Controversies in the Debate Regarding Economic Convergence

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Abstract. *Countries from Central and Eastern Europe face some specific challenges for poor countries: still fragile institutions, a social cohesion under a lot of pressures, inequalities in rapid growth[(1)], endemic corruption etc. That is why these countries must prepare public policies that should try to solve a range of specific problemes that these countries faceses with on their way of development.*

A strategy of economic development means a construction of conscious public (economical) policy, therefore intellectual resources, a capacity to formulate and carry out policy.

Key words: convergence; catching-up; big push; social and economic cohesion.

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The fact that countries from Central and East Europe – including Romania, joined EU meant accomplishing some political and economical pre-conditions. If, for the majority of candidate countries, political criteria were considered less problematic, economic criteria raised more questions, which, however, were outrun, candidate-countries made indisputable progresses in the domain of economic reforms.

Romanian relationship with EU is frequently judged through reforms, the process of transformation from an ex – command (communist) economy as well as through the so-called process of "catching-up", of reducing great development discrepancy compared with Western Europe (Easterly, 2001a, 2001b).

Big discrepancies in incomes per inhabitant (compared with those from the EU countries), high inflation rate, the fragility of financial systems, worsening of some social indicators, the impoverishment of a big part of the population and the capacity of some countries to achieve a convergence of "deep"[(2)], to face competitive pressures that are normal for the function of these countries inside the EU.

A country like Romania has to combine institutional reforms, especially those regarding markets formation, modernizing, that means it has to achieve the so-called process of catching-up which is a specific objective for a country, with a low income per inhabitant, and this will determine a sustained economic growth (Deepak, 1991) and a considerable reduction of discrepancies compared to developed countries from Europe.

There are many aspects that should be considered in expressing development policy and Romanian modernization:

- catching – up is a long-term process[(3)];
- financial discipline must be imposed in economy to allow the development of viable enterprises;
- a macroeconomic policy which will promote stability and economic growth;
- an intelligent politic policy that will take into account available resources and that it could rely on the entrepreneurial spirit of private entities from the society;
- the state must offer public assets like educational and sanitary system, public utilities, road networks, national defense and security system, protecting the environment, social assistance system etc.;
- an "extensive jump" convergence to another group (in Romania's case it would be the movement through the EU average from the present status of peripheral south-eastern country with a low income/inhabitant) is encouraged by the possibility of workforce export and massive foreign capital entrances, which have a strong training effect, of technology transfer and rapid productivity growth.

EU can offer to Romania that "big push" that Paul Rosenstein-Rodan (1961) referred to, when he talked about the secular difference between the rest of Europe and South-East Europe[(4)], this extern impulse should combine with a propellant intern force, with a well structured and pragmatic policy. It refers to institutional modernization and also about the supplement of resources that EU union can offer through cohesion funds[(5)] to a country which has many things to accomplish in infrastructure construction and achieving European standards in different domains.

The policy of social and economic cohesion (PCES) of the European union has three major objectives that refer to:

- convergence, which is an objective financed with 80% from the budget destined to structural and cohesion funds and which regards the regions from the member states of the EU that have PIB/inhabitant less than 75% from the communitarian average;
- regional competition and work forces occupation is an objective financed with 15% from the budget destined to structural and cohesion founds that regard regions that are not eligible inside the objective of convergence;
- European territorial cooperation is the objective financed with only 5% from the budget destined to the cohesion and structural founds and refers to transnational, trans-border and inter-regional cooperation.

Convergence priority (Guillen, 2001) regards sustaining economic growth and the process of creating new workplaces in the less developed states and communitarian regions, being the one that reflects the continuity element inside the PCES43. The regions in which a PIB/inhabitant is under 75% from the communitarian average are endorsed, and the interventions have as objective creating favorable conditions to ensure the economic growth, permitting the realization of a real convergence.

For the regions that will be affected by the so-called “statistic effect” 44, the Commission proposes to give a temporary sustentation. To maintain the equity of interventions, the level of given support should be bigger than that decided in 1999, in Berlin, for the regions that were at that time in transition. This help should end in 2013 without being followed by another period of transition.

The static effect was registered in 18 regions that have a PIB/inhabitant less than 75% from the EU-15 average, regions that sum about 19 million inhabitants (including Malta, the new member state). For the 18 regions, the EU expansion to 25 member states will mean the growth of PIB/inhabitant to over 75% from the communitarian average (average that is strictly statistic). According to estimation, 4 regions are placed in Eastern Germany, 4 in Great Britain, 4 in Spain, 1 in Greece and 1 in Portugal, these regions face with the same structural weaknesses that they had before the extension and the obligation to maintain the support for these appears to be evident,

There is a striking reality in the world that should make us more cautious when we judge the chances of a process of “catching-up”. Angus Maddison (1995) in his fascinating work refers to the long dynamics from the worldwide economy that makes a revelation, mainly, of a divergent evolution between rich and poor countries. “Catching-up” rich countries, the so-called beta-convergence is very rare but less rare are convergences that are produced inside one country (clusters) and which are named in literature regarding economic growth as being sigma-convergence. European countries that are in the process of transition are interested in a convergence of beta type, which can permit the reduction of discrepancies when facing rich European countries and which will reduce the tensions that could appear along with the Union’s extension.

Still, beta-convergence claims:

- high saving and investments rates;
- permanently amelioration of competition, a reasonable level of social straitening (a considerable social cohesion)
- rapid constant growth of total productivity in the production factors(6).

EU offers some examples regarding the possibility of economic convergence. So, Ireland, a relatively poor country, joined EU in 1973, when its income per inhabitant was 59% from the Union's average, but in 1998 it achieved the "catching-up" having an income per inhabitant a little over the EU average. Still, Greece's experience is not so positive, so the income per inhabitant compared with the EU average fell from 77% at the moment when it joined EU (in 1981) to 66% in 1998.

A study elaborated by Carmela Martin et al. (Carmela Martin, Francisco y Velazquez and Bernard Funck, European Integration and Income Convergence) indicates the fact that countries which benefited of cohesion funds had convergence evolutions through the average of income/inhabitant in the EU before joining the Union.

Massive entrances of capital (of direct investments) in Ireland seem to explain the rapid economic growth in this country, capital entrances that seem to have compensated the inferior intern effort regarding research and development (Rodrik, 2000).

Carmela Martin and her colleagues emphasizes that the convergence process on the incomes/person level is tight connected to the convergence on work productivity level and its growth id determined by a country's capacity to benefit from the international transfer of technology, of "the ability in valorizing technology gains".

The authors of the study speak about some observations regarding convergence in Western Europe:

- big differences can be noticed between past centuries and the present international environment;
- generally, past centuries were characterized by a high increase in Europe;
- countries that joined the Union in the past had not so much to restructure and apply such deep institutional reforms as ex-communist countries must do;
- there are still areas inside the Union that continue to be seriously behind the general progress.

In present and configured conditions, we should ask ourselves some questions:

Which are the basis premises that would allow Romania to have rapid and sustained economic growths?

Which are the ways to encourage convergence?

Convergence problem is available as for the countries that joined first, as for the other ones. Another aspect should be considered, and that is: it is for the first time in the Union's history when it admits such a big number of members, even if their cumulated PIB is not so impressive, incomes/inhabitant are low and economic performances are clearly inferior. It is not out of the question, in the presence of the actual EU functioning rules, that a "big-bang" extension creates major difficulties to the Union, both financial as well as functional.

Comparative analysis of Romanian economy state of health and that of EU countries, at the joining moment, shows Romanian advantages (strong points) and opportunities offered by integration, the priorities that should be permanently reorganized through development strategies and policies of post-integration.

Romania joining the EU (on 1st of January 2007) allowed national development policy to connect to policies, main objectives and communitarian reorganizations in order to obtain an "European" development, which accelerates the process of social and economic convergence.

The global objective of the strategy for the period 2007-2013 is represented by a rapid reduction of socio-economic development disparities between Romania and EU member states, using as target a level of PIB/inhabitant of 41% from the EU average in the year 2013[7].

Accomplishing the global objective of the Romanian development strategy is represented by national development priorities[8], which are compatible with the EU cohesion policy as well as with the fundamental objectives of this organization, established by the Lisboan Agenda. Development priorities have major importance domains as:

1. The increase of economic competition and economy development based on knowledge that has as general objective the increase of enterprises productivity in order to reduce discrepancies compared to the average productivity at the Union's level. Annual average increase of production must be of about 5,5% in order to permit Romania to reach a level of almost 55% from EU average;

2. Developing human resources, promoting occupation and social inclusion and straightening administrative capacity. The general objective of this priority has in mind the development of human capital and its increase in competition on work market, by insuring equal learning opportunities during life and developing a modern and flexible work market which can lead, until 2015 at the durable integration on the work market of 900.000 people.

3. Diminishing development disparities between country's regions represent a priority of great responsibility for those that elaborate policies and social-economic development strategies. The objective of this priority is a more accelerated economic growth of low developed regions in order to reduce inter-regional and intra-regional development disparities;

4. Developing and modernizing transport infrastructure which has as main objective insuring an extensive, modern and durable transport infrastructure, as well as all the other conditions that regard sustainable development of economy and improving life quality. The volume of transport activity in PIB should increase from 3, 6 million Euros in 2004 to 7 million Euros until 2015.

5. Protecting and improving environment according to social and economic needs of Romania fact which will lead to a significant improvement of life quality by encouraging durable development.

6. Developing rural economy and increasing productivity in the agriculture sector – priority that results from the necessity to diminish social and economic disparities from rural areas and urban ones – which has as general objective complex development on long-term period of rural space, which will ensure a decent life standard and achieving social and economic cohesion on national, regional and local level.

National priorities of development for the period 2007-2013, approved by the European Union, insure the continuity of established objectives in the National Development Plan 2004-2006 and are meant to ensure concentration and orientation of available resources to those objectives and measures that have maximum impact on the reduction of discrepancies regarding European Union and intern ones of the Romanian economy.

The unity and solidarity of member states represents one of the current themes of the Union based on which these do not benefit only from integration advantages but also assume the responsibility of member state, actively contributing to intern cohesion of the Union. Solidarity represents the principle which not only leads the integration process, but differentiates in a real way EU from other international organizations. In the context of an extended Union, solidarity and intern cohesion gain major valences in going thoroughly in the European political project.

Notes

(1) See Bartlomiej Kaminski, Francis Ng, Trade and Production Fragmentation: Central European Economies in Networks of Production and Marketing, World Bank Study, 2001.

(2) "Deep" convergence refers to the base institutional formation of a society that generates constant and rapid technologic and economic progress without negative social effects.

(3) Admitting that EU would grow on an average by 2% per year and Romanian economic growth would be on an average of 5% per year, then it will need 21 years to reach 50% from the EU average and 35 years to reach 75% from the same average. In Romania the income/inhabitant is of 26-27% from the EU average.

(4) Rosenstein-Rodan elaborated this concept, the hole of his analysis starting from the low economic development in South-East Europe countries (Rosenstein-Rodan, P., „Problems of Industrialisation of Eastern and South-Eastern Europe", *Economic Journal*, 1943, 53, June-Sept., pp. 202-211)

(5) Cohesion founds are meant to help poorer countries of EU to reduce discrepancies compared to the ones that are more advanced economically

(6) Total productivity of production factors denotes the rate of technique progress, or what Robert Solow called 'the residual' – what it remains in the neo-classic equation of growth after the quantity contribution of increasing capital and work is being extinguished.

(7) Romanian Government, National Plan of Development 2007-2013, Bucharest, December, 2005, p. 226.

(8) Romanian Government, National Plan of Development 2007-2013, Bucharest, December, 2005, p. 133.

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