



# **REGIONAL INEQUALITIES AND CONVERGENCE IN EUROPE**

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**Inequality:** difference in per capita GDP between average citizens of different regions ( memo: income distribution within regions; disposable income vs. GDP)

**Convergence:** Faster per capita GDP growth in less developed (lower capita GDP) regions (memo: convergence without growth; spillover effects)



# Regional inequalities due to:

geography, natural resources, transport (sea, rivers)

history and its cumulative effects

politics: (capital cities)

agglomeration effects (monetary = markets; non-monetary = technologies)



Regional inequalities  
cannot be eliminated

can be reduced:

for equity reasons  
for efficiency reasons

# What happened in Europe?

## Period 1

Industrialization and the growth of regional inequalities (up to 1930's-60s depending on countries: UK vs Southern Europe, e.g. Italy: 1880 - 1950, Spain: 1920 -1960)

Industrialization in Europe is a regional phenomenon (Pollard, *The peaceful conquest*, 1981).

Large, growing disparities.

# Industrialization, circa 1950

(employment in industry as  
% of population 15-64)

Southern Italy	13.0
Northern Italy	24.8
Galicia (E)	7.3
Cataluña (E)	30.5
Sud-Ouest (F)	13.9
Nord-Est (F)	26.8
Schleswing-Holstein (D)	21.2
Baden-Wuttemberg (D)	33.7
Scotland (UK)	31.7
Midland (UK)	44.2

Source: UN-ECE 1954, tab 73

# What happened in Europe?

## Period 2

“The roaring Thirties” and the fall of regional inequalities (up to 1970’s-80’s).

Diffusion of industry.

Growth of services (less spatially concentrated).

Welfare state and public services (per capita)

# Regional Convergence

(coefficient of variation of per capita GDP; decrease = convergence)

	Early 1950's	1977
Italy	0.367	0.262
Spain	0.356	0.194
France	0.215	0.156
Western Germany	0.205	0.201
United Kingdom	0.156	0.093

Source: Based on Williamson (1965) and Crenos database



# What happened in Europe?

## Period 3

Agglomeration vs. diffusion  
(early 1980's on).

Contrasting forces, globalization.

Different patterns: Small reduction of disparities (D, E); Increase of disparities (Eastern Europe, Emerging countries).

# Regional disparities in selected OECD countries

(weighted coefficient  
of dispersion of  
per capita GDP among  
TL3/NUTS3 regions;  
high values = large  
disparities;  
increasing values =  
increasing disparities)

	1995	2005
Poland	0.50	0.53
Hungary	0.48	0.67
France	0.48	0.51
UK	0.48	0.57
Belgium	0.38	0.38
Japan	0.31	0.35
Italy	0.30	0.31
Germany	0.29	0.29
Czech Rep.	0.27	0.43
Spain	0.23	0.23
Korea	0.20	0.26
USA	0.15	0.20
Canada	0.14	0.21

Source: OECD Regions at a glance 2009



## Long-term Persistence of disparities:

Italy, Spain, France

## Exceptions:

Belgium and (in part) UK: sectoral shocks!

# What to do?

## Position 1

**Nothing** (Barro and followers)

Markets drive convergence (wage differentials, capital flows, migrations)

But: globalization?

# What to do?

## Position 2

# Regional policies (Krugman and followers)

Policies drive convergence  
(education, research and innovation, institution  
building, public investment)

# European Union

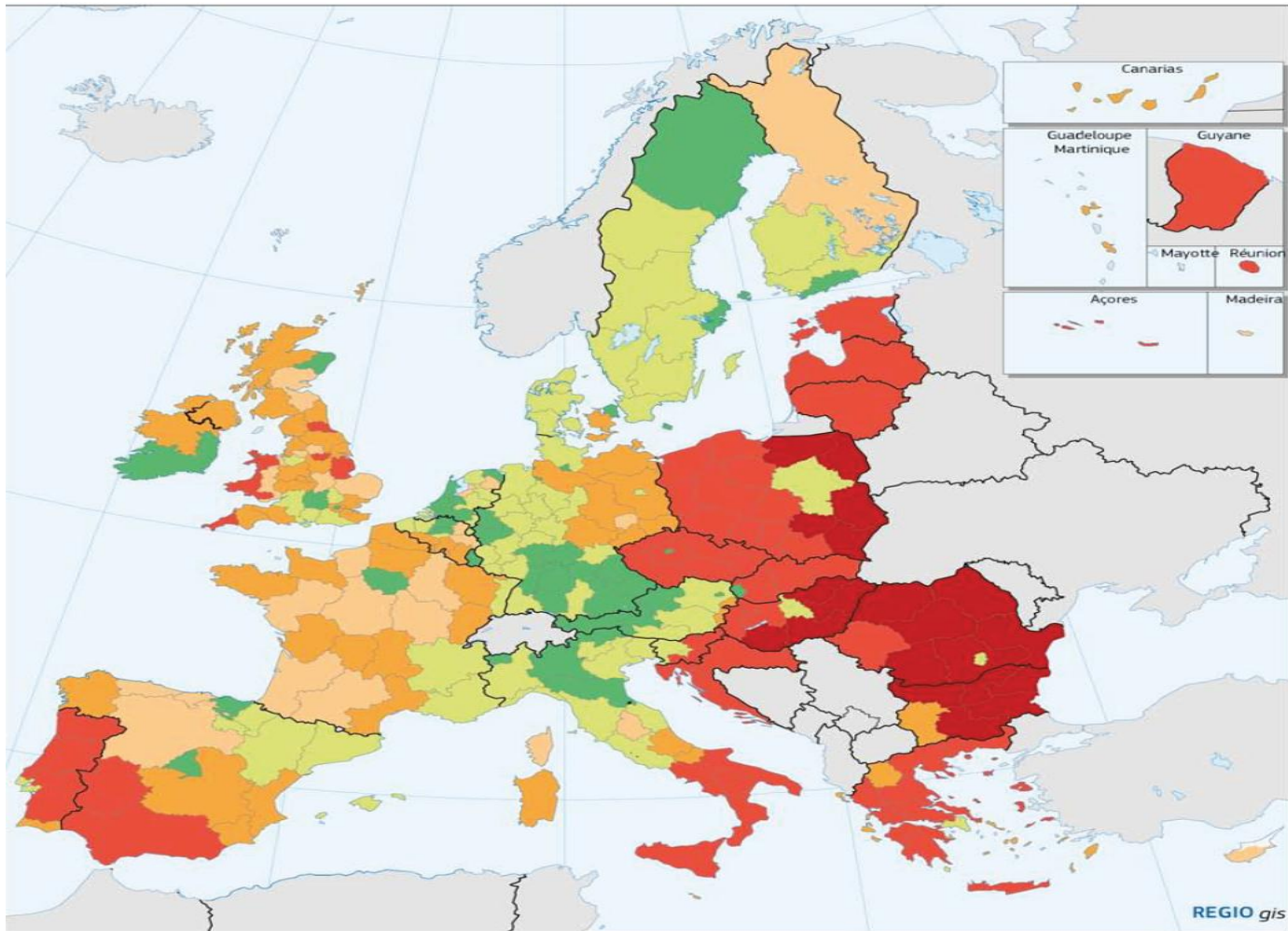
“Regions of Europe”

Everything is more complicated: who converges towards whom?

Within countries (Andalucia vs. Spain);

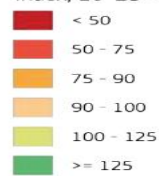
Among countries (Spain vs. EU28);

Within Europe (Andalucia vs. EU28).



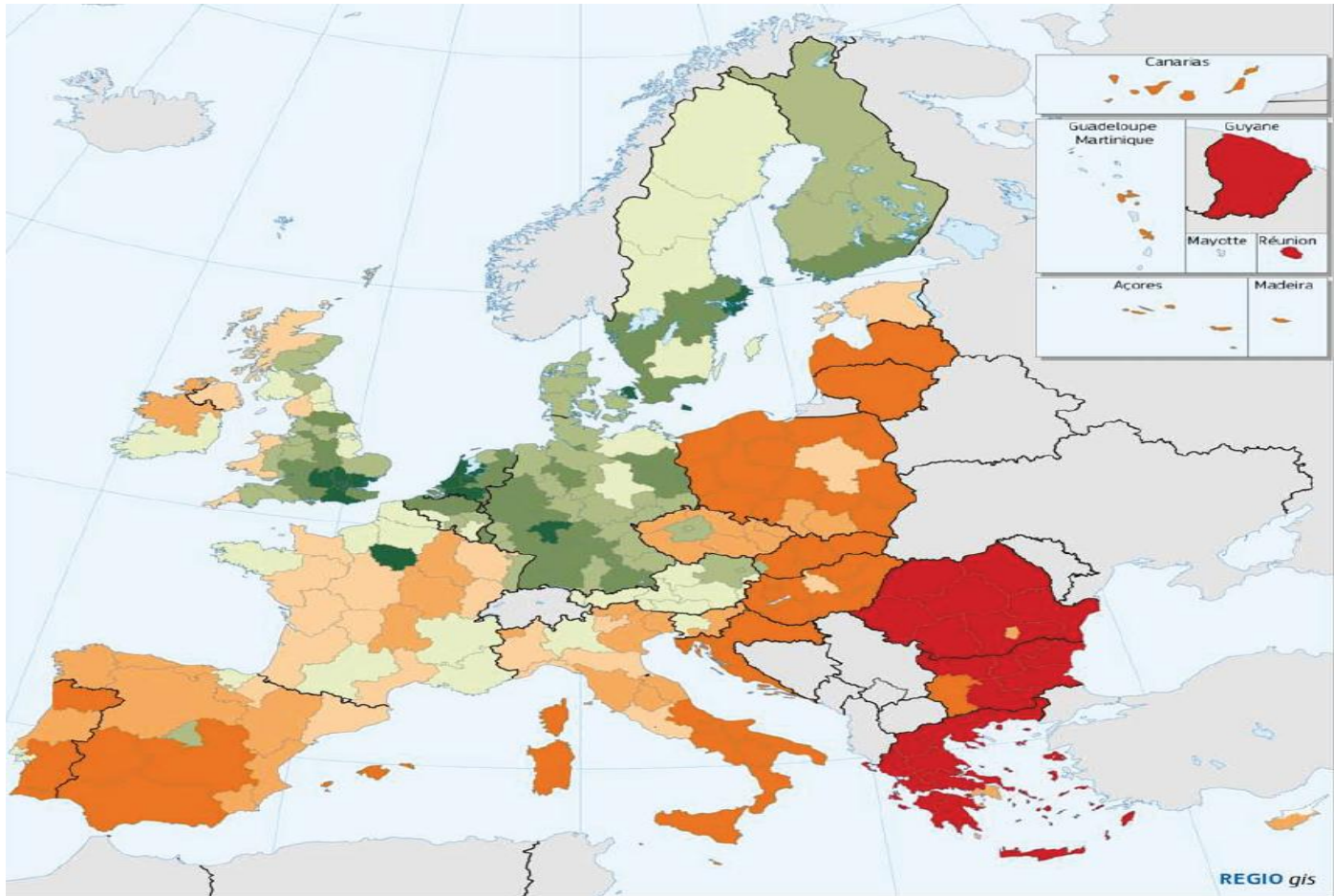
Map 1.1 GDP per head (PPS), 2011

Index, EU-28 = 100



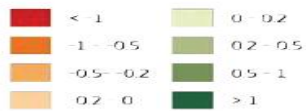
Source: Eurostat

0 500 Km



**Map 1.28 Regional Competitiveness Index (RCI), 2013**

Index: values range from low (negative) to high (positive)



EU 28 = 0

Source: Annoni, P. and Eijkstra, L. (2013)



# European regional policy

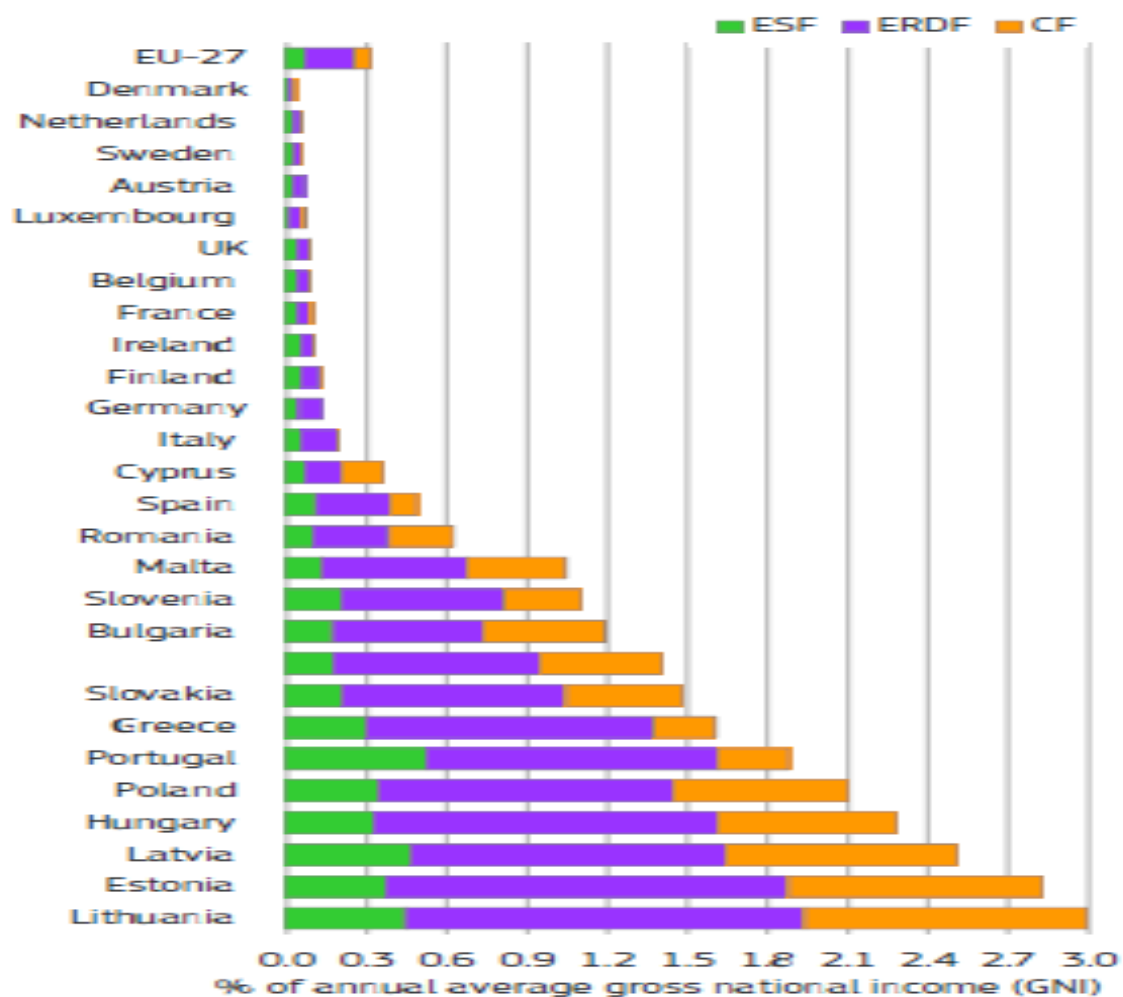
Launched in 1989 (Delors):

Single market may lead to spatial polarization, increasing disparities.

$\frac{1}{3}$  of the (small) EU budget.

Around 0,3% of EU GDP (higher role in smaller, less developed EU Member States).

**Figure 6.4 Cohesion Policy expenditure by Member State, 2007-2012**



Source: DG BUDG, AMECO, DG REGIO calculations

# What happened in Europe?

## **Period 3**

(revisited)

Divergence within countries (the German case)

Convergence among countries

Small convergence within Europe

# Convergence in EU27, 1995-2006

(coefficient of variation of per capita PPP GDP;  
increase = divergence)

	1995	2006
Within countries	25.5	27.8
Among countries	29.1	25.7
Within Europe	38.7	37.8

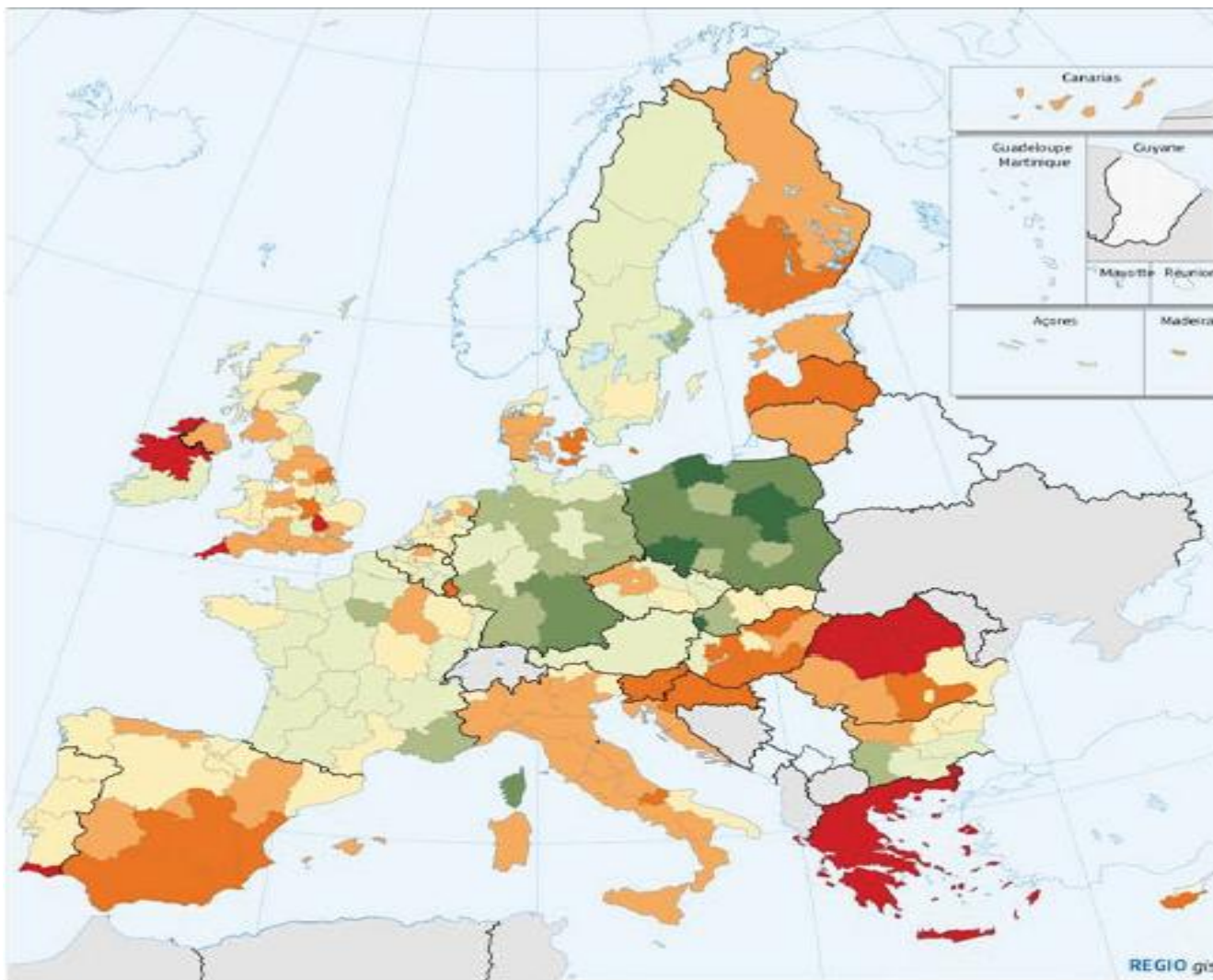
Source: DPS based on Eurostat

# What happened in Europe?

## Period 4

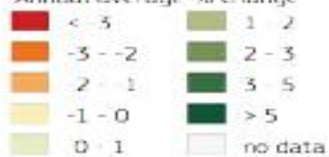
2008-?

per capita GDP convergence stopped  
employment divergence started



**Map 1.3 Growth of GDP per head in real terms, 2008–2011**

Annual average % change

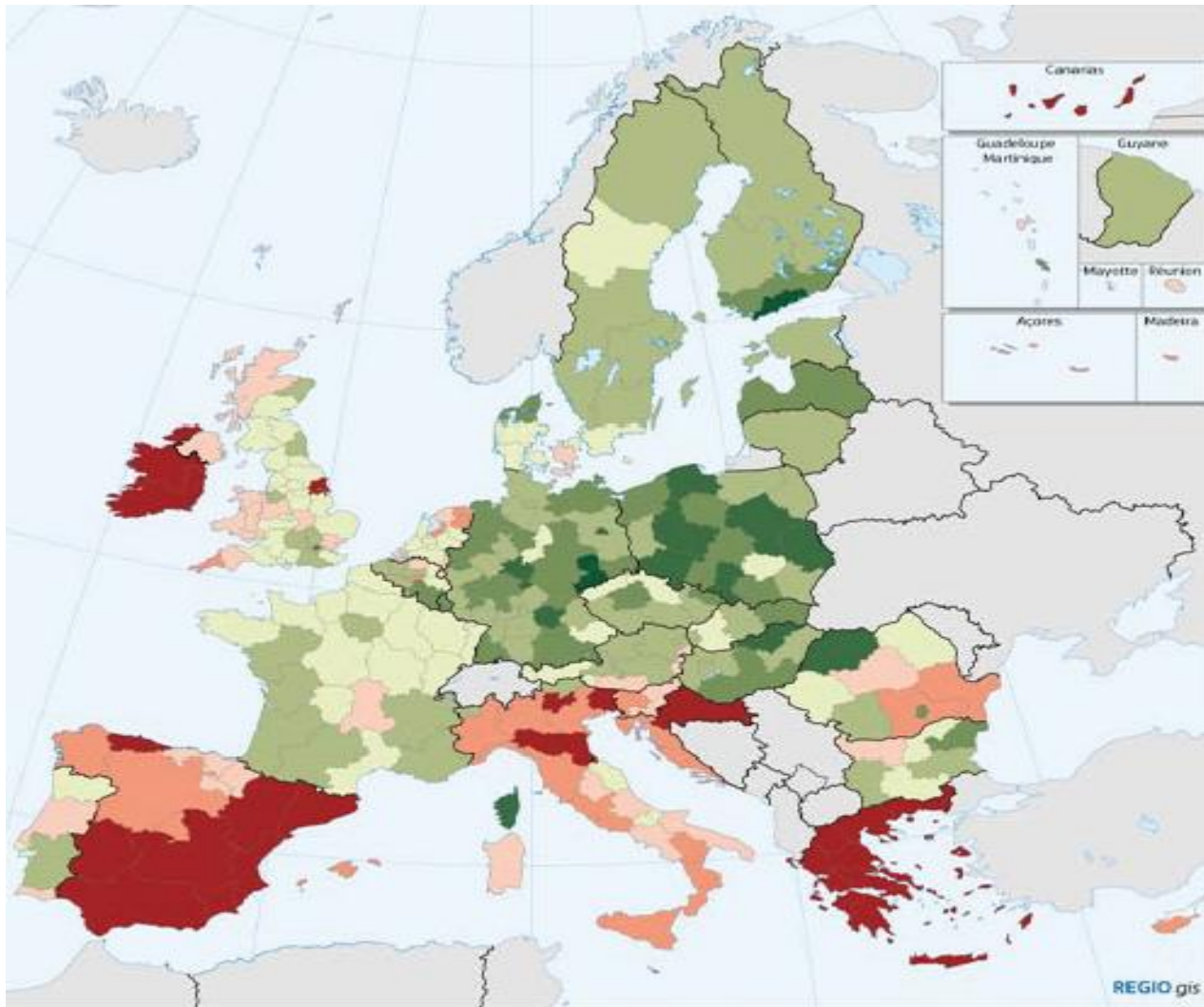


EU-28 = -0.6

AT, EL: national values; DE: NUTS 1 values

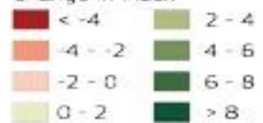
Sources: Eurostat, DG REGIO

0 500 Km



Map 2.30 Change in EU Human Development Index, 2008–2012

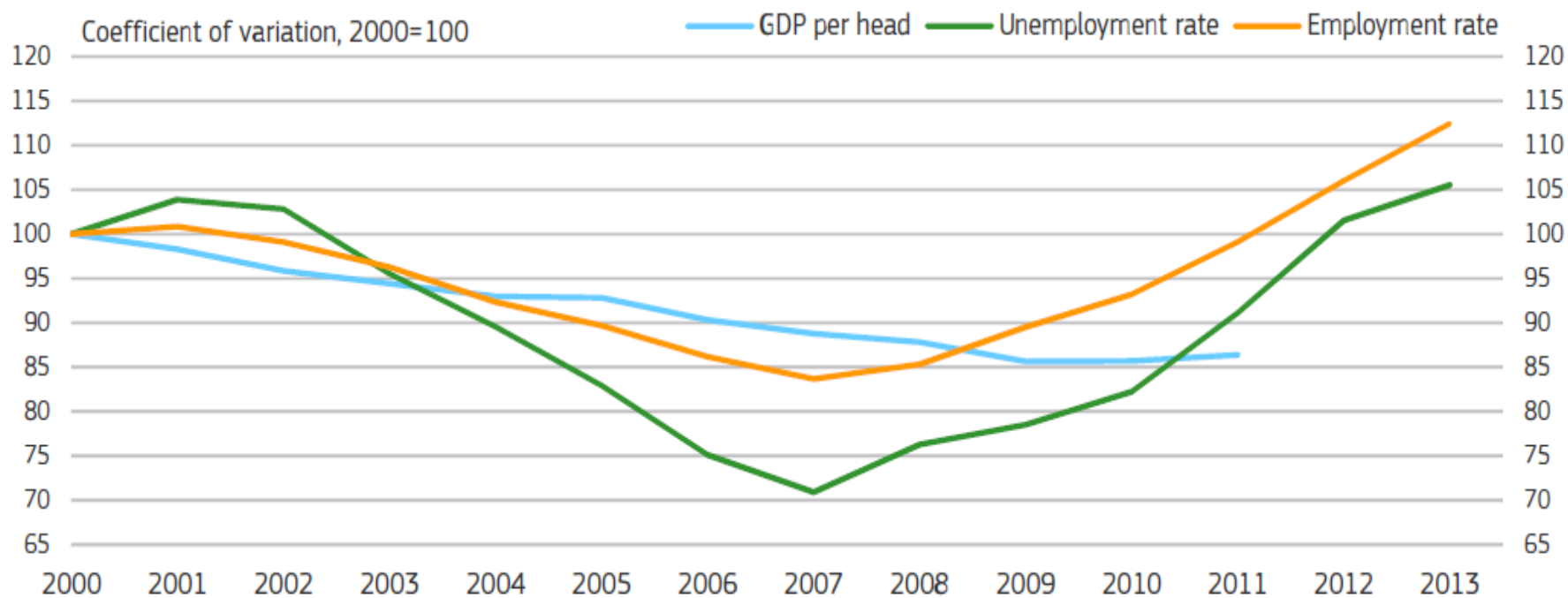
Change in index



EU-28 = 0.01

Source: Hardeman, S. and Dijkstra, L. (2014)

**Figure 1.1 Coefficient of variation of GDP per head, employment rate (15-64), unemployment rate, EU-27 NUTS 2 regions, 2000-2012**



Source: Eurostat, DG REGIO calculations



# The market dilemma

## Wage disparities/capital flows?

Globalization/EU enlargement:

Within countries wage disparities much smaller than international (among countries); investment flows towards more cost-competitive nations not regions:

int'l fragmentation, GVC and the example of German industry.

## Migrations?

Small (even if rising: CEPS report); not comparable to unemployment and to number of non – EU migrants.

# The policy dilemma

“Within countries” policies (“regional policies”) are much weaker (budget constraints, competition, industrial policies, political support: Scotland, Cataluña, Flanders, Veneto), while austerity policies hit more less developed regions.

“Among countries” policies (national growth policies) very severely limited (especially in EZ; much less in Poland!) by SGP, especially in Euro periphery.

“Within Europe” policies: no European fiscal and investment policies and shock absorbers (vs. USA).