

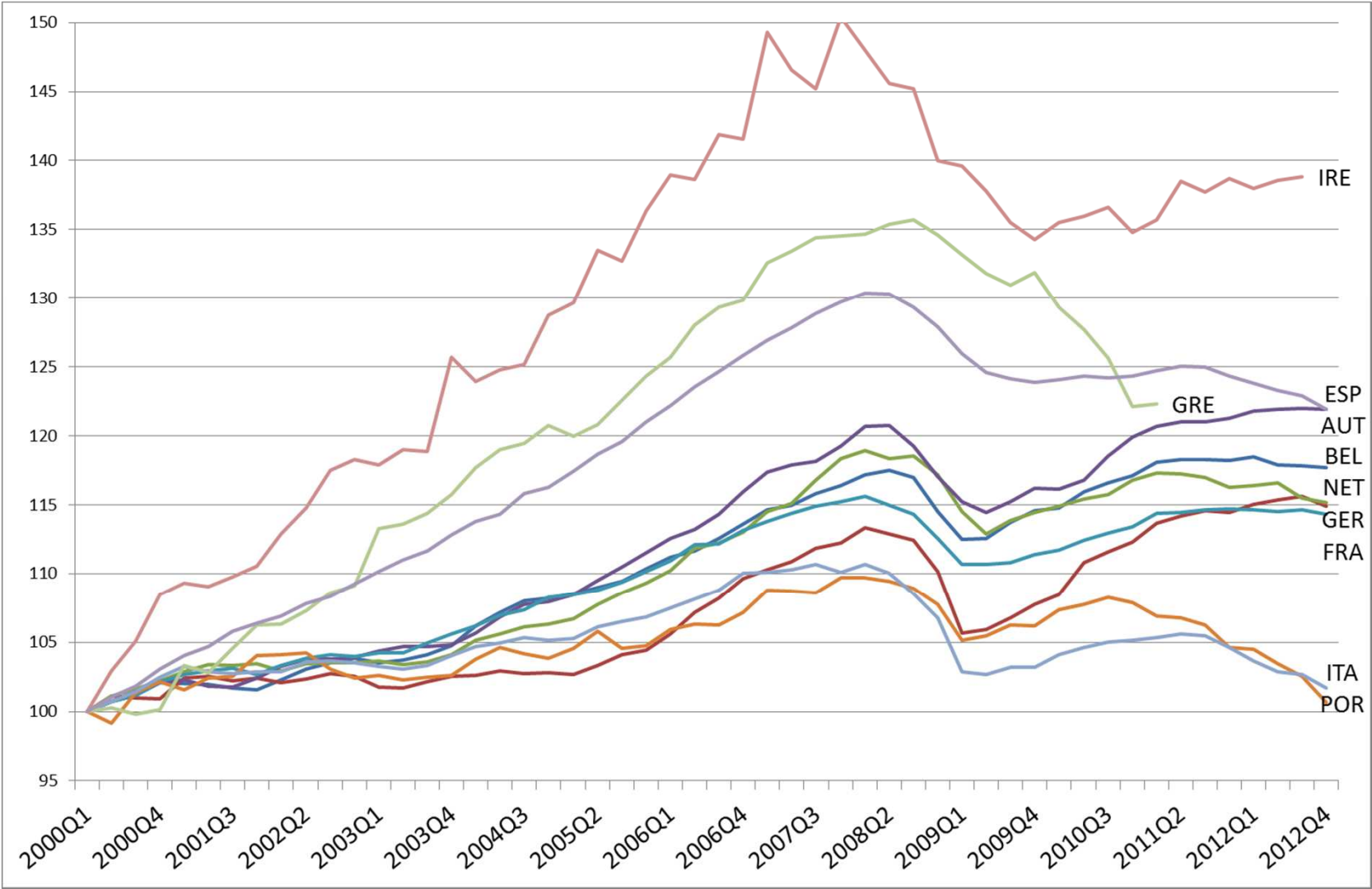
# Chybějící konvergence a “neočekávaná” divergence v EU a eurozóně

Evropská unie před krizí a nyní.  
Stejná, nebo poučená?

IES, FSV UK,  
23.5.2013

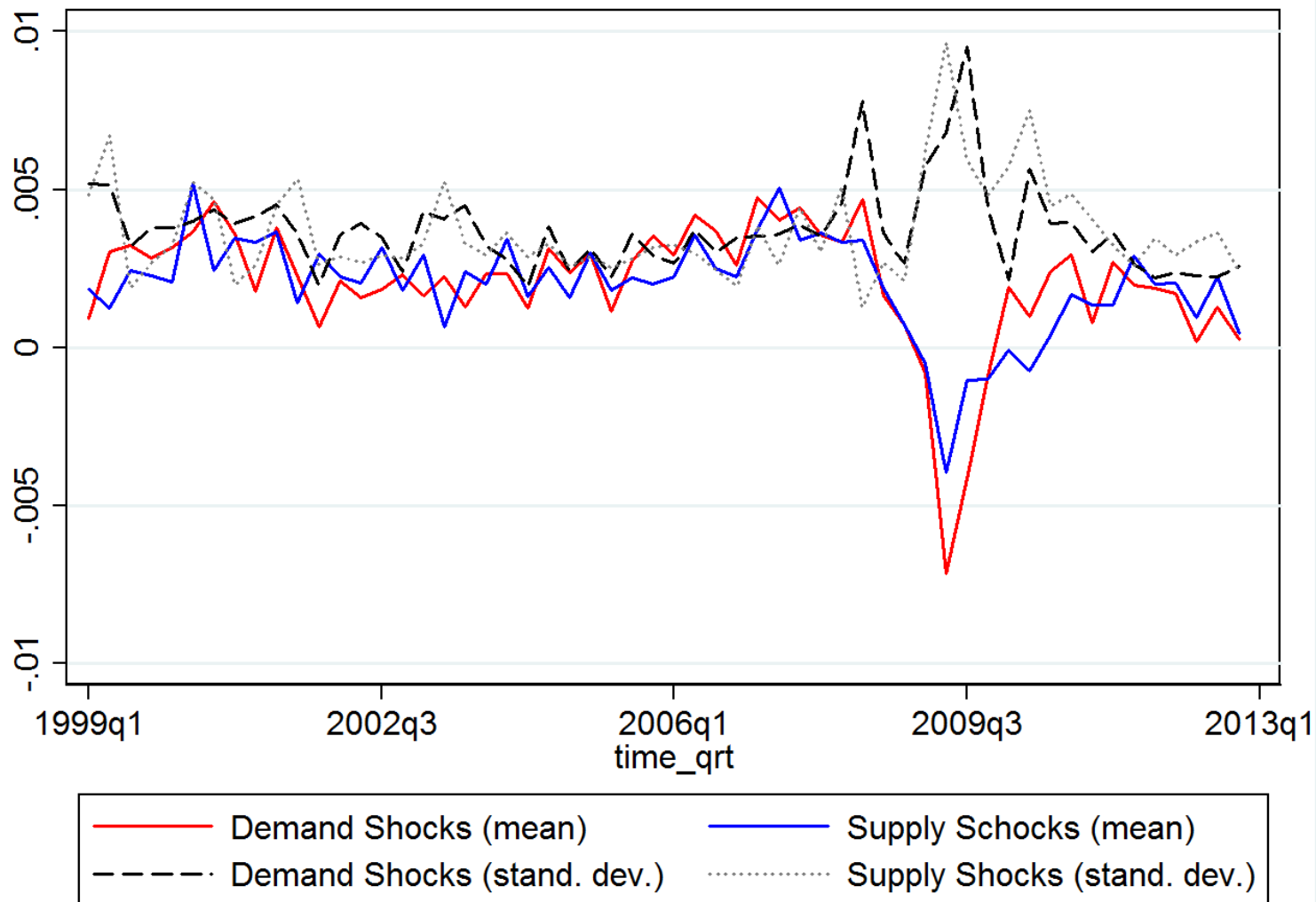
Prof. Dr. Jarko Fidrmuc  
Martin Siddiqui  
Chair for International Economics and Policy  
ZU Friedrichshafen

# Growth Divergence in Euro Area



Source: Eurostat.

# Growth Divergence in Euro Area



Source: Siddiqui (2013).

# Which Countries did Synchronize?

- Using estimated demand shocks, we use a time and country varying measure of business cycle synchronization according to Crespo Cuaresma et al. (2011).

$$S_{it}|\Omega = \frac{S_{it}|\Omega_{-i} - S_{it}|\Omega}{S_{it}|\Omega}$$

- Positive (negative) values indicate less (more) heterogeneity within the group.
- Does the variance of demand shocks in an area increase if we extend it by another countries?
- Is there a convergence (divergence) trend?

## Achieved DS Synchronization?

Country	Mean	Stand. Dev.	Time Trend	Time Trend (core)
Belgium	0.037618	0.023069	0.000201*	
Estonia	-0.106565	0.141781	-0.000523*	
Finland	-0.004162	0.083247	-0.000027	
France	0.018928	0.044458	0.000104*	
Germany	0.033909	0.028942	0.000178*	
Greece	-0.116466	0.175723	-0.000611*	-0.001940*
Ireland	-0.006440	0.052385	-0.000027	-0.001200*
Italy	0.018768	0.026819	0.000101*	-0.000953*
Luxembourg	-0.024634	0.122660	-0.000110	
Netherlands	0.020458	0.049019	0.000115*	
Portugal	0.022530	0.031343	0.000117*	-0.000895*
Slovak Republic	-0.037445	0.142064	-0.000182	
Slovenia	-0.047427	0.109377	-0.000245	

Source: Siddiqui (2013).

- EMU countries did not fulfill the OCA criteria, possibly with the exception of a small group, which was relatively integrated already before the EMU.
- The OCA theory does not provide an appropriate framework for the creation of a monetary union:
  - the benchmark is missing: what is a sufficient degree of business cycle synchronization?
  - methods yield often completely different results: what is the appropriate measure of business cycles?

- Business cycles are unstable (stochastic), countries with relatively high business cycle synchronization may have much lower similarity of business cycles later.
- The assessment of the past developments has no implications for future developments (Lucas Critique).
- Important factors are not considered: especially financial sector, etc.

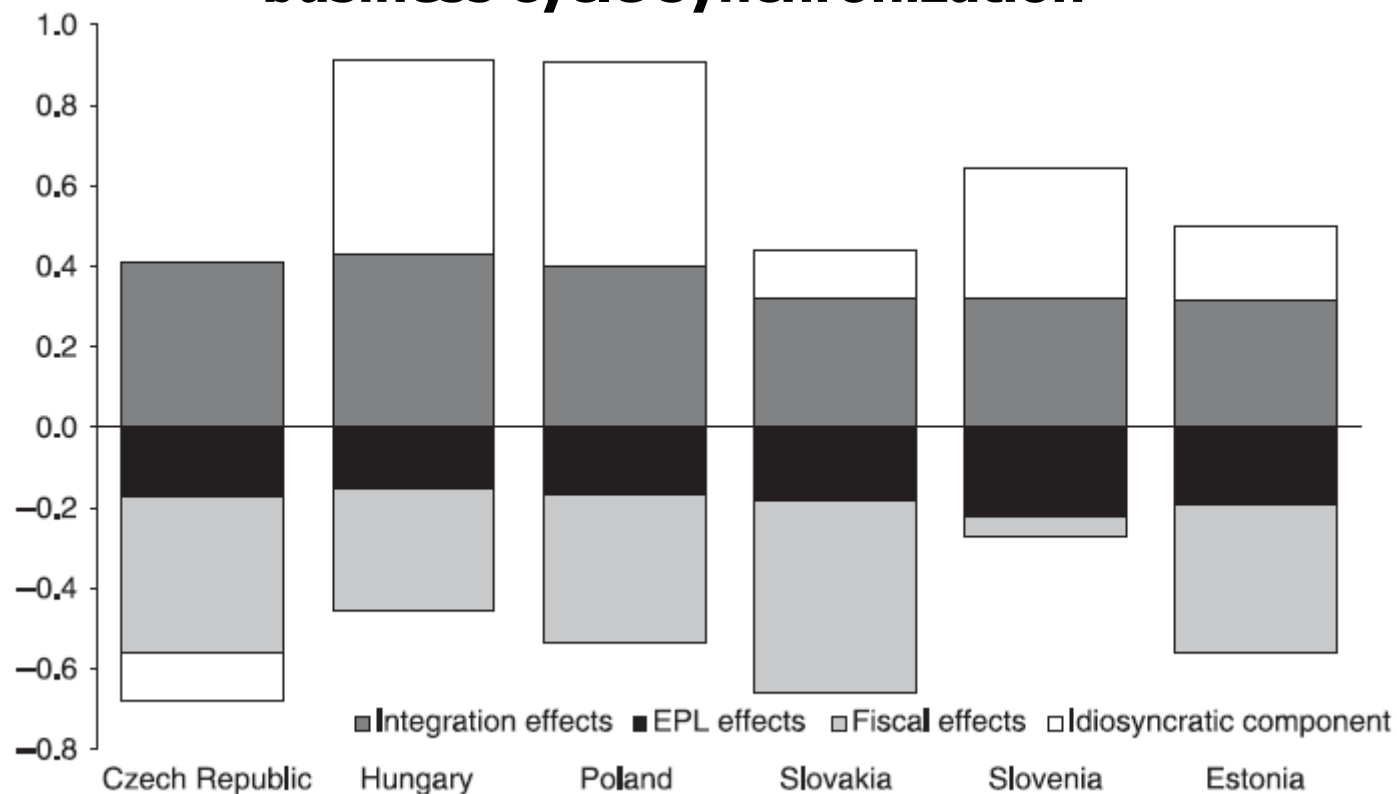
- The institutions of the EU are not designed for a management of a heterogeneous monetary union. Fiscal transfers are missing, if introduced, they tend to have a permanent character.
- Similar is true for migration.
- Strategic aspects are not considered. The member states tend to follow the behavior of the other members, especially regarding unsustainable developments.



- The costs of common currency were strongly underestimated, especially with regards to financial crisis.
- The benefits of OCA were overestimated.
- The endogeneity hypothesis of OCA was overstressed.
  - Trade integration is less important than expected.
  - The factors lowering the degree of business cycle synchronization (fiscal policy, trade specialization, institutional differences e.g. on the labor market) were not regarded.

# Why not Endogenous?

## Decomposition of the achieved degree of business cycle synchronization



Source: Artis, Fidrmuc, and Scharler (2008).

# OCA Theory and Policy

University Bridging Economics  
Culture and Politics

	<b>OCA Ranking<sup>a</sup></b>	<b>Plans for Euro Adoption</b>	
		<b>as of 2004</b>	<b>as of 2007</b>
Hungary	1	2007	2010
Slovenia	2	2007	2007
Poland	3	2007	2011
Estonia	4	2007	2008
Czech Republic	5	2010	after 2012
Latvia	6	2008	2008
Slovakia	7	2009	2009
Lithuania	8	2007	2008
Correlation		-0.29	0.24
Spearman rank correlation		-0.46	0.10
Kendall's Tau- <i>b</i>		-0.36	0.04

*a* – Fidrmuc and Korhonen (2006).

Source: Fidrmuc (2006), updated in 2007.

- From the beginning on, the monetary union was mainly a political project.
- Is its crisis also a crisis of economics?
- Unfortunately, the financial crisis stopped any further deepening of integration in the EU as a whole.
- The loss of dynamics may have significant negative impact on future development in Europe, especially as compared to more dynamic emerging markets.
- My answer to the opening question:

*Yes, different, but not wiser.*