Eurofound

EU convergence: Geographical dimension, impact of COVID-19 and the role of policy

Introduction

This study presents new empirical evidence on the state of convergence in the EU. It takes a multidimensional approach, looking at economic, social and institutional variables, to measure convergence at both national and regional levels in the EU between 2004 and 2019. The study also examines the impact of the COVID-19 pandemic and compares it with that of the 2008–2012 economic crisis. The study goes on to assess the potential role of the EU Recovery and Resilience Facility (RRF) in accelerating convergence in selected Member States. It concludes by exploring alternative options and instruments through which the EU could support upward convergence.

Policy context

Since the Treaty of Rome, economic convergence has figured as a key objective of the EU. The idea that EU economic integration leads to improvements in Member States' economic performance and – as a by-product – social performance, while closing gaps between countries, has always been seen as a promise of the EU. Historically, the political debate around integration and convergence in the EU has gathered momentum in the aftermath of a crisis. The oil shock in the 1970s was followed by the creation of the single market and, later, the economic and monetary union. The euro-zone crisis and the subsequent recession led to the strengthening of EU economic and financial governance and the adoption of the European Pillar of Social Rights. More recently, NextGenerationEU, an unprecedented package to support Member States, was agreed in response to the COVID-19 pandemic. Each of these major policy innovations has had the explicit or implicit objective to support economic, social and, more recently, institutional convergence.

Key findings

- Empirical evidence shows that, up to the outbreak of the pandemic, there had been significant progress towards closing economic, social and institutional gaps among the EU Member States. However, an examination of subperiods between 2004 and 2019 shows that convergence slowed down markedly during the economic crisis. While convergence regained momentum in the aftermath, weaknesses persist, especially in southern European (SE) countries.
- EU convergence is largely driven by central and eastern European (CEE) countries catching up faster with northern and western European (NWE) and SE countries than these latter clusters are advancing. The speed of convergence was particularly high before the economic crisis.
- The analysis of sigma-convergence, which measures the extent to which countries are close to or far apart from each other in respect of different indicators, shows that social indicators – notably the employment rate, the unemployment rate, and the rate of young people not in employment, education or training (NEET) – tend to follow the business cycle. Disparities tend to increase during recessions (and did so during the economic crisis) and reduce in times of economic growth.
- Economic indicators show mixed trends. Upward sigma-divergence was found for gross domestic product (GDP) per capita over the entire period under study.
- Government effectiveness, an indicator of institutional performance, exhibits a slight downward trend overall, especially in SE countries, but an upward trend in some CEE countries.

- Regional data for 2004–2019 confirmed upward convergence overall, but the speed of convergence at regional level is systematically lower than that at country level, across all dimensions. Similar to the country analysis, convergence in GDP per capita, the employment rate and quality of government are driven by CEE regions. Regions that were hit hardest by the economic crisis, especially in SE countries, have struggled to recover or even ended up worse off.
- Over time, an increasing percentage of regions have been moving towards the EU average on the indicators analysed. However, economic activity (as measured by GDP per capita and the employment rate) tends to be concentrated in capital regions. This phenomenon is particularly pronounced in CEE Member States.
- The outbreak of COVID-19 affected economic, social and institutional convergence by slowing down the process or reducing growth rates across all countries. Interestingly, for most variables, the changes associated with the pandemic are not a reversal of previous trends but rather an amplification of emerging, pre-pandemic trends. Importantly, the rapid and substantial policy response to the pandemic muted its impact on income and employment thereby attenuating its effects on convergence.
- The analysis of Member States' RRF plans shows that the RRF is contributing to the adoption of reforms and to investments that would have otherwise remained an aspiration, especially in those countries that entered the pandemic with structural vulnerabilities. However, convergence is not an objective of the RRF, and it remains a potential by-product of Member States' plans, dependent on the discretion of national governments to address the reduction of territorial disparities.

Policy pointers

- To deliver on a key promise of the EU project, the goal of upward convergence should remain at the very centre of EU policy action.
- Upward convergence is not necessarily an outcome of EU integration, and policies play an important role in achieving upward convergence. EU cohesion policy is currently the key EU instrument for convergence.
- The increased frequency of large shocks and the deep economic and social changes that will be driven by the twin transition to a digital and carbon-neutral Europe may require EU policy tools to be adapted to ensure they support convergence, at regional and country levels, in a meaningful way.
- The findings of the analysis of the RRF implementation plans and the RRF's potential impact on upward social convergence should serve as a basis for the broader and forward-looking debate about the policy instruments that the EU should put in place to foster upward convergence.
- The study identifies three potential models that could be used by the EU to support convergence. The first model is centred on strengthening traditional cohesion policies and enhancing the territorialised place-based approach. The second model is a centralised reform–investment model that leaves it to the discretion of Member States to identify territorial needs but increases national reform conditionality to strengthen countries' structural resilience. The third model takes an integrated approach that values the principle of territorial partnership on which traditional cohesion policies are based and the structural reforms and investments embedded in the RRF.
- The pros and cons of each model should be considered in the debate about the future of EU cohesion policy and the most appropriate way to support upward convergence.

Further information

The report *EU convergence: Geographical dimension, impact of COVID-19 and the role of policy* is available at https://eurofound.link/ef22016

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