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Portugal in the EU: the Perspective of Convergence

Tese de Mestrado

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5.2.1 GDP per capita PPP (Purchasing Power Parity)

Square 8: GDP per capita PPP (purchasing power parity)

Country	1972	1975	1983	1985	1986	1992	1993	1997
Austria	10676,3	11544,0	14269,2	14626,0	14952,6	17143,2	17041	18263,9
Benelux	11362,2	12233,3	14152,3	14674,3	14924,9	17425,5	17182	18650,6
Denmark	13001,6	13081,8	15335,5	16695,3	17279,8	17988,8	18206,	20198,7
Finland	10272,4	11238,0	13484,1	14216,3	14500,8	14595,1	1435	17029,8
France	12518,1	1322867	15371,8	15706,3	16017,2	17855,5	17539	18742,9
Germany	12573,2	12999,9	1551289	1637345	16749,8	16771,4	16461	17658,9
Greece	7058,61	7606,39	8728,24	9165,56	9285,14	9998,94	9959,8	10786,8
Ireland	6339,95	6961,28	8314,78	8853,39	8813,05	11901,9	12287	17341
Italy	10275,5	10971,5	13670,1	14390,4	14798,7	16927,5	16717	17976,3
Nether.	12064,7	12808,9	13871,6	14637,4	14956,9	16997,6	17014	18752,5
Portugal	6318,51	6479,01	8187,46	8219,14	8567,24	11015,0	11030	12024,7
Spain	8101,38	8998,96	9585,17	9900,58	10190,9	12518,7	12356	13675,2
Sweden	13002,4	14182,9	15314,8	16189,6	16521,4	17022,2	16551	18030,9
UK	11105,4	11648,2	13170,4	13911,9	14479,7	15641,9	15914	17824,2

Source: Base Chelem CEP II

As the square shows, the GDP per capita PPP was for Portugal in 1997 almost the double as was in 1972. Despite that it was still away from the values of the other countries at the exception of Greece with an inferior number (10786,83) or even Spain not very much above (13675,23).

Realize the interesting case of Ireland whose situation in the seventies was close from the Portuguese and that grown into a highly better one in the late nineties.

By comparing these numbers it's possible to realize that the centre of Europe verifies an interesting effort of real convergence among its countries, especially in the years of 1996,1997, but that the countries of the south (Portugal, Spain and Greece) are still far from verifying that real convergence.

From this square as well as from the following, it's clear that the less developed countries of the group verify a tendency to grow faster to see if they reduce their backwardness as soon as possible. If countries like Portugal, Greece and Spain don't grow faster than countries like France, Germany and the United Kingdom they'll never converge on real terms.

5.2.2 <u>Growth Rates of the GDP Constant</u>

Square 9: Growth rates of the GDP (considering the GDP constant, prices of 1990)

	1972/73	1974/75	1977/78	1983/84	1985/86	1986/87	1991/92	1996/97
Austria	4,888	-0,362	-0,362	0,332	2,341	1,681	1,342	2,500
Benelux	6,148	-1,648	2,825	2,634	1,758	2,369	1,654	3,111
Denmark	3,632	-0,661	1,477	4,389	3,643	0,294	0,226	3,300
Finland	6,708	1,153	2,093	3,016	2,373	4,100	-3,551	6,100
France	5,441	-0,697	2,776	1,303	2,380	2,248	1,056	2,300
Germany	4,765	-1,253	2,997	2,814	2,346	1,478	2,201	2,200
Greece	7,323	6,052	6,697	2,753	1,621	-0,462	0,515	3,200
Ireland	4,722	5,654	7,187	4,354	-0,428	4,664	4,557	9,800
Italy	6,542	-2,146	3,728	2,569	2,839	3,097	0,565	1,500
Netherlands	4,688	-0,092	2,358	3,288	2,755	1,414	2,025	3,600
Portugal	11,203	-4,346	2,815	-1,880	4,141	6,381	1,844	3,700
Spain	7,788	0,542	1,463	1,498	3,163	5,464	0,728	3,500
Sweden	3,968	2,553	1,751	4,047	2,294	3,145	-1,422	1,800
UK	6,724	-0,116	3,565	2,499	4,399	4,761	-0,532	3,500
EU15	5,787	-0,633	2,906	2,350	2,810	2,819	0,921	2,665

Source: own estimations from the Chelem CEP II data

As seen above there aren't still real convergence, but let's better analyse, for instance, the efforts made by the southern countries on that sense.

Portugal that had a growth of its GDP PPP of 11,2% in 1972/73 never verified a rate as high as that afterwards. Passed from periods of considerable difficulty as the ones of 1974/75 and 1983/84 where the growth was negative, representing respectively the period of the political revolution and the big crisis that the domestic economy faced in the beginning of the eighties, also because of the imported instability.

In the years that just followed the entrance to the European Regional Block, the growth rates were the highest of the group. In 1985/86 were 4,14% and in 1986/87 were 6,38%, when Spain that also entered in 86 had slower growth rates, respectively, 3,16% and 5,46%.

The growth above the average was maintained until 1997, even if the rates were now 3,7%. But countries like Ireland, that begun by growing slower than Portugal or Spain, or even than Greece, inverted that tendency to reach the remarkable percentage of 9,8%.

5.2.3 Unemployment Rates

Lower unemployment rates are an indicator of real and not nominal convergence because they're usually related with higher instruction and stronger public investments on education, as well as with a better connection of the markets of goods, monetary and labour meaning a demand closer to the offer (example: low investment happens when the demand is weak), witnessing in favour of structural changes.

Square 10: Unemployment rates

	1977	1983	1984	1985	1986	1991	1992	1993	1994	1995	1996	1997
Austria	*	*	*	*	*	*	*	4	3,8	3,9	4,3	4,4
Belgium	7,5	14,3	14,4	13,6	12,5	6,6	7,3	8,9	10	9,9	9,7	9,2
Denmark	6,3	10,1	9,9	8,7	7,4	8,4	9,2	10,1	8,2	7,2	6,8	5,5
Finland	*	*	*	*	*	7,0	12,3	17,2	17,4	16,2	15,3	13,1
France	4,8	8,9	10	10,5	10,7	9,5	10,4	11,7	12,3	11,7	12,4	12,4
Germany	4,0	8,4	8,4	8,4	8,1	5,6	6,6	7,9	8,4	8,2	8,9	10
Greece	*	7,8	8,1	7,8	7,4	7,0	7,9	8,6	8,9	9,2	9,6	9,6
Italy	5,4	10,9	11,9	12,9	13,7	8,8	9,0	10,3	11,4	11,9	12,0	12,1
Ireland	9,1	14,9	16,6	17,9	18,3	14,8	15,4	15,6	14,3	12,3	11,6	10,1
Italy	0,5	10,9	11,9	12,9	13,7	1,7	2,1	10,3	11,4	11,9	12,0	12,1
Luxembourg	5,4	1,6	1,8	1,7	1,5	5,8	5,6	2,7	3,2	2,9	3	2,6
Netherlands	*	14,3	14,5	13,3	12,4	4,0	4,2	6,6	7,1	6,9	6,3	5,2
Portugal	*	8,6	9,3	8,6	8,8	16,4	18,5	5,7	7	7,3	7,3	6,8
Spain	*	17,7	20,6	22,1	21,2	3,1	5,6	22,8	24,1	22,9	22,2	20,8
Sweden	5,3	*	*	*	*	8,8	10,1	9,1	9,4	8,8	9,6	9,9
UK		11,6	11,8	12	12			10,4	9,6	8,7	8,2	7
		EU10			EU12					EU15		
Average		10,3	10,7	10,7	11,2	6,9	7,7	10,1	10,4	9,9	9,8	9,2

Eurostat annual 98/99 and Eurostat review 86/87

Portugal shows one of the lowest unemployment rates of the group of countries, definitely a good indicator for the performance of its economy, especially when unemployment is seen for a long time as the biggest cancer of the united Europe. But now it's time to see that the other countries are facing bigger problems and Spain is one of them, but not the only one. Italy, Finland and France have big unemployment rates. Here and again the Europe show no real convergence.

In Blanchard and Jimeno (1995), the Portuguese performance is considered curious for being much better than the one of a country like Spain, when both countries have so many things in common. In any case, the Portuguese labour market is one of the most flexible of Europe.

6. Conclusion

So, what's convergence all about?

The convergence hypothesis can be seen in function of its average difference evolution or seen in terms of its dispersion evolution.

According to this perspective were studied the β-Convergence and the σ-convergence tests where the first was mainly preoccupied in answering to the question of how had been the mobility of revenue within the same distribution, while the second preferred to reach how had been the evolution of the distribution of revenue over time.

Quah raised strong critics to the β-convergence method defending that didn't gave enough information about the evolution of the dispersion's distribution, as well as the interpretation of the results unreliable. Other authors considered that both tests weren't able to incorporate the particularities of each region, dealing with all of them as any other observation of the interval.

From some own estimations using the test of Hénin and Le Pen (1995), we reached to the conclusion that the b-convergence was significantly different from zero and that there was no σ-Convergence. Those general results could only be contested if the estimation only involved Portugal and Spain.

Convergence is at the same time an objective for wanting to diminish heterogeneity but is also an intermediary step before other objectives of the union's construction, like nominal criterion before real convergence. May at the same time be a model, a harmonization rule or an instrument, since the values of democracy and the need for harmonization of well being require a structured society, the reason for supranational jurisdiction.

Considering as principal agents the countries, convergence is better traduced by the indicator of the GDP per capita and its growth, through capital mobility and cooperation between countries, among which the structural variables are considered identical.

The more and more similitude between countries can be verified at two levels, so we will find nominal convergence when variables like the discipline of the public finances and the monetary and the exchange stability are reached. Real convergence focus the efforts made towards the approximation of living standards between state-countries and convergence of income per capita.

After the inter-relationship between the nominal and real convergence indicators it's possible to conclude that there have been several structural changes in the European Regional Block. Portugal also had some but none was sufficient and real convergence is more important than nominal one for reflecting more permanent effects over the economy and contributing highly and effectively to better living standards.

Most of what was really verified was nominal convergence. Until now that achieved nominal convergence didn't lead to real convergence. But until recently the nominal convergence hadn't been reached. real convergence takes time and considerable effort from the part of all the state-members.

So, resuming the conclusions of the squares we can say that the countries, knowing that they should control their public finances because excessive deficits mean higher financing costs in the market of capitals and a stronger absorption of domestic savings as well as contribute to smaller debts, they tried and achieved their objectives. A more evident criterion of nominal convergence was the one of the interest rates. Comparing the harmonized price indexes of consumption with the fluctuation of the purchase power of the coin ECU, the first indicator showed clear nominal convergence when the second contradicted a bit the other. The countries of the EMS didn't fluctuated each domestic coin outside the margins of the European Monetary System (ESM) for the two promised years, nor imposed depreciations of their own initiative towards the other members, showing for that nominal convergence.

The less developed countries of the European Regional Block verified a tendency to grow faster for reducing their backwardness. Portugal also showed one of the lowest unemployment rates. Nevertheless, by comparing the numbers, it was possible to realise that the centre of Europe verified an interesting effort of real convergence among its countries, especially in the years of 1996/1997, but that the countries of the south (Portugal, Spain and Greece) were still far from verifying that real convergence.