

# Convergence and coordination

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# Economic convergence is a stated objective of the EU

## **In the report**

- Per-capita income
- Employment
- Unemployment
- Income inequality
- Inflation
- Synchronisation of business cycle

## **Not in the report**

- Fiscal balance
- Government debt
- External debt
- Household debt

# Why should one strive for economic convergence?

- No compelling reasons for same levels of per-capita income, employment or unemployment
  - insurance argument in national context does not apply
- Help foster *European identity*?
  - facilitate policy coordination in areas with strong spillover effects
  - but depends on how convergence is achieved
- Rules on maximum government deficits and debt help deal with spill-over effects

# Synchronisation of the business cycles in the euro area

- Common monetary policy more appropriate
- Does common monetary policy lead to more synchronisation of business cycles?
  - larger trade flows
  - no disturbances from domestic monetary policy
- Perhaps over the longer term
  - initial effect of monetary union was asymmetric boom in the periphery which led to the euro crisis

## Weaker case for input (policy) convergence than for output (outcome) convergence

- Incomplete knowledge of which reforms are most efficient
  - need for "system competition"
  - different countries may prefer different trade-offs between objectives
  - given objectives can be achieved with different policy combinations

# Minimum rules for national institutions

- Fiscal councils
- Independent central banks
- Independent judiciary

# Coordination/centralisation

- Banking union – strong case for centralisation
  - large spillover effects
  - need for swift decisions
- Refugee immigration
  - non-cooperative solutions are inefficient
  - strong case for cooperative solutions
  - but they are hard to achieve because of heterogeneous preferences among member states: resentment to the EU among those who bear the burden
  - centralised solutions instead create resentment among those who do not want to share the burden