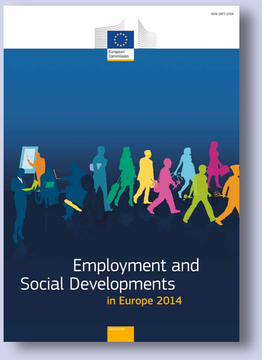
European Commission



Restoring convergence between Member States in the EU and EMU

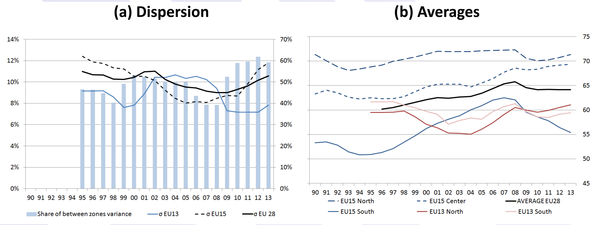
Main message

- Socioeconomic convergence came to a halt and sometimes reversed during the crisis.
- Hysteresis, cross border effects and weak central stabilisation capacity call for well-designed national and EU employment and social policies to improve convergence in Europe.

A halt to socioeconomic convergence in Europe

- Convergence came to a halt and sometimes reversed (see chart 1) :
  - a halt in terms of GDP per capita and poverty
  - a slight reversal in terms of household incomes
  - a strong reversal for employment and unemployment rates

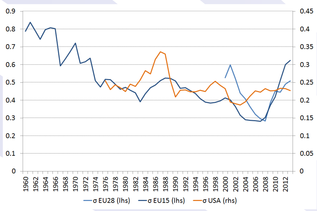
Chart 1. Convergence and divergence of employment rates (%) in Europe



Note : σ values refer to the coefficient of variation and are reported on the left axis, the share of between zones variance is reported on the right axis.

- This mainly reflected adverse trends in Southern and peripheral EU-15 Member States, which translated into an increase in the share of dispersion between zones (and a decline of the share of within zones dispersion).

Chart 2. Dispersion of unemployment rates in the EU and USA (1960-2013)



Note : axes on different scales for EU and USA.

- Adjustments were more balanced in the USA (measured at States level) than in Europe (see chart 2).

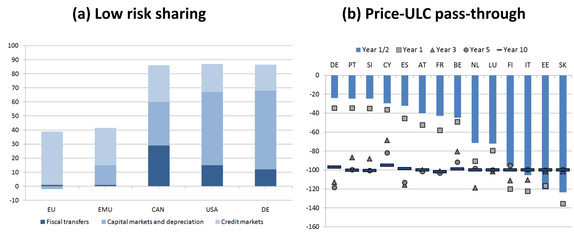
- The halt to convergence in the EU reflected :

- the exceptional scale of the crisis and limited adjustment capacity in the Euro area,
- structural imbalances that had been built up prior to the crisis, in terms of unit labour cost, human capital formation (notably skills) and indebtedness (mostly private).

Specificities in the E(M)U: cross-border effects and low smoothing or stabilisation capacity

- Shocks can have a strong adverse impact on employment and social cohesion, while the central stabilisation capacity is weak (see chart 3).

Chart 3. Low risk sharing in E(M)U and heterogeneity in adjustment of prices to changes in unit labour costs



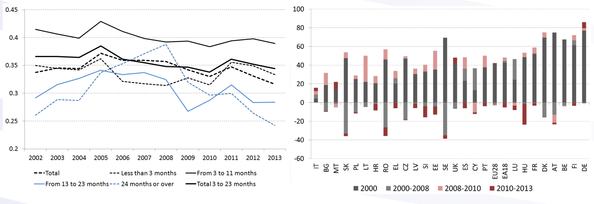
Note : chart (a) insurance against income shocks (source IMF), chart (b) adjustment path of output prices after a permanent cut in nominal unit labour costs (total economy).

- Mobility recently increased, with scope for further increases.
- Current cross-border externalities linked to cyclical distributional effects, hysteresis effects and distorted product market feedbacks (see chart 3b) will increase in the future.
- Strengthening the capacity to stabilise national economies and to implement appropriately designed structural reforms is necessary to ensure upward socioeconomic convergence across the EU.

Employment and social policies can contribute to restoring convergence

- **At the national level**
  - Employment friendly policies
  - Better prevention of scarring effects
  - More efficient stabilisation through welfare systems (see chart 4)

Chart 4. Erosion of unemployment benefits coverage (age 15-64)



- **At the EU level**
  - Fostering investment in human capital notably through European funds
  - Common benchmarks supportive of inclusive growth
  - Supporting labour mobility
  - Unemployment and fiscal capacity (three main forms: transfer systems, reinsurance systems and EMU-wide unemployment benefit systems)

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