

Speeding up economic catch-up in the BRIICS with better governance and more education

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Economic research has established that a large part of income disparities between poor and rich countries can be attributed to differences in governance and in the quantity and quality of human capital. In the latest long-run reference scenario published by the OECD, GDP per capita growth is relatively strong in the BRIICS in the coming decades, but living standards nevertheless remain less than half those of the United States in 2060, in part because of remaining gaps in governance and educational attainment. But the BRIICS can accelerate economic catch-up by improving these aspects of the economic environment, as demonstrated in an alternative scenario.

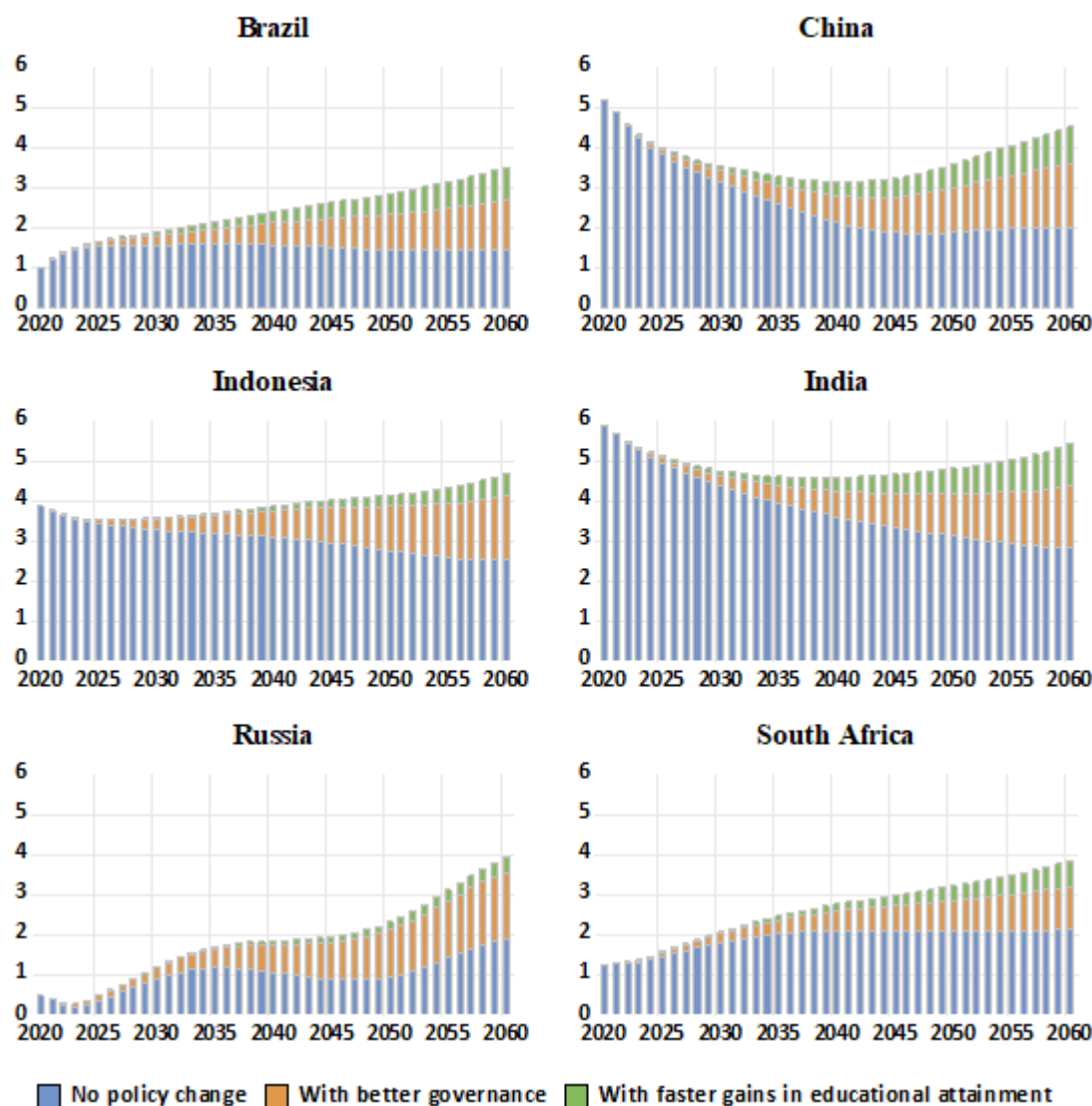
The quality of governance depends on a cluster of related institutions, including economic, political, legal and social aspects. In the model behind the long-run projections, institutional quality is proxied by a rule of law index, one of six governance indicators regularly updated by the World Bank. It is a perceptions-based index intended to capture "...the extent to which agents have confidence in and abide by the rule of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence". In the model, improved governance not only raises productivity in the long run, but it also boosts the speed at which the full long-run effects of reforms are attained, including in other domains, such as education.

Education not only embeds knowledge and skills in individuals, raising their productivity, but it also encourages participation in groups, opens doors to job opportunities, develops social interactions, makes individuals better aware of their rights, improves health, reduces poverty and facilitates the sharing and transmission of knowledge needed for developing new technologies.

The potential for reforms in these areas to improve long-run economic prospects in the BRIICS can be illustrated by comparing the reference scenario – featuring no change to governance and only a “most likely” evolution of educational attainment – with an alternative scenario in which governance is strengthened and bigger gains in educational attainment are made. The alternative scenario assumes that rule of law scores and mean years of schooling in the BRIICS catch up to the OECD medians over the 2020-to-2060 period.

Better governance and higher educational attainment raise an economy’s productivity, allowing living standards to rise. The gains build up slowly over time but by 2060, annual growth in living standards in the BRIICS is roughly 2 percentage points higher than in the reference scenario (see figure), and levels are between 30% and 50% higher. The positive *growth* impacts from the reforms would start tapering off gradually after 2060 while the *level* impacts would continue to accumulate, corresponding to the long lags involved in benefitting fully from structural reforms. In terms of relative importance, strengthening governance makes the largest contribution in this alternative scenario, with two thirds of the aggregate BRIICS effect. It is particularly important in Russia, while Brazil, China and India also have much to gain by improving educational attainment.

Projected annual growth in living standards (real GDP per capita) in the BRIICS, per cent



The results underscore the importance for the BRIICS of targeting education and governance as areas for improvement, and of taking a long-term view of their importance for growth and well-being. And while the BRIICS are used here for illustrative purposes, other countries could similarly benefit from faster gains in education and from governance reforms. Notably Argentina, Colombia, Mexico and Turkey score relatively low on governance.

Further reading:

Guillemette, Y. and D. Turner (2018), "The Long View: Scenarios for the World Economy to 2060", *OECD Economic Policy*

Papers, No. 22, OECD Publishing, Paris,
<https://doi.org/10.1787/b4f4e03e-en>.

Gönenc, R. (2017), "The middle income plateau: Trap or springboard?", *OECD Economics Department Working Papers*, No. 1446, OECD Publishing, Paris,
<https://doi.org/10.1787/9cba114b-en>.