

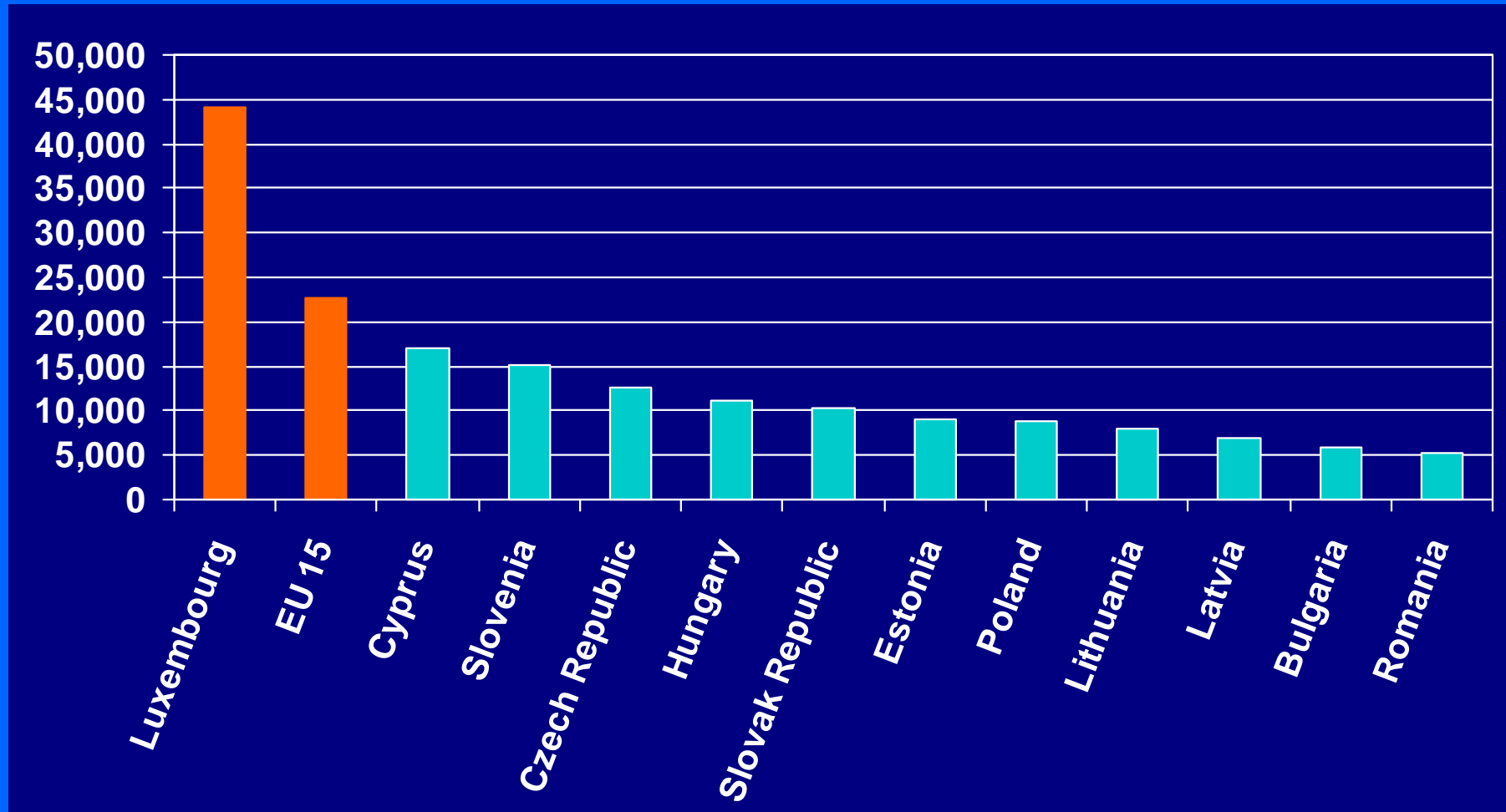
LIKELY IMPACT OF PARTICIPATION IN EMU ON REAL CONVERGENCE

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GPD PER HEAD: NEW MEMBERS (2000, PPS)



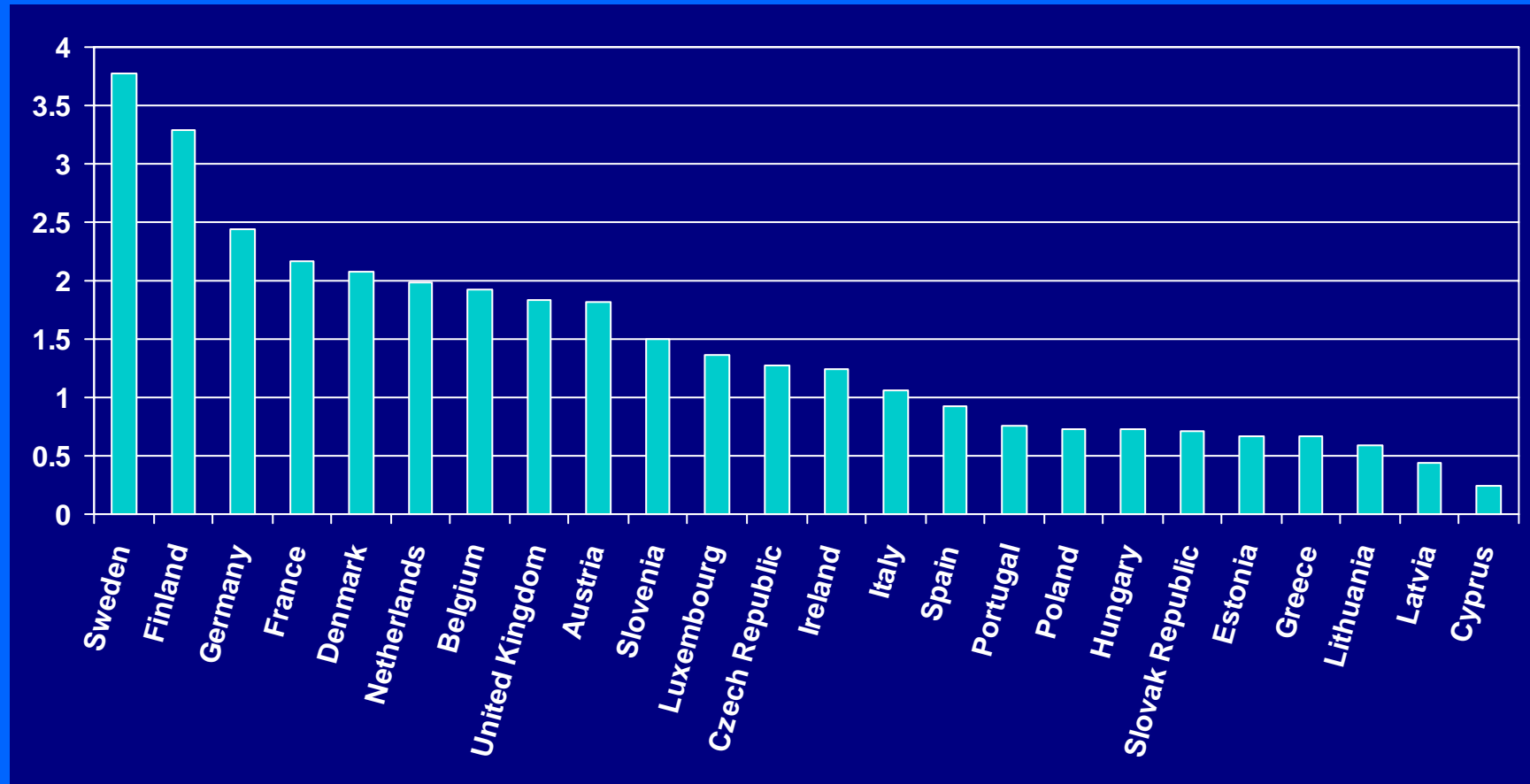
‘historical experience suggests, however,
that in the absence of countervailing
policies, the overall impact [of monetary
union] on peripheral regions could be
negative.’

*Report of the Study Group on Economic and
Monetary Union, (the Delors Report), 1989*

REGIONAL DISPARITIES

- Big range in GDP per head
 - Between countries *and* within some of them
 - Country convergence in last decade
 - ...but divergence of least competitive regions
- Evidence of big range in unemployment
- Aggravated by supply-side indicators
 - Innovation; infrastructure etc.

GROSS SPENDING ON R&D (% of GDP, average 1998-2000)



FORMS OF CONVERGENCE

Impacts during transition to €

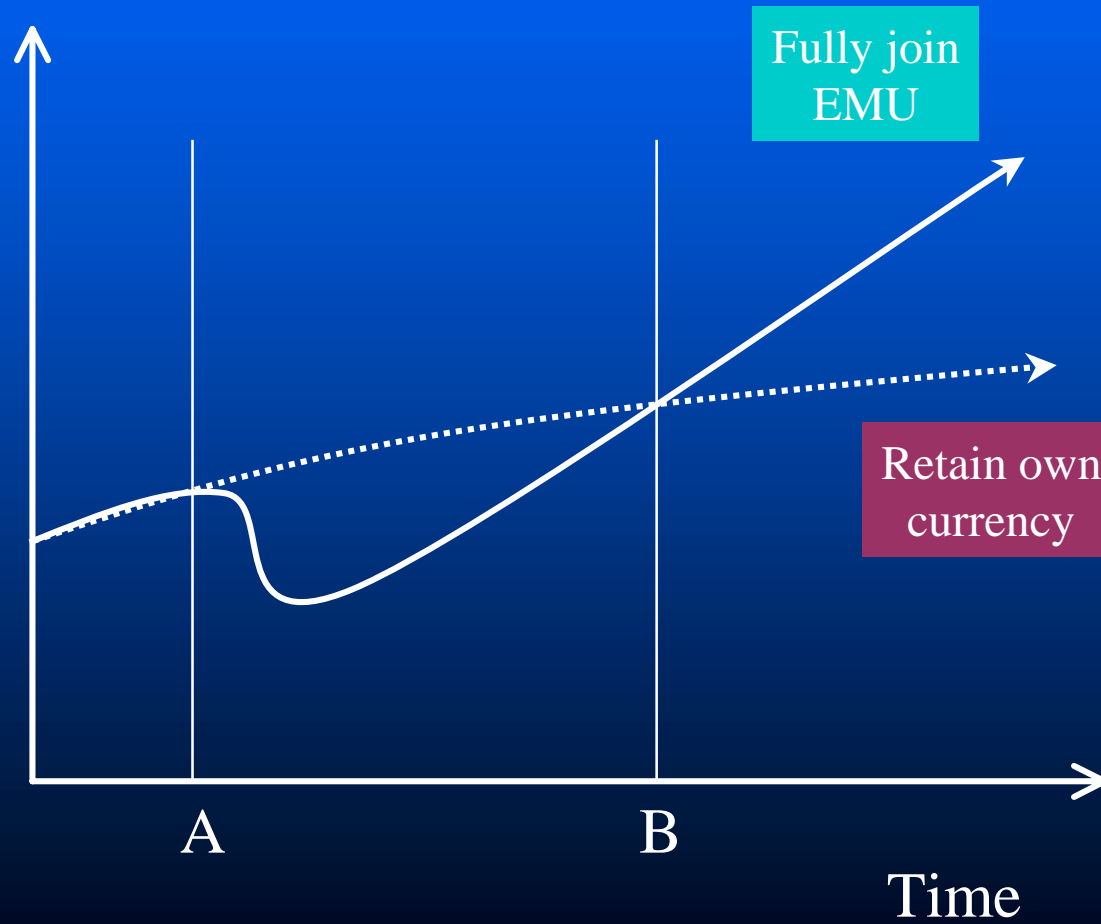
- Nominal: criteria for joining MU
 - May entail retrenchment with real losses
 - Effects largely over *prior* to full participation
 - ➔ Nominal at odds with real
- Institutional and behavioural:
 - Incidence depends on speed of adaptation
 - Intensity affected by gap to be overcome
 - Both shaped by institutional structures
- Progressive policy convergence

EMU & THE REAL ECONOMY

- Assimilation to the EMU policy regime
 - Lower interest rates
 - Abiding by the fiscal rules
 - Broader context of economic policy guidelines
- Labour market transformations
 - Combination of flexibility and adaptability
 - Becomes arena for adjustment
- Longer term effects of enhanced integration
 - New economic geography and similar

TRAJECTORY OF ECONOMY

Performance



Fully join
EMU

Retain own
currency

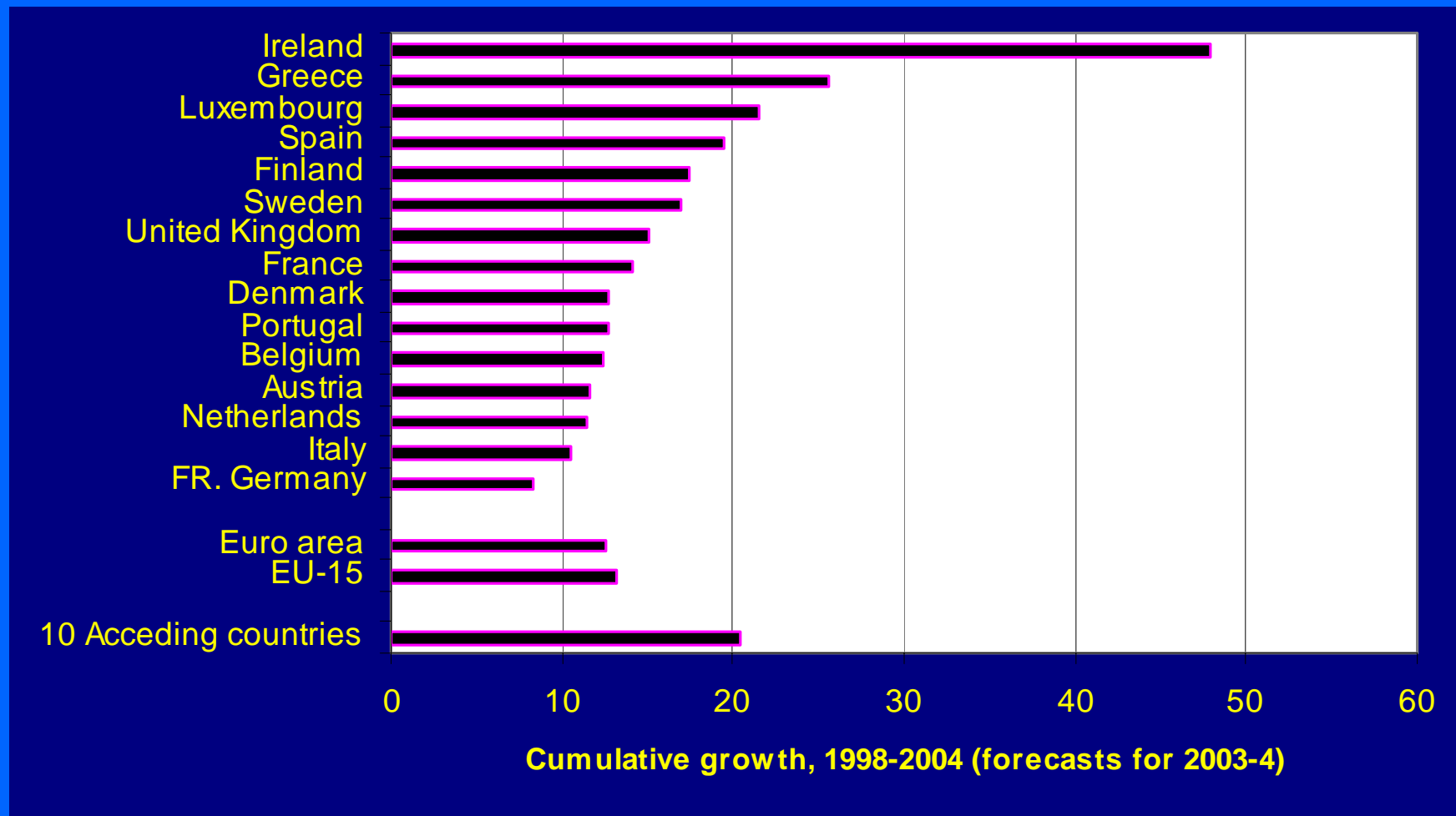
Time

IS IT BAD TO BE PERIPHERAL?

- Peripheral often code for lower income
 - Implies less developed economy
 - Also furthest from core economy parameters
- Implication is new members will suffer
- But belied by initial experience of the euro
 - Core has stagnated
 - Most of the periphery has converged
 - Now six years: more than a temporary blip

GROWTH OF EU ECONOMIES

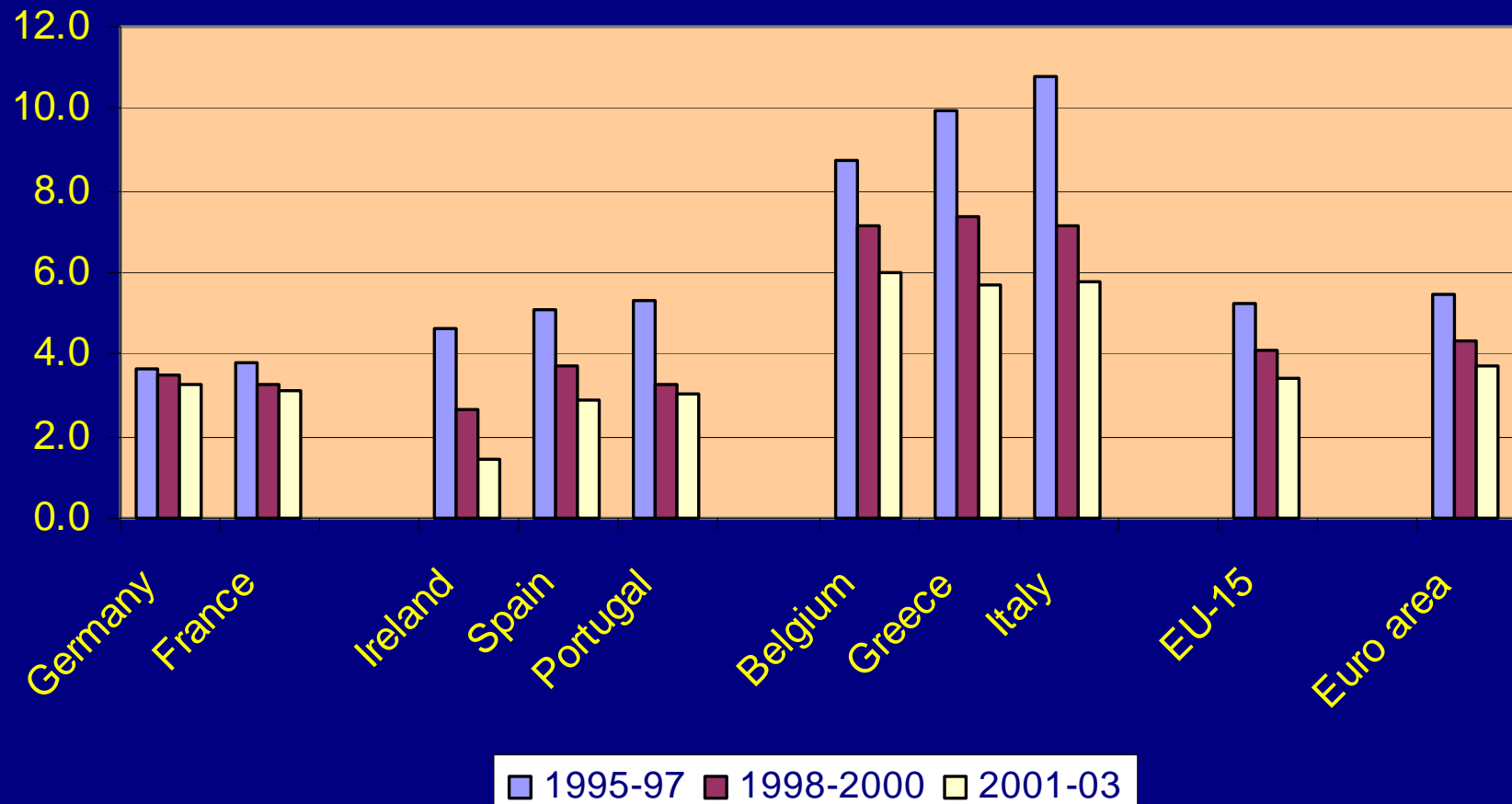
Since the advent of the euro



SLOW OR FAST TO THE €?

- Treaty minimum of 2 years
 - Obligation to join ERM II
- Risks mainly from loss of flexibility
 - Continuing transition
 - Possible shocks from EU membership
- Benefits from credibility and lower costs
 - Impacts on nominal interest rates

DEBT SERVICE (% of GDP)



FIVE POLICY QUESTIONS ON Cohesion (i.e. real convergence)

- Who should be receive EU money in future?
- How much to spend (and whose money)?
- What mechanisms to support development?
- State aids rules and EU cohesion policy
- Cohesion in broader EMU policy framework
- ... or let the market rip instead?

COHESION POLICY MIX

- Community policies
 - Fill gaps that Member State cannot
 - » Financially; Administratively
 - » Politically?
- Role of Member State policies
 - Especially in economic development
- Targeting obstacles to economic development
 - ‘Investability’: conditions conducive to activity
 - Emphasis on leveraging in private investment

POLICY CHALLENGES

- The cost of cohesion policies
 - Perverse incidence of 4% of GDP ceiling
 - Overall cost will rise as price *levels* increase
- Maintaining internal regional balance
 - Capital regions seem to gain most
- Flattening the dip in the j-curve
 - Essential to look across policy boundaries
- Patience: the time scales are long ☹️➤😊

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