Convergence in living standards: what do we know?

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Outline

- The idea of convergence.
  - Concept and measurement
- What do we know?
  - Convergence beyond income: empirical evidence.
  - Should we see convergence in living standards?
- What would we like to know?
- Convergence in inequality across EU regions.
The idea of convergence: two dimensions

- Convergence: the process of levelling living standards, economic as well as social, across two or more economies or regions.
  1. Over time, differences in a given development outcome shrink.
  2. “Backward” countries could tend to improve faster a certain development outcome than “advanced” countries so to close the gap between the two groups.
The idea of convergence: measurement

- **σ-convergence**: $\sigma_{t+T} < \sigma_t$
  - A group of economies are converging if the dispersion of the development index $P$ levels tends to decrease over time.

- **Convergence regressions**: $\Delta P_{it} = \alpha + \beta P_{i0} + \epsilon_i$
  - $\Delta P_{it}$, change in development index $P$ in country $i$ observed at $t=0$ and $t=T$; $P_{i0}$ is the initial level.
  - A necessary condition for the existence of $\sigma$-convergence is the existence of $\beta$-convergence.

- **Which convergence**:
  - Unconditional (or absolute)
  - Conditional
  - ‘Club’ convergence
Convergence beyond income: what do we know?

- Convergence in living standards? Some evidence
  - Health: evidence of convergence in life expectancy across countries.
  - Human development: weak absolute convergence over the period 1975-2002, but overall widening of the gap since 1870.
  - Poverty: inconclusive evidence, but speed depends on state capacity.
  - Income inequality: initial evidence of slow unconditional convergence, at global level.
  - Institutional quality: evidence of unconditional convergence, but such effect mainly related to post-1990 acceleration.
Should we see convergence in living standards?

- There is no ‘general theory’ of convergence in development outcomes (beyond income).

- The case of institutional and poverty convergence.

- Poverty convergence?
  - MDGs adoption: external pressure on states, Poverty Reduction Strategy Papers
  - Internal mechanisms: economic growth, ‘diminishing returns’ to anti-poverty policy.
Should we see living standards convergence? ctd.

- Institutional quality convergence?
  - Yes: agents bargain to replace dysfunctional institutions.
  - No: role of elites; commitment problems.
  - End of Cold War: a critical juncture?
  - External pressure to adopt ‘best practice’ institutions (e.g. IFIs and ‘good governance’ conditionality)

- Ultimately, convergence is an empirical matter…
What would we like to know?

- Convergence in ‘other development outcomes’ is an understudied area:
  - Are disparities reducing (or increasing)? Need for stylised facts.
  - Which structural conditions can accelerate convergence? Synergies between development objectives.
- Importance of structural factors. Two examples:
  - State capacity may accelerate poverty reduction.
  - Inequality may hinder long-run growth.
Increasing inequality in many EU countries in the last decades. Yet, efforts assessing disparities across the EU regions mostly concentrate on convergence in average per capita incomes.

- Harmonised data from Luxembourg Income Study (LIS) over 1989-2013 allow testing for convergence of income distribution and poverty among EU regions.

- Income inequality and poverty are unconditionally converging in NUTS 2 regions.
Inequality convergence across EU regions: scatters

Figure 3 – Gini and quintile shares: Initial level in 1990 versus change 2013-1990

Source: Savoia (2018). Notes: the panel 1990 – 2013 includes 53 regions from 7 countries (DE, DK, FI, ES, IT, LU, SK).
Poverty convergence across EU regions: scatters
## Uncondit. poverty convergence across EU regions

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<tbody>
<tr>
<td></td>
<td>OLS estimates</td>
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<td></td>
<td>Povrate households</td>
<td>Povrate households</td>
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<tr>
<td>Initial value</td>
<td>-0.291***</td>
<td>-0.508***</td>
<td>-0.369***</td>
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<tr>
<td></td>
<td>(0.087)</td>
<td>(0.077)</td>
<td>(0.080)</td>
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<tr>
<td>Constant</td>
<td>5.013***</td>
<td>5.421***</td>
<td>5.075***</td>
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<td>(0.881)</td>
<td>(0.909)</td>
<td>(0.785)</td>
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<tr>
<td>F-stat</td>
<td>11.268***</td>
<td>43.835***</td>
<td>21.193***</td>
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<td>Adj. R-Sq.</td>
<td>0.158</td>
<td>0.487</td>
<td>0.305</td>
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<td>Obs.</td>
<td>53</td>
<td>58</td>
<td>72</td>
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<tr>
<td>RMSE</td>
<td>4.079</td>
<td>4.215</td>
<td>3.654</td>
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|                         | IRLS estimates                      |                                    |                                   |
|                         | Povrate households                  | Povrate households                 | Povrate households               |
| Initial value           | -0.316***                           | -0.514***                          | -0.339***                        |
|                         | (0.091)                             | (0.055)                            | (0.064)                           |
| Constant                | 5.171***                            | 4.532***                           | 4.633***                          |
|                         | (1.117)                             | (0.790)                            | (0.787)                           |
| F-stat                  | 12.063***                           | 87.719***                          | 28.101***                         |
| Adj. R-Sq.              | 0.175                               | 0.603                              | 0.276                             |
| Obs.                    | 53                                  | 58                                 | 72                                |
| RMSE                    | 4.177                               | 3.373                              | 3.584                             |
Background references