

Centro de Estudos da União Europeia (CEUNEUROP)
Faculdade de Economia da Universidade de Coimbra
Av. Dias da Silva, 165 – 3004-512 COIMBRA – PORTUGAL
e-mail: ceuneurop@sonata.fe.uc.pt

Elias Soukiazis

Some perspectives on the new enlargement and the convergence
process in Europe.

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Some perspectives on the new enlargement and the convergence process in Europe(*).

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Abstract

In this short paper the reasons for going ahead with the new enlargement to the Central and Eastern Europe are explained, pointing out the expected benefits from the point of view of a wider Europe and the advantages for the new candidates of the transition economies as potential members of the EU in the near future. The second part, explains the important issues of nominal and real convergence through a comparative analysis between the new candidates and the EU, showing the difficulties which are involved in reducing the differences between the economies. Finally, a Growth-orientated Stability Pact is discussed as an alternative policy to the current Price Stabilisation Pact adopted by the EU and implemented by the ECB.

I. Reasons for the new enlargement

The new enlargement of Europe is expected to benefit both sides, the EU it self and the new candidate countries¹. The reasons for a wider Europe could be the following:

Political and Security reasons: the new enlargement is believed to strengthen the position and image of the new Europe in the world providing a higher status and weight in international negotiations with other blocks and world institutions. It will guarantee a political stability and higher security in the central and eastern Europe very beneficial for the involved neighbour countries of the actual EU, especially for the Nordic countries, Germany, Austria, Italy and Greece. The problem with the EU is to find a balance between maintaining its own system of governance and contributing to stability in the wider Europe. The question also of what kind of European Union will emerge is of extreme importance.

Economic reasons: the augmented common market will create new economic opportunities for consumers and producers of the actual EU. Better resource reallocation with higher labour mobility will take place and investment expansion will be transferred into regions with lower costs. Competition will increase, affecting prices, product differentiation, trade, economies to scale, productivity, etc. all beneficial for higher growth.

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¹ The new candidates to EU are 10 countries from the Central-East Europe: Poland, Hungary, Czech-Republic, Slovakia, Romania, Bulgaria (former members of COMECON), Slovenia (member of the former Yugoslavia) , Estonia, Latvia, and Lithuania (members of the former URSS), and two Mediterranean Islands, Malta and Cyprus. The case of Turkey is still problematic.

The reasons for the transition economies joining the EU are of the following nature:

Political and Security reasons: in geopolitical terms, transition process represents the shift of central and eastern Europe toward western Europe. The prospect of this connection gives credibility to the political and economic reforms implemented in these countries. Entry to the EU implies adopting the political and economic system of the west. The accession of these new countries to a strong economic and political western bloc, the EU, will turn possible their participation in key decisions which affect the whole Europe and generally the whole world. It will also guarantee the functioning of democratic institutions and legal system and will give a high protection to national borders. Political stability, consolidation of democratic institutions and security of national frontiers are the expected political benefits from the accession. The prospect of entry to the EU is believed to be the key reason explaining the relative success of economic and political reforms in central Europe and recover from the initial fall in output in comparison with Russia and other transition countries which are not facing the prospect of entry, experiencing a much more prolonged crisis and decline of output (Roland,2002). The higher the prospect of entry the higher the progress of economic and institutional reforms.

Economic reasons: the accession of the new candidates to the EU will increase the credibility of economic policy to achieve macroeconomic stabilisation (specially monetary policy for controlling inflation) implemented by these countries. It is expected a higher market integration, more efficient resource allocation(from the state-owned activities to private sector activities) and higher in-flow of capital investment as happened with Portugal, Spain and Ireland. Foreign direct investment is a very important matter in terms of transferring new technology which improves productivity and competitiveness. It is also expected a higher trade dependence with the richer countries of the EU, which can benefit the destination of exports because of higher external demand. Exchange rate targeting between the currencies of the Central and Eastern European Countries (CEECs) and the euro will facilitate the rapid growth of exports to the rest of EU without raising fears of devaluation or unfair trading practices. The expected transfers of structural funds from the EU are important for reducing regional disparities and facilitating the catching-up effort in these countries.

II. The convergence prospects

Nominal convergence

The new candidate countries of central and eastern Europe to become members of the EU need to achieve a progressive monetary convergence related to the rate of inflation, long term interest rates and exchange rate stability, as well as, fiscal convergence related to public deficit and public debt. These are the necessary criteria for nominal convergence which allow them to become members of the EMU and consequently to the euro-zone. The nominal convergence targets which have been established by the Maastricht Treaty during the transition period to EMU in the 90's were: inflation not higher than 1.2% of the EU average, interest rates not higher than 2% of the EU average, the limit of 3% of GDP for the budget deficit and 60% of GDP for the public debt ratio. Also the candidate countries had to show an exchange rate stability for the

last two years before entering to the single currency system. In addition, for the CEECs countries, monetary credibility, institutional development of the financial system and transparency of monetary and fiscal policies are critical factors to the overall success of monetary convergence. All these requirements make macroeconomic convergence a more pressing and difficult issue than it was for earlier entrants into the EU. It is important to analyse the relative position of the new candidates to these nominal criteria in order to understand the difficulties which are involved in the transition period. Table 1 (in the Appendix) reports the relative position of each country in relation to the EU(15) average.

Monetary convergence

The criteria for inflation and interest rate convergence are not difficult to be fulfilled by the majority of the countries(see columns 1 and 2 of Table 1). By 2001, inflation rates in all transition economies achieved single digits, except for Romania. The picture is the same in relation to interest rate convergence with the exception of Poland and Romania. This is an important step if one considers that some of the transition economies experienced high inflation or hyperinflation in the first years of transition, in early 90s (in Poland, Slovenia, Bulgaria and Romania inflation exceeded 200 percent; Estonia, Latvia and Lithuania with inflation around 1000 percent), as a result of price liberalisation or due to financial crises. However, the distance between the inflation of the transition economies and the EU average is still large and difficult to reduce it. The analysts agree that new candidates need to achieve price stability prior to pegging their currencies to the euro. For this reason, they are advised to rely on internal means of achieving price stability through autonomous monetary policies with relatively flexible exchange rates rather than by rushing to the euro-peg. They need to overcome internal sources of inflation, such as nominal indexation of wages and prices, as well as to reduce structural deficiencies associated with insufficient competition in the private sector. A premature euro-peg accompanied by inflation persistently higher than that of the euro-zone will instigate real currency appreciation that could lead to growing current account deficits and to an unfavourable risk structure of capital inflows, as well as, speculative attacks on domestic currency (Orlowski, 2001). The switch to euro-peg has to be gradually, and only after achieving price stability. In the long run, if the candidate countries are able to follow the policies of the ECB in terms of a monetary aggregate target, then, as their financial systems mature, they should be able to achieve the same outcomes in terms of inflation and interest rates as are achieved by the ECB.

Exchange rate stability

The CEECs have maintained a wide diversity of exchange rate regimes over the past few years, from currency board arrangements (Estonia, Lithuania and more recently Bulgaria), nominal pegs (Czech Republic and Slovakia until 1998), crawling pegs (Hungary and Poland) and more recently most of the countries have adopted a more or less controlled floating regime with relatively tight links to the euro to achieve macroeconomic stabilisation (Frensch,2001). Table 1, column 5, shows a currency depreciation relative to Euro/Ecu for all countries during the period 1996-2000 and currency appreciation for Latvia and Lithuania. Romania is the most unstable economy where national currency has been devalued 407.9 % from 1996 to 2000. The exchange rate policy of all countries is in great part responsible for substantial current account deficits (as a percentage of GDP) as the last column of Table 1 shows.

By joining the Union, new members may become part of the ERM II system still allowing for comparatively flexible exchange rate policies towards the euro. This is a necessary transition period adjusting competitiveness to their real levels. The full membership in the EMU requires inflationary and interest rate convergence through a common monetary policy and exchange rate stability vis-à-vis euro. At the final stage of the monetary convergence process, inflation targeting will be replaced with exchange rate targeting-the euro-peg- that will secure a smooth transition to the euro-zone. The time of joining the EMU will depend on the speed of disinflation which in turn needs to be accompanied by dynamic structural adjustments (removing institutional and structural obstacles) and fiscal discipline able to achieve internal and external equilibrium. All these conditions are necessary for establishing an “optimal currency area” as has been defined by Mandell (1961). The full integration of markets, adequate competition in the industrial sector, sufficient flexibility of labour markets, high labour mobility and synchronisation of economic cycles are important factors for minimising the costs probably coming from asymmetric shocks.

Fiscal convergence

The imposition of 3 percent as upper bound on the size of the budget deficit relative to GDP as a precondition for entry into the Union is almost fulfilled by the majority of the transition countries, Czech Republic being the exception (see Table 1, column 3). However, in comparison with the EU average (-0.6%)² the gap is still significant and difficult to reduce it, considering that the transition countries have to adopt a number of relatively costly social programs and structural measures, all of which place upward pressure on government expenditures. On the other hand, the General Government Debt situation is not specially alarming. Leaving aside Bulgaria, none of the countries has government debt higher than 70 percent of GDP and some countries show a lower ratio (Czech Republic, Poland, Slovakia, Slovenia and Lithuania) than the target of 60 percent of GDP established by the Maastricht criteria³. Privatisation can generate additional government revenue⁴ and reduce spending in inefficient activities, especially in countries where the private sector share is still low. On the other hand, public cut spending can increase unemployment and retard economic growth. So, maintaining fiscal convergence is a relatively difficult task and can constrain growth.

Real convergence

The majority of the literature on the transition economies is concentrated on nominal convergence, especially monetary convergence rather than on real convergence which has to do with income per capita disparities (as a measure of living standards) or product per working person (as a measure for labour productivity). The reason is obvious: policy makers of the transition countries show preference to the nominal convergence which is an easier short or medium term objective, in contrast to the real convergence, which is a

² Although the average is low, there are countries of the EU that face difficulties in satisfying the target of zero budget deficit by 2004, e.g. in 2002, Germany shows a budget ratio close to 3% and Portugal exceeds 3%. Countries not able to meet the 3% requirement are subject to excessive deficit penalties imposed by the Commission in the form of non-interest-bearing deposit.

³ Some countries of the EU had a higher government debt ratio in 2001, for instance, Italy (109.4) Belgium (107.5), and Greece (99.7).

⁴ It is interesting to note that the governments have collected few revenues from privatisation. The average in central and eastern Europe was only about 5 percent of GDP except in Hungary which was about 14 percent of GDP, which is still a modest amount when spread over several years (Svejnar, 2002).

more difficult and long term objective, implying structural changes of the real economy. Problems related to the growth of per capita income, productivity growth, unemployment rate, scale economies, industrial specialisation, competitiveness, human and physical capital accumulation, innovation, technical progress, and so on, are structural problems of the real economy with a long run perspective.

Table 2 (in the Appendix) illustrates some structural figures which show the relative position of the transition economies in terms of real convergence. The first column registers the relative position of each country in terms of per capita income (in PPS terms) as a percentage of the EU average. We can observe that only three countries, Slovenia (69.4%), Czech Republic (58.8%) and Hungary (51.1%) have per capita income more than 50% of the EU average in 2000. All other countries have per capita income less than 50% of the EU average and the most striking case is Romania with per capita income corresponding to only 23.3% of the EU average. Table 3 gives some more details on the convergence process of the standards of living in recent years. The majority of countries show a very slow and moderate improvement of their per capita income reducing slightly their distance from the EU average, which is evidence of a weak catching-up process between the transition countries and the EU. However, Czech Republic, Bulgaria and Romania deteriorate their relative position from 1996 to 2000 not showing any catch-up tendency. In a more formal way, last row of Table 3 uses the coefficient of variation⁵ to measure whether the disparities of per capita income have been increased or decreased over time among the transition economies. The figures show that the disparities in per capita income remained constant from 1996 to 2000, in other words a stagnant situation is observed in terms of improvements in the standards of living. This can be taken as evidence that economic policy in the transition countries in 1990s was not able to reduce per capita income differences and to offer better standards of living to their populations. The evidence of no convergence is reinforced from column 2 of Table 2, where the average growth rates of per capita income are presented for the 1991-1998 period. In six countries out of ten the growth rate in per capita income is negative. Only Slovenia shows a satisfactory positive growth rate of (7.45 %) which makes the country as the most approaching to the EU standards.

Table 2, column 3 shows the disparities in unemployment. Only three countries, Hungary, Slovenia and Romania have unemployment rates below the EU average. We believe that Slovenia's and Romania's low unemployment rate is explained by the low Private Sector Share in the economy (see last column of Table 2). All other countries show a higher unemployment rate in comparison to the EU average and in most cases the rate of unemployment is twice higher than in the EU with the most striking case being Slovakia where unemployment rate is the triple of the EU average.

The Investment ratio as percentage of GDP is higher than the EU average in the majority of the transition economies, as column 4 of Table 2 illustrates. This is a characteristic of less developed countries which try to increment their capital stock to achieve higher growth. The exceptions to this tendency are Lithuania, Bulgaria and Romania with an Investment ratio below the EU average. These latter countries are also the countries with the lower per capita income among the other transition economies.

The trade structure is shown in column 5 of Table 2. The most open economies to international trade are Estonia, Czech-Republic, Slovakia, Hungary and Bulgaria with

⁵ The coefficient of variation is obtained by the ratio of the standard deviation to the sample mean. When the coefficient shows a decreasing tendency means that the disparities between different economies become smaller over time which is an evidence of convergence. This convergence is also known as "sigma" convergence.

Export/Import ratios as percentage of GDP almost higher than 60%. On the other hand the less open economies are Poland and Romania with Export/Import ratios less than 40% of GDP. In all countries Import ratios are higher than Exports indicating a higher import penetration able to explain the substantial current account deficits presented in the last column of Table 1.

Finally, Table 4 illustrates the productive structure of the transition economies by sector of Economic Activity. The share of agriculture is still high in some countries as in the case of Bulgaria (14.5%) and Romania (12.6%) and to a lesser extent in Lithuania (7.5%) and Estonia (6.3%). In these countries sectoral resource reallocation (especially labour) is necessary to take place from agriculture to other more productive activities in order to increase productivity. The share of Industry varies from 20 to 30 percent of Gross Value Added in most cases. Two countries, Czech-Republic (32.8%) and Slovenia (31.4) have the highest industrial share which also happen to be the countries with the highest per capita income (see Table 2, column 1). On the other hand, Latvia (18.7%) and Estonia (22.3%) are the countries with the lowest industrial share in the economy. Mentioning Kaldor (1981), the industrial sector (especially manufacturing) is the most important sector of economic activity for two special reasons. First, industry is the only sector with increasing returns to scale characteristics and higher opportunities of productivity gains. Second, industry produces mainly internationally-tradable goods which are important for growth. According to Kaldor, economies with a potential industrial sector specialising in the production of tradable goods with high elasticity of demand in international markets have the advantage to grow faster. Economies with such characteristics can generate a cumulative causation growth process with virtuous circle tendencies. Finally, The share of services as contribution to Gross Value Added varies from 50 to 70 percent. Latvia is the country with the highest share (70.1 %) and Romania with the lowest (51.5%). We believe that Latvia's low profile in per capita income is associated to an over-weighted sector of services and Romania's low per capita income is associated to a still high share of agricultural activities, since productive resources in these countries are occupied in sectors with diminishing or constant returns to scale characteristics.

Empirical Evidence from real convergence in Europe

Real convergence is a more important issue and the actual EU has little progress to show. In the empirical literature on this issue, slow convergence on per capita income or productivity has been found among different economies (at an annual rate of 2%) which is even slower within the EU countries and regions. The slow real convergence which has been found is mostly conditional depending on structural factors, such as, human capital, level of technology, investment ratio, export growth, etc⁶.

Soukiazis (2000a), through a time series analysis based on cointegration found that growth rates of per capita income (in PPS terms) are converging in the EU over the period 1960-1997, but the levels of per capita income are not. This reveals that per capita income growth rates of the less advanced countries are not high enough to guarantee an absolute reduction on the disparities in the living standards among the EU countries. Soukiazis (2000b), employing the concept of "sigma" convergence, found evidence of convergence in productivity among the EU (15) countries which is stronger in the early period, 1960-1973 but moderate or stagnant in the latter period, 1974-1997. The same pattern of convergence is confirmed by using the neo-classical concept of

⁶ Soukiazis (2000c) provides a comprehensive review of the theory and empirical evidence on real convergence.

absolute “beta” convergence⁷, indicating a slow convergence in productivity at about 1% per annum for the whole period, 1960-1997, faster convergence of 2.7% in the early period and no convergence in the latter period. This is a surprising and at the same time disappointing result which suggests that during the period of a higher degree of integration in the 80s and 90s (single market, nominal convergence, monetary union, single currency) the convergence process in productivity among the EU(15) countries remained stagnant. Testing for conditional convergence, only structural changes proxied by the labour share in agriculture, industry and services explain the convergence results in productivity, suggesting that the slow and weak convergence in productivity in the EU is due to structural changes where the economies reallocate resources from less productive sectors to the more efficient ones. Marques and Soukiazis(2000), found some interesting results concerning regional convergence in the EU, at NUTS II level, for the period 1987-1995. The poor regions of the EU with per capita income less than 75% of the EU average showed a stronger “beta” and “sigma” convergence which is an evidence that poor regions become more homogeneous in their standard of living levels. On the other hand the rich regions with per capita income above the EU average showed no convergence. These results justify the need of financial support to the less developed regions in order to facilitate their catching-up effort. Structural funds are necessary for the development of the lagging regions in Europe.

In relation to transition economies, Estrin, Urga and Lazarova(2001), used a time series approach to test for a common growth path of GDP per head in the ex-communist bloc of Central and Eastern Europe, both in the pre-and post-reform periods. They found little evidence of convergence within the bloc, either during the period from 1970 to 1990 or during the reform period in 1990s. These results bring into question the effectiveness of economic policies to reduce differentials in income per capita under the communism or when the early years of transition to 1998 are taken into account. The lack of convergence also found between the transition economies and those of the EU suggests that there may be series difficulties in implementing the accession of the applicant countries.

Evaluating the convergence issue

The problem of convergence in the EU and for the new candidates gains a greater importance with the new enlargement. All 10 new members from central and eastern Europe are less developed economies em comparison with the actual 15 members of the EU. This implies that regional disparities will widen at the EU level and the problem of convergence and cohesion will become more serious and more difficult to achieve. As the majority of the empirical evidence shows, real convergence is very slow and weak between the EU(15) countries, both in terms of per capita income and in terms of productivity, so additional efforts are needed to be made in order to accelerate the convergence process among the 27 members of the new augmented Europe.

The new coming members will need to approximate their levels of development and catch-up to the old members, especially in terms of real convergence. In order to converge they need to grow faster, both in terms of per capita income and labour productivity. According to the neo-classical theory of diminishing returns to capital (Solow, 1956), the new European members have the conditions to grow faster due to the lower level of capital stock. Higher returns to capital, lower wages and skilled labour force available to these countries, will attract more investment which in turn will allow

⁷ “beta” convergence is obtained by the negative correlation coefficient between the growth of per capita income (or productivity) and its initial level.

for higher growth. The “social capability” argument of Abramovitz (1986) to absorb and exploit more advanced technologies is an important element for such growth process to take place.

According to the demand orientated approach, higher growth rates can be achieved by turning their economies more competitive in a wider European Single Market with free trade and higher mobility characteristics. Export opportunities and external demand are higher in such integrated market. Exports is the most potent component of demand, with the highest trade multiplier effect on income. Exports allow for imports, especially imports of capital endowments and intermediate goods, which are necessary for farther economic development (Thirlwall, 1980). Competitiveness is highly dependent on technical progress and innovation which are transferred through trade and direct foreign investment. Human capital qualification and the ability to assimilate new technical progress and new modes of production are important factors to achieve higher growth. These are the main arguments of the endogenous growth theory (Barro, R. and Sala-i-Martin, 1999).

Structural funds are important to help new members approaching their development levels to the more advanced ones. There is the need to reforming the structural funds system of Europe in benefit to the less developed regions of the new augmented Europe. On the other hand, the redistribution of structural funds must not be done in detriment to the present less developed regions of the EU(15) in order to avoid conflicts. The idea of the creation of a European Tax System can be the solution to increase the community’s budget resources needed for a more active and efficient regional policy in Europe. Structural funds are important to avoid the phenomena of polarisation and congestion of economic activities to the rich centres of Europe and to avoid the creation of a multi-speed Europe.

The establishment of economic and social institutions along with banking reform, privatisation accompanied with an effective competition policy, removal of barriers to create new firms, a well functioning legislative and judiciary system, effective tax system are the priorities for the new members of central and eastern Europe. The progress of economic transition is highly related to these institutional transformations. Political stability ensured by a fair democratic system, and economic stability through the completion of a market-orientated economy and an efficient financial system are necessary conditions for higher growth. A social welfare system with labour market regulations, institutions related to public unemployment and social security benefit and retirement schemes are also needed to correct social injustices probably caused by market failures.

Transition economies of Central Europe have on average performed better than the Baltic and Balkan counterparts. This suggests that geography-related initial conditions have been important in the transition process. The central European countries have historically shared the same alphabet and religions, had similar educational and bureaucratic systems, and intensively traded with each other and with countries of the western Europe. Spatial factors, the sense of belonging to Europe and the prospect of entry to the EU provided important advantages in moving to a democratic and market-orientated system. Spatial factors along with efficient economic policy and a well functioning legal system are crucial elements in explaining the economic performance of the transition economies. Finally, the question of when the transition process will be over is highly related to the fulfilment of nominal convergence in the near future and real convergence achievements in the long run between the EU countries and the potential new candidates.

III. An alternative stability pact of the EU for higher convergence

The Stability and Growth Pact which has been introduced in the third stage of economic and monetary union and the introduction of the euro in January 1999, has been criticised as responsible for lower economic activity and higher unemployment in the EU in recent years (Thirlwall,2000, Arestis *et.al.*,2001). The stability pact of the EU based on the nominal convergence to meet the Maastricht criteria, focuses excessively on price stabilisation within the euro-zone and less on employment and growth-orientated strategies at the EU level. The elevation of monetary policy as the only policy instrument which can be exercised at the European level by the ECB to combat inflation by raising the interest rate, will tend to generate a deflationary economic environment which will be deteriorated by the lack of an active fiscal policy and the absence of other mechanisms(such as the promotion of investment) to stimulate aggregate demand. The ECB interest rate policy can influence the pace of inflation by suppressing aggregate demand, but in turn may have detrimental effects on investment and unemployment. On the other hand, the constraints imposed by the Pact on budget deficits will severely reduce national fiscal independence and the use of national fiscal policy as an instrument to achieve higher levels of economic activity. The Stability and Growth Pact establishes the dominance of the monetary authorities of the ECB over the fiscal authorities of the national governments. In this perspective, there is a democratic deficit problem to attribute on the structure of the monetary institutions. The key economic decisions which affect the economic performance of national countries are taken by “unelected” governors of the national central banks and other monetary experts, not accountable or responsible to any democratic elected body. The democratic deficit is still profound and more serious issue if we consider that the ECB stands as the only body which can implement economic policy at a EU level. Decisions on inflation, interest rates and the exchange rate are taken by unelected central bankers. In this context, the euro-zone members face the following status in implementing macroeconomic policy adjustments: exchange rate policy can not be used any more as an adjustment mechanism of macroeconomic stabilisation; monetary policy is not independent, is the ECB that decides which will be the inflation rate and interest rate for all participating countries in the EU, regardless of their individual economic circumstances; fiscal policy is national but subject to budget deficit constraint imposed by the Stability Pact. Therefore, the euro-zone members have less economic flexibility in providing macroeconomic adjustments to stabilise their own economies, to reduce regional disparities and to cope with asymmetric shocks that may hit them.

Arestis *et.al* (2001) propose some alternative ways in solving the undemocratic, unrepresentative and antigrowth aspects of the ECB current structure. They suggest a new pact which they call “ A Full Employment, Growth and Stability Pact” proposing the following changes: the membership of the board of directors should be broadened and respond directly to the European Parliament. An alternative way would be for the board of directors to be appointed by the European Parliament in a way to ensure a wide representation of interests (representation of industrial sectors, workers and consumers). On the other hand the objectives of the ECB have to be reformulated towards a full employment and higher economic activity objectives. The ECB should have the responsibility of setting interest rates in a manner which encourages growth and full employment, rather than merely fighting inflation. A further change would be an increase in the transparency of the operations of the ECB.

With the removal of exchange rate variations as an adjustment mechanism and the constraints on fiscal policy it is necessary the development of a larger and progressive

tax system at the EU level and the use of the tax revenue in a redistributive manner. The redistribution scheme should work as a stabiliser, with negative shocks leading to lower taxation and higher social security payments in the regions that are adversely affected. The tax and social system operating at the EU level would make transfers between rich and poor regions in an automatic manner seeking to reduce regional disparities. Finally, the convergence process can be reinforced by extending the European Investment Bank activities to the objectives which stimulate investment in the less prosperous regions where unemployment is higher.

Appendix

Table 1. Relative position of the Centre and Eastern European countries with respect to the EU in terms of nominal convergence.

Countries	Consumer Price Inflation 2001(a) [1]	Interest rates (discount rate of central bank) 2000(b) [2]	Government Budget deficit (% of GDP) 2001(a) [3]	Government debt (% of GDP) 2000(a) [4]	Euro(Ecu) Exchange rate variation 1996-2000(b) [5]	Current Account Deficit (% of GDP) 2001(a) [6]
EU(15)	1.8	5.03	-0.6*	69.1*	-----	-0.4
Czech- Rep.	4.6	5.0	-9.2	46.5	-3.31	-5.1
Hungary	9.4	9.8	-3.5	67.8	-34.2	-5.4
Poland	6.6	19.0	-3.0	42.8	-17.12	-6.0
Slovakia	7.1	8.8	-4.0	53.5	-9.46	-3.8
Slovenia	7.7	5.0	-1.3	33.4	-20.26	-3.0
Estonia	6.2	8.9	-0.5	63.0	-2.42	-7.7
Latvia	3.3	1.5	-2.0	66.2	+20.14	-7.1
Lithuania	2.0	9.6	-1.4	43.8	+27.3	-6.4
Bulgaria	8.0	4.7	-1.5	86.0	-2.42	-5.2
Romania	35.0	35.0	-4.0	27.8	-407.9	-3.9

Source: (a)Svejnar(2002) , (b) Eurostat(2002) , (*) OECD Main Economic Indicators, 2002/7 July.

Table 2. Relative position of the Centre and Eastern European countries with respect to the EU in terms of real convergence.

Countries	GDP per head (in PPS) 2000(b) [1]	Average GDP per head growth 1991-1998(a) [2]	Unemployment rate 2000(a) [3]	Investment ratio (% of GDP) 2000(b) [4]	Export/ Import ratio (% of GDP) 2000(b) Exp. Imp. [5].	Private Sector Share (% of GDP) 2000(a) [6]
EU(15)	100	1.6	8.2	24.3*	30.3* 29.5*	---
Czech- Rep.	58.8	-4.2	8.9	28.3	70.5 74.1	80
Hungary	51.1	2.3	6.5	24.3	61.6 65.6	80
Poland	39.4	1.8	16.1	25.3	31.2 38.1	70
Slovakia	47.9	-1.6	18.6	30.0	73.5 76.0	75
Slovenia	69.4	7.4	7.0	26.7	59.1 62.7	55
Estonia	38.5	0.7	13.7	23.4	95.4 100.4	75
Latvia	30.0	-7.6	14.3	24.5	45.7 54.4	65
Lithuania	33.3	-3.1	16.1	18.7	45.2 51.6	70
Bulgaria	28.0	-8.8	16.2	16.2	58.5 64.1	70
Romania	23.3	-2.4	7.2	18.5	34.1 39.9	60

Source: (a) Svejnar(2002), (b) Eurostat(2002), (*) OECD Main Economic Indicators, 2002/7 July.

Table 3. GDP per capita at current prices in PPS, EU(15) = 100

Countries	1996	1997	1998	1999	2000
Czech- Rep.	64.3	62.5	60.0	58.7	58.8
Hungary	46.2	47.5	48.6	49.8	51.1
Poland	35.9	37.5	38.3	39.0	39.4
Slovakia	46.2	47.9	48.5	48.3	47.9
Slovenia	64.2	65.8	66.7	68.5	69.4
Estonia	33.8	36.8	37.8	36.9	38.5
Latvia	25.9	27.7	28.3	28.7	30.0
Lithuania	32.5	34.1	35.0	32.9	33.3
Bulgaria	29.0	26.5	27.0	27.1	28.0
Romania	28.7	26.5	24.6	23.6	23.3
Coefficient of variation*	0.348	0.346	0.343	0.354	0.349

Source: Eurostat(2002), (*) own calculations

Table 4. Contribution to Gross Value Added by sector of Economic Activity in 2000.

countries	Share of Agriculture	Share of industry	Share of construction	Share of Services
Czech- Rep.	3.9	32.8	7.1	56.2
Hungary	4.1	29.2	4.6	62.0
Poland	3.3	27.8	8.4	60.4
Slovakia	4.5	28.9	5.2	61.3
Slovenia	3.2	31.4	6.0	59.3
Estonia	6.3	22.3	5.8	65.5
Latvia	4.6	18.7	6.7	70.1
Lithuania	7.5	26.2	6.1	60.2
Bulgaria	14.5	24.2	3.6	57.7
Romania	12.6	30.5	5.3	51.5

Source: Eurostat(2002)

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