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Price and GDP Convergence as an Effect of European Integration

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These topics form part of the pressing agenda of the EU and represent the multifaceted and complex nature of the European integration process. These papers also seek to highlight the internal and external dynamics which influence the workings of the EU and its relationship with the rest the world.

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I. Introduction

In the following short study I will examine the price level and GDP/capita level convergences of different groups of EU member states. The main question here will be whether there is a definite positive impact on GDP and price levels coming together with EU membership or not. How fast are the less-developed South- and East-European countries "catching-up" in GDP and price levels with their western European partners? Are these processes going parallel, or are they divergent? If they are not going parallel, how does this affect the livelihood levels of the new member countries?

To answer these questions I used the database of Eurostat, the central statistical database of the EU. First of all, four separate groups of countries were created within the EU. These groups are the following: the core (founding) 6 states: France, Italy, Germany and the BENELUX countries; the first three "newcomers:" Ireland, Denmark and Great Britain; the Mediterranean group: Spain, Portugal and Greece; and the 12 "New Europe" states: Poland, Hungary, Czech Republic, Slovakia, Slovenia, Malta, Cyprus, Bulgaria, Romania, and the three Baltic countries.

In the first part I took a historical examination of the first three groups, and checked their cumulative GDP growth rates from 1970 to 1991. Here I had three main questions: did the oil crises (in 1973 and 1979) affect differently the GDP growth levels of the western European and Mediterranean countries? Did the GDP growth level of first group of EU-newcomers (Ireland, Denmark and Great Britain) change when they become a member of the EEC? How did the GDP growth level of the second group of new members change after they got access to EEC funds?

In the second part I examined the GDP growth level differences of the EU 15 (France, Italy, Germany, the BENELUX countries, Austria, Sweden, Finland, Ireland, Denmark, Great Britain, Spain, Portugal and Greece) and the new 12 eastern European EU members. Here the main question was that how these two groups of countries close the "GDP-gap" between themselves, and if there was any effect of the EU membership to this process. As a side question, I also examined the three Mediterranean countries as a separate group. I used relative comparison, data compared to the average of the EU 27 countries.

In the third part I examined the price level differences of the EU 15 (France, Italy, Germany, the BENELUX countries, Austria, Sweden, Finland, Ireland, Denmark, Great Britain, Spain, Portugal and Greece) and the new 12 eastern European EU members. Here the main question was how the lower price level of the new member states gets closer to the higher price level of the western states of the Union, and if there was any effect of the EU membership to this process. As a side question, I also examined the three Mediterranean countries as a separate group. Here too I used relative comparison, data compared to the average of the EU 27 countries.

Finally, as a conclusion I examined parallel the GDP and price level developments of the new member countries and how the interaction of these two processes affects Eastern-European livelihood. As a side question again, I also examined the three Mediterranean countries as a separate group.

II. Historical examination

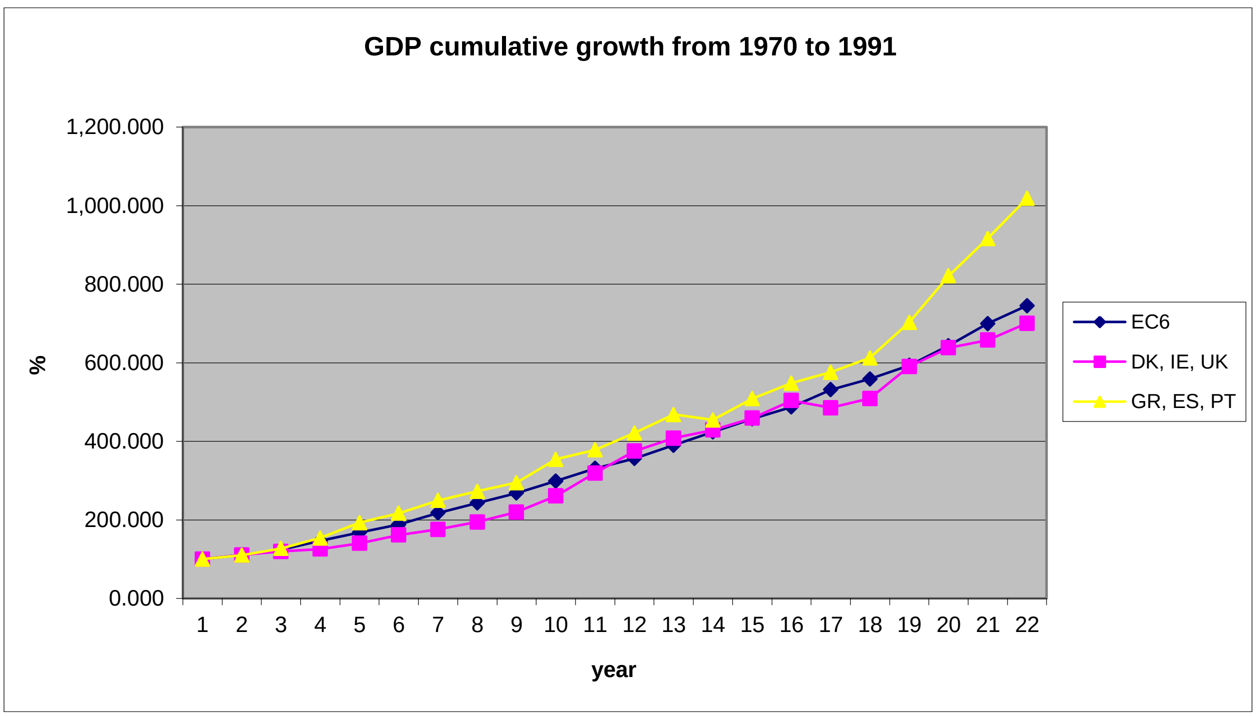
In this part we will see a historical examination of the first three groups of EEC countries and their GDP growth rates from 1970 to 1991. The three questions are:

1. Did the oil crises (in 1973 and 1979) affect differently the GDP growth levels of the Western-European and Mediterranean countries?
2. Did the GDP growth level of the first group of EEC-newcomers (Ireland, Denmark and Great Britain) change when they become a member of the EEC (1973)?
3. How did the GDP growth level of the second group of new members change after they got access to the EEC funds?

The answer to the first question is negative. We see that in the first fifteen years (including 1973 and 1979) there is no huge difference between the GDP growth rates. The three new members (Ireland, Denmark and Great Britain) show a bit slower progress, but this difference is eliminated by the end of the 1970s. We also cannot see a radical drop at the oil crisis dates, but the slightly negative effect of them surely exists. The new members group has the relative deepest point at 1979.

The second question can be answered negatively too. We can see a small difference in growth rates from 1973, but this tendency is only temporary, and in general the GDP progress of the three new members is quite similar to the EU founding six countries in the examined period.

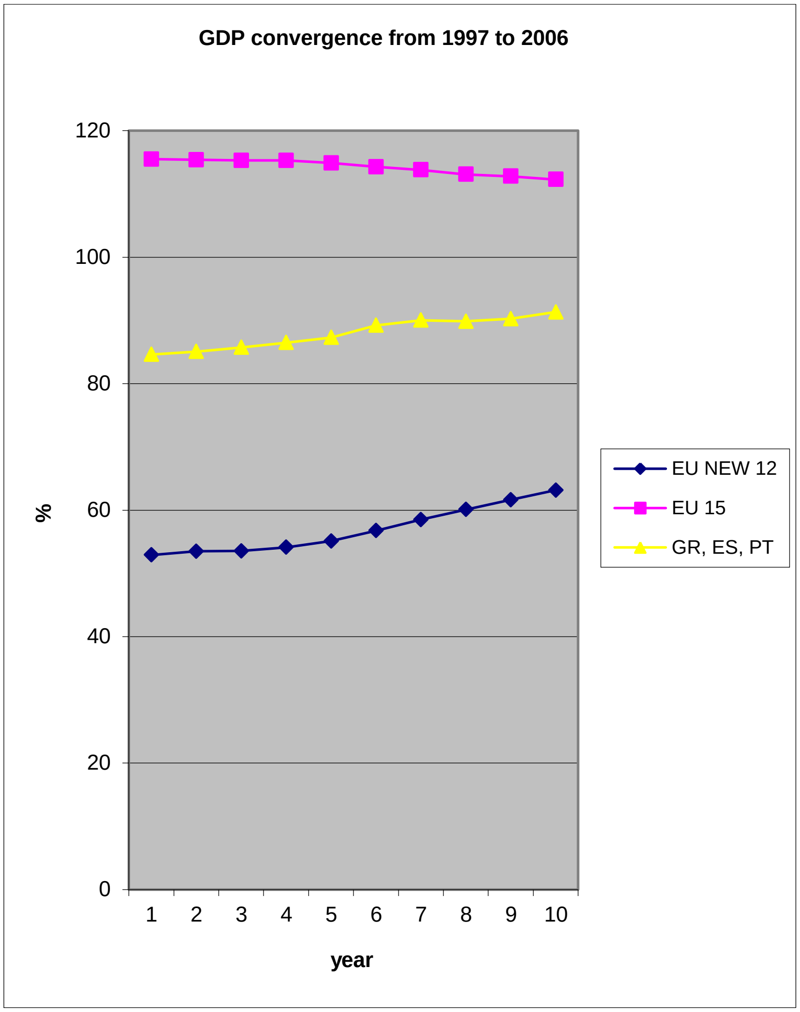
The third question is the most interesting. Since we cannot notice real differences in the growth rates between the first two groups, we would expect the same for the Mediterranean group. But here we can surely not miss the huge difference in the last period (1987-1991). After the EEC accession of the three Mediterranean countries in the 1980s, their GDP levels started to expand rapidly. We can see that the Mediterranean countries managed to tenfold their GDP levels in the examined 22 years, but the other countries gained only a 7:1 ratio. The difference of progress comes only in the 1980s; therefore we found a strong correlation between the EEC membership and the GDP progress.



III. GDP convergence from 1997 to 2006

In the second part I examined the GDP growth level differences of the EU 15 (France, Italy, Germany, the BENELUX countries, Austria, Sweden, Finland, Ireland, Denmark, Great Britain, Spain, Portugal and Greece) and the new 12 eastern European EU members. Here the main question was how these two groups of countries close the "GDP-gap" between themselves, and if there was any effect of the EU membership to this process. As a side question I also examined the three Mediterranean countries as a separate group.

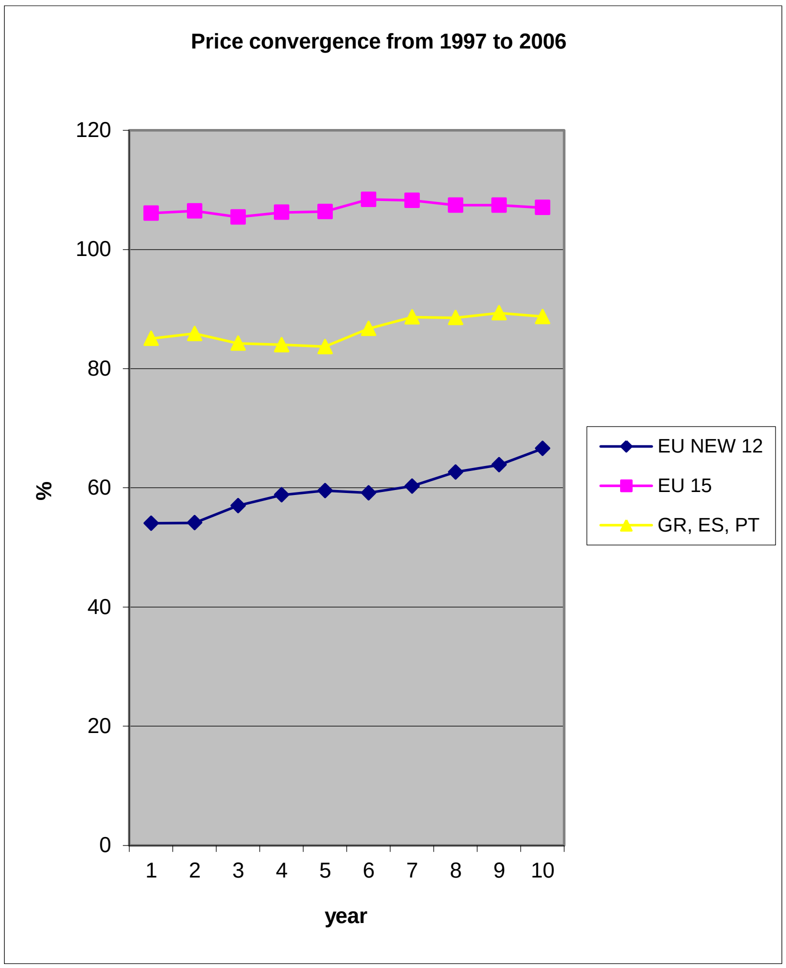
1. To answer the main question, we can say that the GDP-level gap is slowly but continuously getting smaller in the examined period. We can easily notice that the progress can be split into two different parts: between 1997 and 2000 the progress is quite slow, and after 2000 it is faster. At 2006, the new 12 member countries' average GDP/capita level reached the 63% of the EU 27. The EU 15 level is getting relatively smaller because of the new members' faster growth.
2. The EU enlargement (2004), as we see, did not cause a jump in the growth level of the new members. They are on a faster course since 2000, but later on the growth rate is not changing.
3. If we check the Mediterranean countries separately, we find the following: these countries have a very slow growth level, and except for the small jump in 2003, we can say that they started to stagnate at around the 90% of the EU 27 GDP/capita level.



IV. Price convergence from 1997 to 2006

In the third part I examined the price level differences of the EU 15 (France, Italy, Germany, the BENELUX countries, Austria, Sweden, Finland, Ireland, Denmark, Great Britain, Spain, Portugal and Greece) and the new 12 East-European EU members. Here the main question was how the lower price level of the new member states gets closer to the higher price level of the western part of the Union, and if there was any effect of the EU membership to this process. As a side question again I also examined the three Mediterranean countries as a separate group.

1. To answer the main question, we can easily notice that the price level is growing relatively faster in the new member countries, and this is normal since they started from only slightly more than the half of the price level of the Union. We also see that the timing of the price level growth is different from the timing of the GDP growth. In this case there was a huge jump at 1999, after that some stagnation and another jump at 2004. The overall level rose from 54% to 67% in the examined period. The EU 15 countries show stagnation. (Their price level growth is close to the average of EU 27)
2. If we look at the graph at 2004, we cannot miss the jump in price level of the new 12 EU member countries. This could be a coincidence, but more likely the effect of the EU accession.
3. Finally, the Mediterranean countries are also stagnating in price level growth, except for one jump at 2003. These countries have settled their average price level at about the 90% of EU 27.



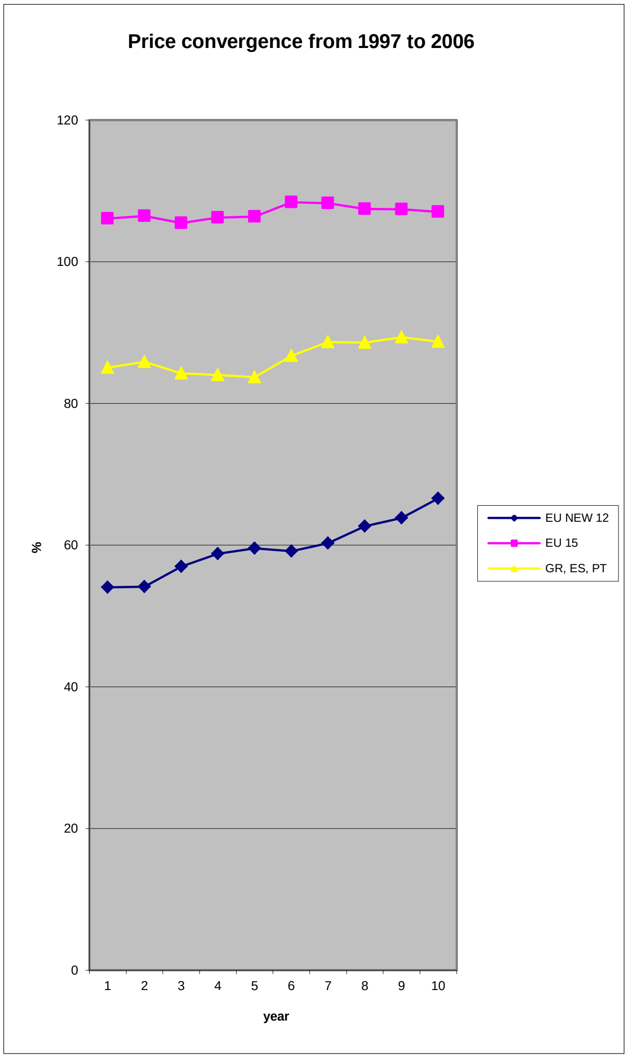
V. Conclusions: Price and GDP convergence in the EU

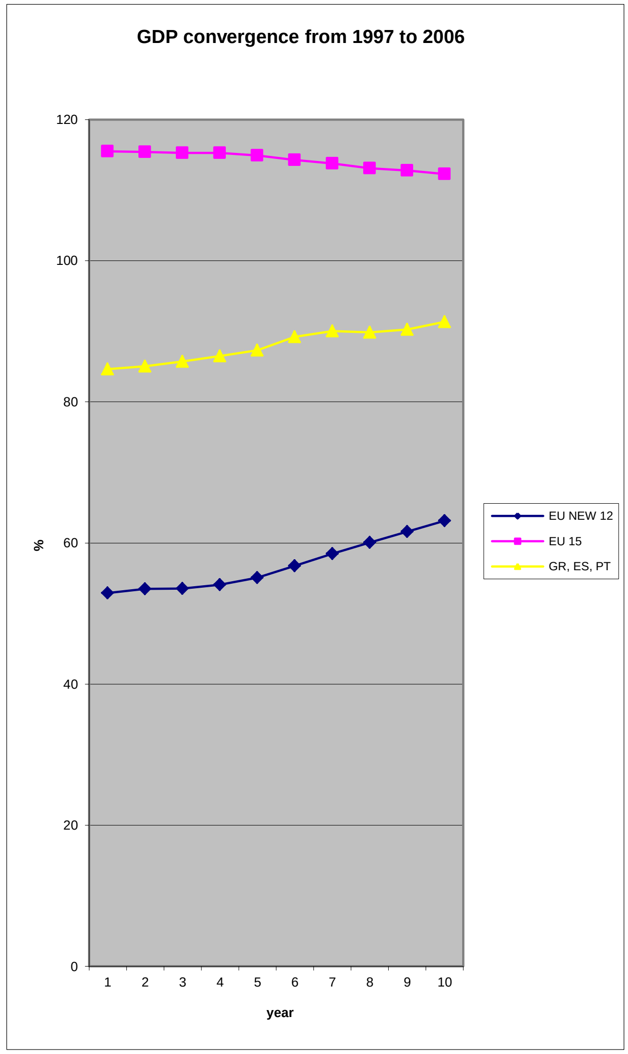
Finally, as the source of conclusion we can compare the price and GDP level growth of the three country groups in the examined period and draw some consequences.

1. As we can easily compare the growth rates on these charts (because of the same methodology, country groups and chart scales), we can see the differences easily too. The new 12 EU member states have both remarkable GDP and price level growths, but the intensity is different. Starting from the same level (about 54%) in 1997, by 2006 the price level rose to 67%, but the GDP level

only to 63%, which gives a 4 percentage points difference between price and GDP. This can affect the livelihood levels in the new member countries negatively, as the prices are growing faster than the incomes.

2. The EU 15 countries have a relatively stagnating price level, but the relative GDP level is slowly decreasing. This is due to the faster growth of the new members. This leads also to some decrease in livelihood, (since the price growth is average, but the GDP growth is a bit slower than average) but the overall gap is much smaller than at the newcomers.
3. The Mediterranean countries have their price and GDP levels stagnate at about 90% of the EU 27 average, with a small jump in both at 2003. In this case the livelihood did not change significantly.





All data is taken from the Eurostat database.

Dániel Gugán is currently a PhD candidate in International Relations and lecturer at the Corvinus University of Budapest (Hungary). He obtained his Master degree in 2007 in International Relations and Economics from the Corvinus University of Budapest. He is currently a visiting researcher at the University of Miami. His research focuses on the European Union's external policies, international political economics, transatlantic relations and the European Neighbourhood Policy. Since 2007 he worked for online journals writing analyses about issues in international politics and economics and he spent two years working on an EU project as financial manager. Daniel started his PhD studies in 2009 and he is currently working on his dissertation, which focuses on Euro-Mediterranean relations and the European Neighbourhood Policy.