ECONOMIC GOVERNANCE AS A TRIGGERING FACTOR FOR ECONOMIC CONVERGENCE ACROSS THE EUROPEAN UNION MEMBER STATES

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Abstract

The primary objective of the this paper is to investigate the process of convergence/divergence of the member states of the European Union taking into consideration the high degree of heterogeneity that characterizes these economies. On the one hand, there are the western economies with a high level of development and increased values associated with the GDP/capita variable, and on the other hand, we have the Central and Eastern economies which are emerging economies with markets that are characterized by a high level of volatility. Moreover from the 28 member states of the European Union, 19 countries currently use the euro as their national currency, Denmark and Great Britain benefit from the opt–out clause and the remaining seven countries are orientating their strategies towards achieving the euro zone membership. This paper focuses upon some contemporary aspects regarding the evolution of economic governance indicators as triggering factors for the process of convergence/divergence between the member states of the European Union. In recent years, achieving a sustainable degree of convergence has constituted one of the primary objectives of the national and the supra-national institutions in the economic governance area.

Keywords: *Economic and Monetary Union, economic governance indicators, sustainable convergence, economic disparities, macroeconomic policies*

JEL Classification: O12, O43

1. INTRODUCTION

Even though the process of convergence/divergence between the member states of the European Union is a subject of high interest nowadays taking into consideration the economic and political transformations that characterize this structure, the gaps between countries not only continue to exist but even to accentuate. The economic convergence may be considered one of the most important instruments used by the community policies and the total funds orientated towards reducing the disparities between the member states of the European Union are situated at a total value of 47% of the funds within the 2014-2020 perspectives. All these constitute important arguments in favour of the research area.

The process of convergence before the recent economic crisis was based upon a strong liberalization of trade, capital flows and capital markets. The complementary element of this liberalization triggered an intensification of the degree of openness; the final result of these actions may be quantified by an increase of the GDP/capita. The performances of the member states of the European Union during the recent financial crisis may constitute an alarm signal upon the need to reconsider the economic governance models. In order to identify the most efficient solutions there is a clear need for a strong interconnection between the national and supra-national institutions. The measures developed in order to reduce the values associated to the budget deficits and public debt proved to be inefficient in that context; moreover generating negative effects upon the GDP growth rates and the employment rates. Maintaining the fiscal policy within the optimum parameters represents one of the main objectives of the Growth and Stability Pact. Furthermore the European Commission (2000) argues in favour of a budgetary discipline: ``*Assuring a stable position in what concerns public finances is essential concerning the output growth but also the population growth rate. Low rates associated to the budget deficit and public debt allow maintaining some stable exchange rates and even more importantly constitute an important pillar for controlling inflation rates*``(European Commission Report 2000).The measures regarding financial consolidation developed by the national authorities of the member states required a cumulative effort from the European institutions. These efforts were materialized by a series of structural reforms aimed at improving the fiscal performances of the member states. An example in this concern is the EU Directive upon the budgetary framework of the member states that include a greater transparency in what concerns the government reports, the consistency of the budgetary discipline taking into consideration the Maastricht treaty criteria and also budgetary frameworks that includes the business cycles.

In what concerns the research question of this article it may be summarized such as: Are the EU member states with high levels associated to the GDP/capita register high values associated to the economic governance indicators?

The remainder of the paper is organized as follows: section 2 presents a short review of the most relevant studies in the field, section 3 presents some stylized facts concerning the evolution of the economic governance indicators across EU member states, section 4 presents some general conclusions and policy implications.

2. STATE OF THE ART - CONTRIBUTIONS TO THE AREA OF RESEARCH

A frequent question within the macroeconomic theories is the one referring to what triggers the interest of economists in the analysis of the process of convergence between economies? The answer to this question may be argued by a series of definitions developed in respect to this topic. One is developed by Barro and states that: "*The convergence property derives from the neoclassical models of economic growth. The economies that register less volatile levels in what concerns capital/worker tend to register high growth rates high return rates*".

The most relevant papers that investigated the aspects related to the process of convergence between economies were the ones developed by Barro (1991), Barro and Sala-I-Martin (1992) and Mankiw, Romer and Weil (1992) that added the human capital as an important factor in modelling economic convergence and growth. The models elaborated by these authors tested the existence of convergence between economies using as a starting point the interconnection between the dependent variable the level of GDP/capita and the initial GDP/capita, the technological progress, population growth, human and physical capital as explicative variables. Although the process of convergence benefit from a privileged approach within the recent years, there are a series of interpretations and empirical results in respect to this concept. Therefore, different classification may be used when referring to this process: a) Sigma and Beta convergence (Quah 1993 and Friedman 1992); Absolute vs. conditional convergence (Barro and Sala-I-Martin (1992), Islam (1995), Coulombe (2003); Global vs. regional convergence studied by Baumal (1986), Chatterji (1992), Dowrick (2001).

The national along with the supra—national institutions aim at achieving a sustainable degree of convergence across European Union member states in what concerns the economic governance framework . All the fiscal restrictions imposed by the authorities during the recent financial crisis deepened even more the recovery process. Paul Krugman (2010) considered that the European economic governance system during the recent financial crisis being based on unrealistic methods of diagnosis provided unsustainable solutions. During the French-German summit from 2012 were established the new pillars of the European economic governance that include: surveillance, discipline and budgetary rigour. The new economic governance model incorporates some important elements like: expanding the monitoring process in the area of macroeconomic imbalances and the improvement of the early warning mechanism for the excessive budget procedure; enhancing surveillance in the euro area and financial assistance programs; increasing responsibility in what concerns the budget development and a new fiscal pact. Moreover the primary objective of the European Union Cohesion policy concentrates upon reducing differences between the development levels of the member states.

Kaufmann, D. et al. identified in 2010 a set of indicators that allow the analysis of the governance process between countries. These indicators include: a. Voice and accountability; b. Political stability and the absence of Violence/ Terrorism ; c. Government effectiveness; d. Regulatory quality; e. Rule of law; f. Control of corruption (Kaufmann, D. et al, 2010).

3. STYLIZED FACTS

In order to evaluate whether the member states with the highest GDP/ capita have also the highest values associated to the economic governance indicators we will present an evolution of these main indicators. The sample of data consists of the 28 European Union member states and the used variable is GDP per capita (current US$). The data source is World Bank and the reference years are 2000 (as initial year) and 2012. In what concerns the economic governance indicators we used voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption. The data source is World Bank and the reference year is 2012. All indicators varies between -2,5 (weak) and 2,5 (strong) regarding the government performance.

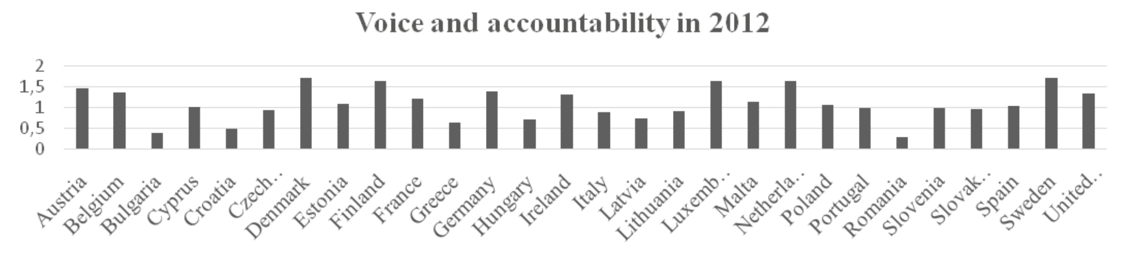
Table 1. Initial vs. current GDP growth rates

Country (EU28)	Indicator	2000	2012	GDP growth rate 2012/2000	Rank in 2012 according to the value of GDP/capita
Austria	GDP per capita (current US$)	24517,267	48348,232	1,972007369	6
Belgium	GDP per capita (current US$)	23151,936	44827,663	1,936238217	8
Bulgaria	GDP per capita (current US$)	1634,4247	7198,0456	4,404024141	28
Croatia	GDP per capita (current US$)	4919,6281	13234,622	2,690167138	24
Cyprus	GDP per capita (current US$)	13421,655	26352,271	1,963414378	14
Czech Republic	GDP per capita (current US$)	5994,5283	19670,403	3,281392915	19
Denmark	GDP per capita (current US$)	30743,559	57636,125	1,874738217	2
Finland	GDP per capita (current US$)	24253,25	47243,738	1,947934272	7
France	GDP per capita (current US$)	22466,173	40908,271	1,82088289	11
Germany	GDP per capita (current US$)	23685,351	43931,692	1,854804355	9
Greece	GDP per capita (current US$)	11960,673	22494,413	1,880697943	15
Hungary	GDP per capita (current US$)	4613,7058	12784,296	2,770938618	26
Ireland	GDP per capita (current US$)	26100,665	48391,326	1,854026509	5
Italy	GDP per capita (current US$)	20059,214	35132,192	1,751424134	12
Latvia	GDP per capita (current US$)	3308,5124	13946,966	4,215479464	23
Lithuania	GDP per capita (current US$)	3267,3474	14172,281	4,337549488	22
Luxembourg	GDP per capita (current US$)	48826,546	106022,8	2,171417154	1
Malta	GDP per capita (current US$)	10377,037	21129,983	2,036224996	17
Netherlands	GDP per capita (current US$)	25958,153	49128,087	1,892587933	4
Poland	GDP per capita (current US$)	4488,0863	12876,463	2,869031973	25
Portugal	GDP per capita (current US$)	11502,397	20732,614	1,802460321	18
Romania	GDP per capita (current US$)	1662,2175	8437,4338	5,076010603	27
Slovak Republic	GDP per capita (current US$)	5402,0375	17151,24	3,17495762	20
Slovenia	GDP per capita (current US$)	10227,33	22488,444	2,198857837	16
Spain	GDP per capita (current US$)	14787,756	28992,642	1,96058428	13
Sweden	GDP per capita (current US$)	29283,005	57134,077	1,951100202	3
United Kingdom	GDP per capita (current US$)	26296,448	41053,745	1,561189733	10
Estonia	GDP per capita (current US$)	4069,8802	17102,249	4,202150587	21
EU 28 (AVERAGE)	GDP per capita (current US$)	15606,39	32090,08	2,056214954	

Source: Author calculation based on Worldbankdata.org

Analyzing the evolution of the GDP/capita in 2000 and 2012 but also the growth rates of this indicator we may conclude the fact that the countries with the highest values are Luxemburg, Denmark, Sweden and Netherland at the opposite pole being situated Poland, Hungary, Romania and Bulgaria. We may notice the fact that taking into consideration this indicator the old member states of the European Union form a homogenous group and converge one another in terms of GDP/capita while the new member states of the European Union diverge from the EU average in terms of GDP/capita. Moreover this group of states diverge from the EU average considering the GDP/capita. Furthermore we are interested to analyze whether the countries that register high values of the GDP/capita register also high rates of associated to the economic governance indicators? May the quality of institutions be considered a triggering factor for convergence or not?

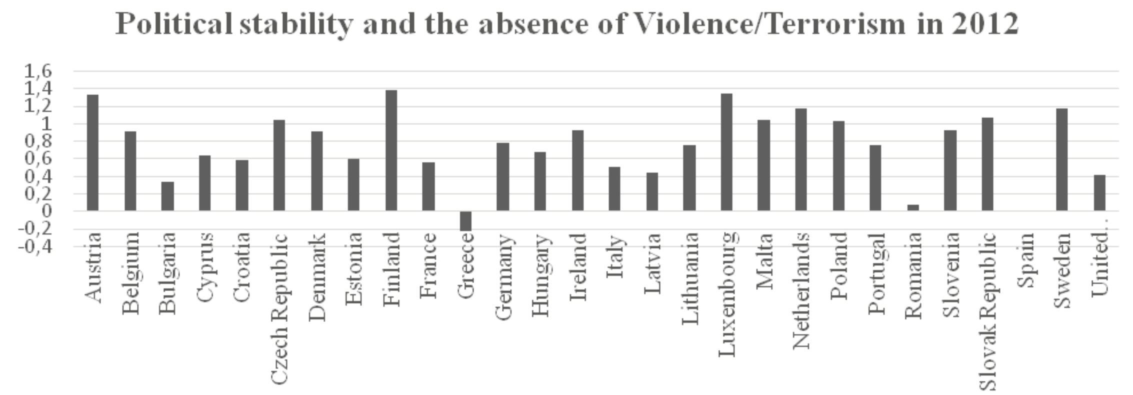
Table 2. Evolution of the voice and accountability indicator in 2012 across European Union (28) member states



Source: Author interpretation based on World Bank data.

Analyzing the evolution of the voice and accountability indicator in 2012 we may conclude that countries like Denmark, Luxembourg or Netherlands register high values while at the opposite pole are situated countries like Bulgaria or Romania.

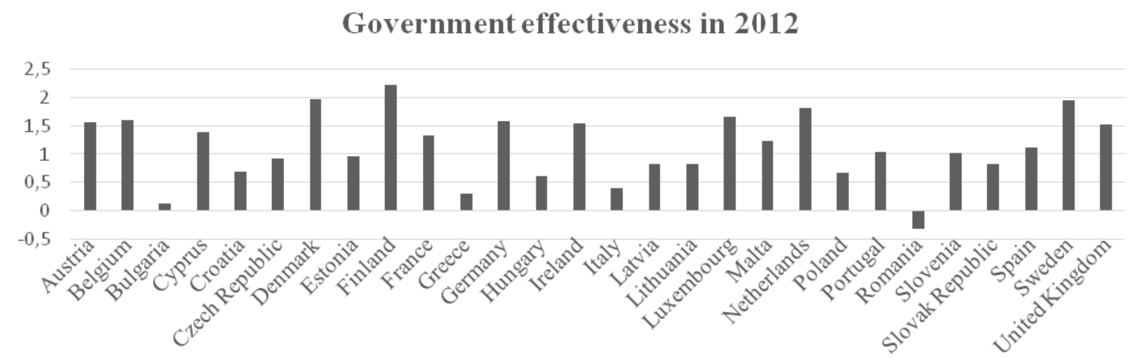
Table 3. Evolution of the political stability and the absence of violence/terrorism indicator in 2012 across European Union (28) member states



Source: Author interpretation based on World Bank data.

In what concerns the political stability this indicator is an important aspect taken into consideration in countries like Austria, Luxembourg or Finland, Greece being the only country in 2012 that registered a negative value for this indicator.

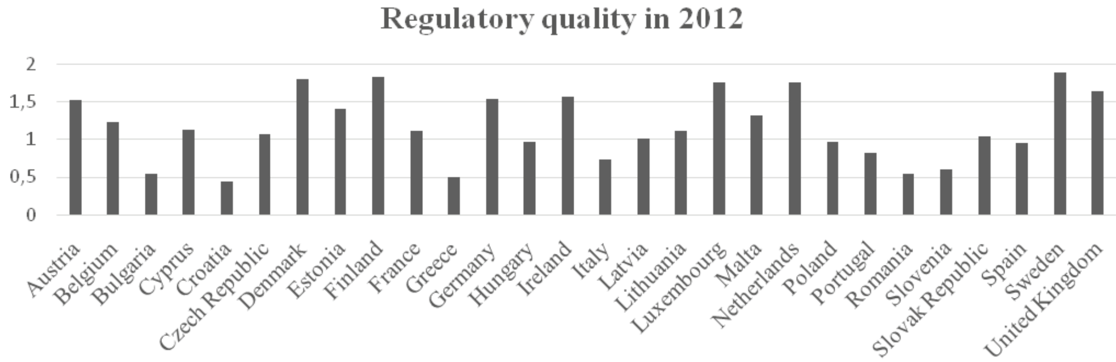
Table 4. Evolution of the government effectiveness indicator in 2012 across European Union (28) member states



Source: Author interpretation based on World Bank data.

The government effectiveness constitute one important objective taken into consideration by the national authorities from Denmark, Netherlands or Finland and at the same time Romania was the only country in 2012 that registered a negative value for this indicator.

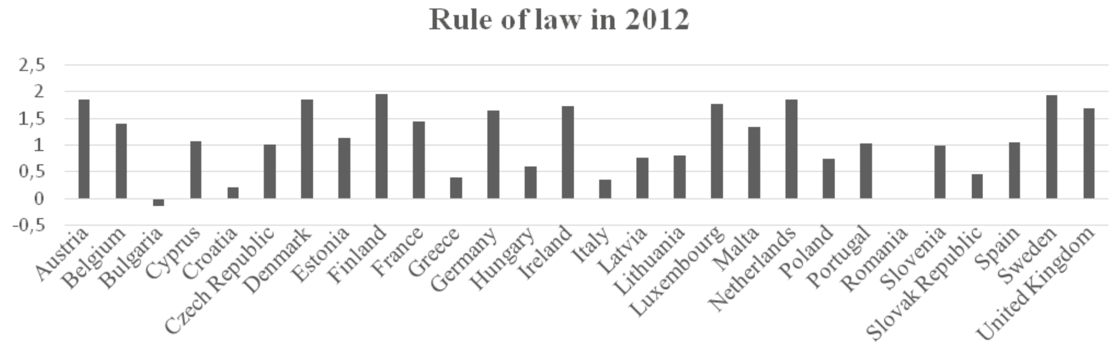
Table 5. Evolution of the Regulatory quality in 2012 across European Union (28) member states



Source: Author interpretation based on World Bank data.

The countries with the highest values associated to the regulatory quality indicator are Denmark, Netherlands or Slovenia, this aspect being one important component of the national strategies for assuring a stable political environment.

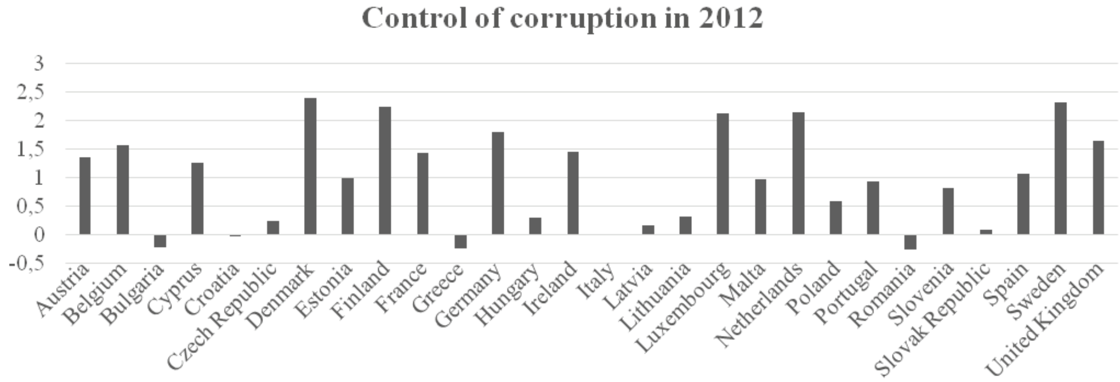
Table 6. Evolution of the rule of law in 2012 across European Union (28) member states



Source: Author interpretation based on World Bank data.

The rule of law, component of the political criteria a state should fulfil before becoming a European Union member, constitute a basic strategy in countries like Sweden, Finland or Netherlands, Bulgaria being in this case the only country with negative values.

Table 7. Evolution of the control of corruption indicator in 2012 across European Union (28) member states



Source: Author interpretation based on World Bank data.

Regarding the control of corruption indicator, countries like Denmark, Finland or Ireland may be considered reference countries in what concerns the measures developed by the national authorities in order to align to the general standards imposed by the European Union for assuring a stable political framework.

4. CONCLUSIONS AND FUTURE PERSPECTIVES

The recent financial-economic crisis determined a series of challenges for the decision makers across EU member states. The fiscal regulations, the separation of the monetary authority by the fiscal one constituted important topics addressed during the international forums on economic topics but not only. Highlighting the importance of assuring economic stability during the crisis imposed to the European authorities some clear boundaries regarding the macroeconomic stability and the distributive policies. A frequent question in the context of the current architecture of European Union is related to the need to develop a political union that would support the existing monetary union. Despite all that, from a fiscal perspective this union implies besides a central budget, the mutual participation of the states in the management of the activities required at this level. In the absence of a political union, the member states rely on specific stabilizers that would automatically harmonize their interests. The analysis of the economic governance indicators from the previous section revealed the fact the quality of governance proves to be an important aspect for countries like Denmark, Sweden or Netherlands counties that register at the same time the highest values associated to the GDP/capita. On the other hand the countries from the ex-communist block tends to register lower or in some cases negative values for these indicators. Romania and Bulgaria, the countries with the lowest values of GDP/capita in 2012, are confronting with massive shortcoming in what concerns the government effectiveness corroborated with the control of corruption, aspects that influence in a negative way the quality of the economic governance process. From this point of view, we may conclude the fact that the countries with a highest value of GDP/capita register also highest value in what concerns the economic governance indicators and convergence one another forming a homogenous group while the countries with lowest values of the GDP/capita register in some cases negative values of the economic governance indicators diverging form the EU average.

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