Trends and Challenges of Cohesion and Convergence in the European Union

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Abstract. The purpose of the present study is to analyze the new challenges and trends regarding economic convergence in terms of nominal, real and institutional approaches. The study describes, in the first part, the importance of cohesion in achieving sustainable convergence, then the analysis focuses on the need for reformulation of nominal convergence criteria and the latest trends regarding real convergence. The main findings of the study is that the convergence process is a complex and difficult to be carried out, and the process of integration should be expanded in size and indented from the economic point of view.

Keywords: Economic Convergence, Cohesion, Community Acquis, Sustainable Economic Growth
JEL classification: E02, F15, O11

1 Introduction

The main contribution of this research consists of demonstration of the newest and most important trends in the economic convergence: nominal, real and institutional, as well as the necessity of rewording of all of the convergence criteria on the basis of current economic systems. First part of the survey is designed to analyze cohesion and importance of it in the process of making of economic convergence. The study will be continued with highlighting mutations occurring at the nominal convergence and capturing a series of contradiction between these criteria.

The study of real convergence began with the development of neoclassical economic growth models, mainly as if with the passage of the models to econometric modeling applications, as well as other advances models of economic growth. Real convergence problem has been the basis of process-orientated research integration matters, as well as to the attention of decision-making authority within the European Union, which oversees the process of EU integration. Since at present there are a wide variety of calculation methodology and a wide variety of approaches and research of real convergence, it is very important the highlighting of the newest trends and approaches on this type of convergence, especially from the point of view of the problem of achieving developed members. Considering the positive role that institutional system must perform in central and eastern European economies, this system has become the alignment requirements and the institutional structure of the European Union, very important criterion for admission and integration in the European Union and in the Economic and Monetary Union.

Major importance of institutional system results, in the process of preparing a member for accession and integration into EU, from the need to bring in accordance institutional system of the European Union with national institutional systems. As the problems of these institutions are often treated matchlessly, it is necessary to a detailed analysis of them and the identification of the main means by which institutional convergence can be carried out.

2 Cohesion - essential factor in achieving economic convergence in the European Union

The cohesion policy of the European Union began in the 1970s at the beginning of the first wave of expanding Community and, over the last few years it has diversified and developed by registering several stages of reform. In the vision of European Union, the role of cohesion policy is to remove differences in
economic growth areas of European Union, to develop economic activities in areas underdeveloped and to closer GDP per capita income of European Union areas. The cohesion policy proposes economic growth at regional level, the protection of the environment, modernization of the agriculture sector, transport and infrastructure, the consolidation of the sector SMEs, increasing urbanization, education, employment and professional training.

The cohesion policy is based on the principle of solidarity at the level of EU, the redistribution of certain parts from the Community budget by those social groups and less-developed regions, through the Cohesion Fund, Structural Funds and Solidarity Fund.

Convergence concept is based on some important mechanisms, as well as intra-industrial specialization of developing countries, in order to exploit national resources available at low-cost, on the degree of attractiveness of the new entrants members in the European Union for foreign direct investments, on the role of competition in promoting economic growth and restructuring, on implementing acquis communautaire for influencing the decreasing of lag time.

States that joined the EU in 2004 began to have access to the Structural Funds and the Cohesion Fund in 2004, and countries which joined the European Union in 2007 (Romania and Bulgaria), began to have access to these funds in 2007.

States that joined the EU in 2004 received a total of 8,500 billion euros in 2004-2006 from the Cohesion Fund, while for 2007-2013, the resources allocated to cohesion policy accounted for 336.1 billion, plus structural funds of 132.77 billion euros. Allocation of large funds for cohesion is conditional upon the persistence of disparities between regions and states, accentuated by waves of accession in 2004 and 2007.

All 12 participating countries in the last two waves of accession have obtained the status of countries of cohesion, as the GDP per capita income of them was less than 90% of the level recorded in environment UE27, and much of the regions of these countries could not become eligible for financing projects of the Structural Funds, whereas the GDP per capita income of them was below the 75 percent as compared to the average recorded in UE25.

Cohesion policy objectives for the period 2007-2013 were three. First objective, the convergence, for which it was allocated 283.27 billion euro, refers to areas with a GDP per capita income less than 75% of the average indicator at European Union level.

For the second objective, the global competitiveness and employment, have been assigned 54.96 billion euro, and for objective three, at European territorial Cooperation, 8.72 billion Euro. The program period 2014-2020 established the cohesion policy change by the guideline, in particular, toward innovation.

The most significant changes in the framework of the cohesion policy for the period 2014-2020: smart growth, sustainable and favorable to inclusion, supporting integrated programming, rewarding performance, results focusing, are caused by the European Commission's decision to put in concordance the priorities set by 2020 Strategy with the EU budget expenditure.

The budget for economic, social and territorial cohesion has been reduced in relation to the period 2007-2013, at 325,149 billion Euro, at the request of the United Kingdom to reduce total budget to 960 billion Euro. There are three types of conditionalities imposed by the European Union for Member States can receive funding.

Macroeconomic conditions, which relate to the consolidation of connection between a political governess and economic cohesion, in this way while guaranteeing the effectiveness of expenditure and support of these expenditure by economic policies implemented.

Ex-ante conditions ensure effective investments made in the framework of the cohesion policy by ensuring, at the national level, the optimal regulatory framework for implementing this policy.

Ex-post conditions are designed to ensure that the objectives of the 2020 Strategy, and failure
to meet these objectives can lead to termination, in some cases, to the funds for state in question. Another novelty brought by the 2014-2020 programming period is the establishment of partnership agreements between the European Commission and member states, whereby they will assume the commitment to reduce its range of investment priorities, in line with key objectives. Regarding the eligibility of the regions for the 2014-2020 programming period, is preserved center-periphery model, regions with a GDP / capita greater than or equal to 90% of the EU27 average being located in central Europe. Around them ranks regions with a GDP / capita between 75% and 90% of the EU27 average, and at the periphery there are regions with a GDP / capita below 75% of the EU27 average. 

In the case of member states who joined in the period 2004-2007 and 2013 it is to be noted that regions with a higher level of capital get out of the periphery category and were enclosed in the new period 2014-2020 in the category of transition regions (Romania, Poland), or in the more developed regions category ( Hungary, the Czech Republic). Since the economic crisis has canceled the convergence of GDP / capita in the European Union, the Programme 2014-2020 major challenge is to generate a return to strong economic growth.

3 Critical approaches regarding nominal convergence criteria

The exhaustive nature of the nominal convergence criteria is highlighted by recent developments in the macroeconomic situation of the countries of Central and Eastern Europe. EU Member States' capacity to meet the requirements of nominal convergence in terms of nominal indicators disparity in relation to real convergence is poor, and the recent turbulence occurred due to massive decorrelation between real and nominal economy.

In this regard, it was necessary to correlate the two types of convergence criteria and create an integrated system of indicators. From this point of view, were caught a number of contradictions between these criteria. On the one hand, interest rate reduction has as a consequence in increasing inflationary pressures, and on the other hand, strict control of inflation requires frequent increase in interest rates and an appreciating exchange rate, which can lead to the violation of nominal convergence criteria. Consistent with the macroeconomic and literature, have been reported a number of traits deficiencies of nominal convergence criteria. Convergence criterion linked to price stability has been established in terms of an average inflation rate reflected in the harmonized index of consumer prices which has provided it does not exceed by more than 1.5 percentage points of the average inflation rate in the most performing countries in this regard. This evolution should prove sustainability. The criterion is as precisely as possible, whereas established exactly the difference of 1.5 percentage points, but recognized is mobile, because it is firmly fastened in place of the best Member States from the point of view of price stability.

But, there is a problem because the most powerful member states from the point of view of price stability means those states which recorded the lowest rates of inflation, and not those that have a harmonized index of consumer prices as near as possible to the 2% (objective ECB) or of a different value. In this respect, a solution could be represented by the establishment and the imposing of a time as may be strictly for inflation rate. But in this case there is a risk that, in certain shorter periods of time, to appear inflationary impact and the time interval is no longer obtained. These interpretations and risks of the convergence criteria regarding inflation would be eliminated if referential would be calculated as a weighted average contribution in GDP in the euro area harmonized index of consumer prices in the Member States. In the present approach is necessary to take into account an indicator of real convergence, GDP, because robust economic growth can tolerate inflation accents. This can be done by using the speed of the movement of money to adjust the convergence criteria.
criteria. Another solution could be represented by determining reference in the form of a weighted average according to the gross domestic product afferent to Eurozone of all price indices in the Member States. This solution would lead to the diminishing of skew discovered at the level of prices in the Member States. Maintaining limit of 1.5 percentage points in the context of a deflationist process has adverse effects on economy stability at the macro level. Existence of an inflationary process is natural in the case of an accelerated economic growth without incurring avoidable adverse effects in the case in which the speed of movement of the money is maintained at a sustainable rate. Thus, it is appropriate the integration of an indicator which reflect interference with real economy, namely speed matching the movement of money to the inflation rate. From the point of view of the absolute dynamics, the range of variation can be increased, in the case where dynamic GDP is maintained at a pace conferred with a speed of movement. Regarding the nominal interest rate, this indicator should not exceed by more than 2 percentage points the capacity of the one of the best Member States with regard to price stability. A problematic aspect in this criterion is to use long-term government securities or other comparable securities, because there is not government bonds with maturity close to 10 years in all Member States. This involves a high degree of inaccuracy, as is comparing different securities, with different maturities. Another difficulty consists in limiting the interest rates related to long-term securities. This leads to the slaughter of certain opportunities to fruition short-term interest differentials and to a high opportunity cost. From this point of view, selecting reference as the average monthly interest rate on the interbank monetary market in the euro area would be more appropriate, and this should be compared to average interest rates on the interbank monetary market in acceding countries. As regards public finances, the Maastricht Treaty says the government's financial position is sustainable if it does not produce a deficit exceeding 3% of GDP. Similar criteria related to the budget deficit, the percentage of public debt to GDP must not exceed 60% of GDP. Exceeding these values for the two indicators mean losing some of their constant and substantially to a value close to that of reference. What can be distinguished from the wording of that nominal convergence criteria is ambiguity in the reduction of continuing and significant, permanent and substantial character and substantial reduction in an appropriate pace. In terms of this indicator it is necessary to perform a structural analysis of the level of public debt and budget deficit, since their existence does not automatically imply large macroeconomic imbalances. If the two indicators grow mainly against the background of reduced tax and accelerate government investments, even under the conditions exceeding the threshold of 60 % and, consequently, 3% of the GDP, this dynamic is achievable. At the same time, an important aspect is represented by analysis of the financing arrangements. Regarding public debt, the financial position of a country can be sustainable in terms of exceeding the limit of 60%, if there is sufficient reserve currency. In this context, it is necessary to determine an indicator to include the deducting foreign exchange reserves from the level of public debt because it generates a clear picture regarding the indebtedness of a country. In terms of exchange rate stability, it must be maintained in the range of fluctuation margins of the exchange rate mechanism ERM over a period of at least two years, without severe tensions and without recourse the depreciation of national currency against the euro on its own initiative. Exchange rate stability is correlated with other financial indicators, it is a consequence of a stability of the prices and strong public financial indicators. On the other hand, the trend of excessive stabilization of the exchange rate has a consequence of the steady removal economy.
Among adjustments of this criterion we may include coexistence variability in the short term of the quotations with the downward trend of appreciation in real terms and emphasize agility course, in the context of maintaining the float scheme administered. Managed floating exchange rate regime is about understanding inflation as a nominal anchor. Through this system it is ensure the increased efficacy of monetary policy in controlling inflation. In terms of real convergence indicators, it is necessary to be adjusted those coefficients to reflect the impact of polarization, asymmetry, positive and negative externalities of economic growth process in member countries, with significant effects on global convergence. Although at European Union level has been found some disparities between the process of nominal convergence and real convergence, there are still some offsets from the point of view of real size. These offsets can be explained through the connection with existing contradiction between Maastricht criteria, as well as from the point of view of the effects exerted by them in macroeconomic plan. Enforce nominal convergence criteria may affect the convergence of the Member states whose level of investment is low.

4 Recent trends regarding real convergence

The interpretation of convergence from the positions of neoclassical theory has a number of drawbacks and limitations. These limits of convergence leading to the need to appeal to a new approach, based on indicators and patterns that express the real processes, according to which economic growth was not only a result of independent forces that act outside the system, but a result of the economic system itself. The new theory bring in front types of models that enable analysis of the effects in the form of externalities produced in the system by some important production factors, and models for determining the real causes and mechanisms of long-term disparities, correlating the growth rates of productivity and per capita income with different economic, political and social variables, that are sources of growth or halt for economic development.

New approaches on real convergence are based on improving and taking into account the effects of the intangible factors. In the new models of convergence, is taken into account as distinct factors, technological progress, human capital and institutional status and the effects produced by them in the framework of the economic system. These externalities spills out in the economy on the producers. The effects generated are much higher than the amount of their remuneration or than inputs required for producing them. In the new approaches regarding convergence, was enlarged the area of research and scientific investigation methods used.

First of all, there was emphasizing the contribution of technological progress and human capital with physical capital, to convergence. Secondly, there has been extensive application of econometric methods for testing the assumptions which form certain models, including the neoclassical models, enhanced.

In more realistic interpretation of the evolution trends of the economies to the state of convergence and the speed that this convergence is achieved, have been proposed and tested new tools of computing and econometric models, such as: Mankiw-Romer-Weil, Beta and indicators Sigma, stochastic model of convergence. Mankiw, Romer and Weil in 1992 and Islam, in 1995, using new types of models, showed that economies with low initial levels tend to grow faster than the initial high-income economies, after they introduced in model the saving rate and the population growth rate. Compared to them, Sala-i-Martin, Barro, Blanchard and Hall, in 1991, took into account, in addition, labor migration, capital mobility etc.

Reacting to these studies, it was developed an opposite literature that, through use of alternative econometric methods, said that transverse growth pattern is consistent with endogenous growth mechanisms, but inconsistent with convergence (Quah, 1996; Durlauf, 1995, 1996).
Among the most important ideas resulting from this area of research are those which relate to forming, fate and behavior of convergence groups. The first who analyze this type of process was Baumol in 1986, and later, the idea was taken up and developed by Bernard, Quah, Durlauf and Galor, in 1996. A recent trend related to convergence is that this process cannot be uniform for all regions and all countries, but a multipolar one. Galor (1996) shows that empirical research, among others, have focused attention on the validity of competing hypotheses, such as the convergence groups. According to this hypothesis, the income per capita of the countries that are similar in terms of their structural characteristics, converge in the long term, if their initial levels are also similar. This hypothesis can be associated with the conditional convergence.

Detailing the main issues of real convergence reveals, on the one hand, the complexity of the subject, and on the other hand, important steps taken by economic research to clarify many problems in this area. The last empirical research validation of certain hypotheses of convergence may prove that there is no situation for alignment of all states at a real convergence. What is confirmed by the economic and social reality is the dynamic group convergence. Under the present circumstances, factors that decide the dynamics of rich economies are human capital development and intensification of knowledge and application of skills in various fields.

Chance of countries like Romania to achieve real convergence with the European Union is linked, on the one hand, by the increasing stock of physical capital, and on the other hand, by stimulating the development of knowledge and human capital, and raising the contribution of these factors to achieve the higher rate of growth.

5 Ways of achieving and problems of institutional convergence in the European Union

Market economies rely on a wide variety of institutions. In this matter, the practice of countries is either to adopt institutions from other more developed countries, taken as a model, based on the best practical, or build experimental institutions according to local conditions. Although Romania has started to focus on EU integration by signing the Association Treaty, in institutional terms, this state has adopted a policy of gradual experimental changes. Since 1996, Romania took the adoption of European institutions, according to the communautaire acquis. The adoption of European institutions is made in two ways: by transposing and applying the acquis in Member States; by legal effects of the different sources of Community law produced nationally.

5.1 Legal effects of Community law

Legislation of the European Union shall be based on the following:

- primary legislation, constituted by the various treaties and other agreements at the same level, concluded between the Member States of the European Union;
- secondary legislation, which includes legislative acts adopted by the institutions of the European Union;
- the case law of the European Courts and the Court of First Instance.

Within the relations between Member States and the European Union is recognized and applied the principle of primacy of Community law and the doctrine of direct effect, according to which some EU legislative stipulations can be applied directly by the courts of the Member States, even in the absence of their transposition in national law.

Sources of Community law perform specific legal effect in Member States. Primary legislation and case law of the European Courts have the force of law in Member States, and for being applied there is a need of legislative measures.

The directives set the legislative objectives for Member States, these countries having the
freedom to choose to adopt and implement methods and form. EU decisions binding legal effect at individual level. Communications, opinions, recommendations and notifications made by the EU institutions do not create direct legal obligations, but rather indirect.

5.2 Transposition and implementation of the Community acquis in the Member States

The Community acquis covers three main areas: domestic market, foreign policy and common security, justice and foreign affairs. Of these areas, at the domestic market is considered the most important, when we refer to the degree of coverage and complexity of the activities, and also to legislative duties assigned to national institutions and to community institutions. Given the differences between the institutional structure of the former communist candidate countries to the European Union and the Member States of the European Union, and also their need for compatibilization, the Copenhagen European Council laid down the political, legal and economic criteria that must be met for a country to become EU member. With the beginning of accession negotiations, the Luxembourg Council in 1997 stated that, in addition of adopting the Community acquis, states that wish to enter into Eurozone need to do sustained efforts for its effective implementation.

Through effective implementation, the Member States are integrated in the functional mechanisms of the European Union and the Member States institutions realize a convergence with the European Union. Transposition of the acquis is the result of a legislative process rather complicated, especially in the case of a bicameral parliamentary system, when there are transparty group interests and when there is installed a high-level of corruption.

The biggest difficulties occur in phases of the implementation of the adopted laws, especially when it affects certain group or individual interests and when is needed funds for implementation, and also new changes or new institutional construction.

Incorporation of the Community acquis is done in pre-accession stage and, also, in post-adhesion stage and it refers to two main sets of actions: transposition of legislation and its effective implementation. The monitoring and the assessment of the transposition and application of the Community acquis and the institutional capacity of the countries shall be made using different instruments and means. In the pre-accession phase have been introduced various instruments for support and monitoring, such as: informal and formal channels of communication, technical assistance programs, national plans in adopting the acquis, the information gathered and analyzes making by the European Commission for the purpose of drawing up annual reports, Reports prepared for appointments in the rounds of negotiations for accession.

The transposition and the implementation of the Community acquis continue after the accession of the countries in the European Union. In the next phase, the post-adhesion, Member States are required to transpose and continue to apply the new changes and improvements of the acquis and the European Union must observe how this changes are implemented and enforced.

5 Conclusions

Although the issues outlined by the European Commission in the cohesion reports are essentially correct, achieving convergence on EU funds has limited effects and may not represent a long-term alternative. The impact of the convergence of European economic integration on the regional level is limited and the heterogeneous.

Inflows of foreign capital and common EU policies can no longer be viewed as sources of real convergence of Central and Eastern European states. Critical issues highlighted at the nominal convergence indicators imply a sharp correlation with real convergence indicators in order to achieve a mix of the two types of convergence. On the other hand, its highlighted the need for intervals of variation, strictly
imposed as a result of the Maastricht Treaty to be extended, in order to adapt them to current macroeconomic conditions, to avoid any slippage due to macroeconomic contradictory relationships that occur between the values set of nominal convergence indicators. Highlighting the main aspects of real convergence shows that, on the one hand, high complexity of the topic, and on the other hand, important steps done by the economic research to clarify a series of problems that characterize this area. Research also points out the scientific and practical interest for Romania related to the possibilities of obtaining convergence with EU countries. In terms of institutional convergence, must remember that transposition of the acquis is the result of a complex legislative process, especially in a bicameral parliamentary system.

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