but less dramatically. Lithuania has improved from 42 to 29, but Latvia from 46 to 38.

Along similar lines, a group of social scientists at the World Bank have assembled judgmental statistics on governance indicators.⁷ While considerations of brevity preclude a detailed discussion, the six governance indicators are: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. They have compiled statistics on these for some 175 countries, some of which are shown in Table 2. It is interesting to note that many such international assessments rate the Scandinavian countries considerably higher than the U.S. (Might one detect a bit of anti-Americanism?) For example, Finland gets a 1.61 for political stability, whereas the U.S. scores only a 1.18 B why? In any case, the Baltic countries score a lot lower than the U.S. and Finland, but a lot better than Russia or Zimbabwe, which have negative scores on all six indicators. The only negative score for the Baltics is a minus 0.03 for Latvia in the area of corruption, but generally Estonia scores the best in all six categories.

Recent Developments

Under the auspices of the World Economic Forum,⁸ academics at Yale and Columbia have recently developed an Environmental Sustainability Index (ESI) which combines some 20 “indicators,” based on 68 (!) data sets, which tracks relative success for each country in five core components: environmental systems, reducing stresses, reducing human vulnerability, social and institutional capacity, and global stewardship (whatever that may mean). In 2002, the highest ranking countries in the world (out of a total of 142) were our Scandinavian neighbors: Finland (73.7), Norway (72.8), and Sweden (72.2), while the United States ranked 51st, with a score of 52.8. In 2001, Lithuania ranked 23rd, Estonia 27th, and Latvia 32nd on the basis of this measure. However, I guess that our researchers at one of the universities mentioned have learned about Ignalina, and the 2002 rankings have Latvia in the tenth place with a score of 62.8, Estonia is 19th with a 59.8, and Lithuania brings up the rear at #28, with a 56.9. The remarkably low score for the US suggests that some of the underlying data reflect “political correctness” perhaps more than objective measurements.

A recent World Bank report⁹ on the transition decade points out the tremendous decline in output, as officially measured, as a result of the disintegration of the USSR and the Comecon trading system. The report covers 24 countries, ranging from Albania to Uzbekistan. A comparison of year 2000 GDP with the level in 1990 set equal to 100 is calculated. In only five countries is the level today above that of 1990. Those are Romania (144), Poland (112), Albania (110), and Hungary 109.

Estonia is estimated at 85, Lithuania at 67, and Latvia at 61. At the very bottom, Georgia is at 29, Moldova at 35, and Ukraine at 43. It is, of course, true that production numbers in 1990 included quite a few things of “negative value added,” which meant that the inputs could have been sold for more than the finished product was worth. Another aspect of the transition has been a rise in Gini coefficients B from 0.28 in the CIS counties in 1987-90 to 0.46 in 1996-98. In the ten countries classified as Central and East European states plus the Baltics, the rise in Gini has been from 0.23 to 0.33. In Estonia the rise in Gini has been from 0.24 to 0.37, in Latvia from the same 0.24 to 0.32, but in Lithuania from 0.23 to 0.34. It is likely that the earlier period would have shown higher Ginis, if special stores and the use of blat were included in the surveys, but there has been a sharp rise in the share of the very richest in all countries, and a rise in official poverty statistics. Let us hope that the next decade will be better.

To end on a lighter note, since 1986 *The Economist*¹⁰ has been collecting comparative statistics on the costs of its famous “Big Mac” hamburgers in some 120 countries, and using the resulting index to evaluate purchasing power parity. The April 27, 2002, issue reports the exchange rate deviations, with the greatest deal on a Big Mac being Argentina, where the peso is undervalued by nearly 70%. The lowest price of a Big Mac is in Latvia, where it costs LVL 1.04, which translates to \$1.66, an undervaluation of more than 30%. The dollar price in Vilnius is slightly higher, at \$1.75, but in Estonia a Big Mac is now EEK39, up from EEK27 last year – the present price corresponds to \$2.31, not very different from \$2.47 in the U.S.

Table 1 -- Macro Indicators, Baltic States**Estonia**

Year	Life Expectancy	GDP (US \$)	HDI	Rank
1991	71.2	\$8,090	0.867	29
1992	69.3	\$6,690	0.862	43
1993	69.2	\$3,610	0.749	68
1994	69.2	\$4,294	0.776	71
1995	69.2	\$4,062	0.758	77
1996	70.0	\$4,431	0.762	65
1997	68.7	\$5,240	0.773	54
1998	69.0	\$7,682	0.801	46
1999	70.3	\$8,355	0.818	44

Latvia

Year	Life Expectancy	GDP (US \$)	HDI	Rank
1991	71.0	\$7,540	0.865	30
1992	69.1	\$6,060	0.820	48
1993	69.0	\$5,010	0.711	55
1994	67.9	\$3,332	0.707	92
1995	68.0	\$3,583	0.727	92
1996	69.3	\$3,464	0.744	92
1997	68.4	\$3,940	0.744	74
1998	68.7	\$5,728	0.771	63
1999	70.1	\$6,264	0.791	50

Lithuania

Year	Life Expectancy	GDP (US \$)	HDI	Rank
1991	72.6	\$5,410	0.868	28
1992	70.4	\$3,700	0.769	71
1993	70.3	\$3,110	0.719	81
1994	70.1	\$4,011	0.762	76
1995	70.2	\$3,843	0.750	79
1996	70.6	\$4,004	0.755	70
1997	69.9	\$4,220	0.761	62
1998	70.2	\$6,436	0.789	52
1999	71.8	\$6,656	0.803	47

SOURCE: Human Development Report, various years.

Table 2 – World Bank Governance Indicators, Selected Countries, 2000-2001

Country	I	II	III	IV	V	VI
U.S.	1.24	1.18	1.58	1.19	1.58	1.45
Finland	1.69	1.61	1.67	1.42	1.83	2.25
Estonia	0.94	0.73	0.86	1.09	0.78	0.73
Latvia	0.81	0.50	0.22	0.30	0.36	-0.03
Lithuania	1.00	0.29	0.26	0.30	0.29	0.20
Russia	-.035	-0.41	-0.57	-1.40	-0.87	-1.01
Zimbabwe	-.090	-1.25	-1.03	-1.66	-0.94	-1.08

- I = Voice and accountability
II = Political stability
III = Government effectiveness
IV = Regulatory quality
V = Rule of law
VI = Control of corruption

Source:

Daniel Kaufmann, Aart Kraay, and Pablo Zoldo-Labatón, Governance Matters II: Updated Publications for 2000/2001, The World Bank, Jan. 2002.

6 Dimensions on 175 Countries.

¹ Further discussion of these ideas can be found in George J. Viksnins, Economic Systems in Historical Perspective, Kendall/Hunt, 1997, as well as in George J. Viksnins, “World Economic Growth and the Baltic States”, in Talavs Jundzis (ed.), The Baltic States at Historical Crossroads, Academy of Sciences of Latvia, 2001.

² “Making New Technologies Work for Human Development”, Human Development Report 2001, Oxford University Press for the UNDP, pp. 141-144.

³ See www.transparency.org.

⁴ Euromoney Publications, April 2002.

⁵ James Gwartney, Robert Lawson, and Walter Block, Economic Freedom of the World, 1975-1995, Fraser Institute, 1996. Updates at www.fraserinstitute.ca.

⁶ Gerald P. O’Driscoll, Jr., Kim R. Holmes & Mary Anastasia O’Grady, 2002 Index of Economic Freedom, Heritage Foundation and the Wall Street Journal, 2002.

⁷ Daniel Kaufman, Aart Kraay, and Pablo Zoldo-Labatón, Governance Matters II: Updated Indicators for 2000/2001, World Bank, Jan. 2002.

⁸ See www.ciesin.columbia.edu/indicators/ESI/.

⁹ World Bank, Transition—The First Ten Years: Analysis and Lessons for Easter Europe and the Former Soviet Union, The World Bank, 2002.

¹⁰ Economist, April 27, 2002, p. 76