

Challenges and prospects in the EU

Monitoring convergence in the European Union: Looking backwards to move forward – Upward convergence through crises



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While Eurofound acknowledges that the concepts of gender and sex are different, in this report, unless otherwise stated, gender is used to denote female and male characteristics.

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Country codes

AT	Austria	ES	Spain	LV	Latvia
BE	Belgium	FI	Finland	MT	Malta
BG	Bulgaria	FR	France	NL	Netherlands
CY	Cyprus	HR	Croatia	PL	Poland
CZ	Czechia	HU	Hungary	PT	Portugal
DE	Germany	IE	Ireland	RO	Romania
DK	Denmark	IT	Italy	SE	Sweden
EE	Estonia	LT	Lithuania	SI	Slovenia
EL	Greece	LU	Luxembourg	SK	Slovakia

Abbreviations

AIAS	Amsterdam Institute for Advanced Labour Studies
AROEPE	at risk of poverty or social exclusion
EIGE	European Institute for Gender Equality
EU-LFS	European Union Labour Force Survey
EU-SILC	European Union Statistics on Income and Living Conditions
GDP	gross domestic product
ICT	information and communications technology
IMF	International Monetary Fund
NEET	not in employment, education or training
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Co-operation and Development
PPS	purchasing power standards
SURE	Support to mitigate Unemployment Risks in an Emergency
WGI	Worldwide Governance Indicator

Executive summary

Introduction

Amid rising concerns over increasing disparities in social progress between Member States, Eurofound's 2017–2020 work programme included a commitment to investigate upward convergence in Europe, to determine if and how EU countries converge in socioeconomic trends. This flagship report is the concluding output of the research project entitled 'Monitoring convergence in the European Union'. Building on Eurofound's work carried out in 2017–2020, this report investigates the dynamics of upward economic, social and institutional convergence in the EU over the past two decades right up to the COVID-19 pandemic.

The report first examines the main trends in economic, social and institutional convergence over the 2008–2019 period. It then reflects on the short-term impacts of COVID-19 on economic and social convergence, highlighting the decisive impact of EU initiatives in limiting and preventing divergence. Finally, it explores the possible long-term effects of COVID-19 on European societies and the implications for upward convergence.

Policy context

Upward convergence – whereby EU Member States' performance in a given domain improves, while the gap between countries narrows – has always been seen as a key political aspiration of the EU. Member States join the EU with the expectation that socioeconomic objectives will be achieved and that working and living conditions will ultimately improve. Diverging performances among Member States and increasing inequalities within them jeopardise the cohesion of the Union and overturn expectations. This phenomenon warrants serious concern: economic divergence undermines the aspiration of shared economic prosperity across Europe, while social divergence poses an obstacle to the European integration project's ultimate goal of improving living and working conditions.

Following the 2008–2013 economic crisis, when Member States experienced downward trends and increased disparities, upward convergence moved to the fore of policy discourse. There was a renewed belief that economic and social upward convergence should go hand in hand and a general acceptance of its importance for the stability of the EU. Convergence became the thematic framework for the 2017 European Pillar of Social Rights, which was designed as a compass of upward economic and social convergence in the EU.

The 2014–2019 recovery period consolidated upward economic and social convergence in the EU. However, in 2020 the sudden onset of the COVID-19 pandemic triggered the most profound and far-reaching economic and social crisis since World War II, raising concerns about new and more severe forms of divergence.

The EU and its Member States quickly took action to minimise the economic and social consequences of the pandemic and prevent a surge in disparities across countries. The establishment of the Recovery and Resilience Facility placed upward convergence at the centre of the EU's policy action. However, as the pandemic begins to recede almost two years after its inception, concerns remain over the possible negative effects arising from the withdrawal of support measures.

Key findings

- The economic crisis (2008–2013) had a significant negative impact on upward convergence among EU Member States. However, while economic convergence was quickly restored, downward divergence in key labour market indicators and measures of living conditions prevailed largely until 2013. This trend following the ups and downs of the business cycle shows how deeply intertwined social and economic convergence are.
- During the 2014–2019 recovery period, many social indicators began to converge upwards, and in 2019, the EU entered its sixth year of uninterrupted growth. However, the 2008–2013 economic crisis left an uneven legacy along geographical fault lines. While central and eastern Europe continued to converge strongly towards the leading north-western region, southern Europe was increasingly left behind both socially and economically. Furthermore, the catch-up process in eastern Europe was mainly driven by dynamic capital regions and did not stop all central and eastern European regions lagging behind.
- Between 2008 and 2019, upward convergence in institutional quality between EU Member States was largely absent – except for the institutional business environment. Deep fault lines persist between high institutional quality in the north-west of the EU and low institutional quality in the south-east. Convergence in institutional quality could support the translation of economic convergence into substantial social convergence in eastern Europe, and could be a way to improve both in southern Europe.

- The COVID-19 pandemic is an extraordinary health crisis impacting deeply on all Member States. It has caused an unprecedented economic downturn, put the EU behind in achieving the 2030 targets in the European Pillar of Social Rights Action Plan and upended upward convergence in the EU. Its immediate economic impact was asymmetric, precipitating downward divergence in gross domestic product per capita among EU Member States and hitting southern European countries particularly hard.
- The policy interventions instigated swiftly by the EU and its Member States prevented a more devastating and uneven initial impact of the crisis on the labour market and living conditions. In fact, in 2020, Member States that suffered larger losses in economic activity recorded smaller increases in unemployment. The size of the prevented increase in unemployment was correlated with the size of the loans received through the EU’s Support to mitigate Unemployment Risks in an Emergency (SURE) mechanism.
- There are concerns that divergence trends will affect the shape of the economic recovery. The COVID-19 crisis was marked by the closure of economies, affecting certain sectors more than others. In light of the varying degrees of readiness of Member States for the digital and green transition, it is crucial to apply the appropriate policy tools to prevent the green transition from resulting in a new north-east versus south-west divergence pattern.

Policy pointers

- Previous pandemics have often led to protracted periods of divergence, triggering a geopolitical rebalance of power among countries. While direct comparisons with the COVID-19 pandemic are difficult and the global dynamics are still unclear, it is important that the EU embeds the concept of upward convergence at the centre of its policy action.
- Given that economic recovery depends on societies fully reopening, vaccination policies have become economic policies. The EU and its Member States should ensure the successful rollout of vaccines, including addressing delivery delays and vaccine hesitancy, factors that could jeopardise and diminish the strength of the economic recovery.
- Policymakers need to find the right balance between prematurely discontinuing policy measures put in place to support businesses and preserve employment and retaining measures for too long, thereby preventing ‘creative destruction’ and keeping ‘zombie firms’ alive.
- Avoiding country and regional divergence during the economic recovery and the transitions towards a climate-neutral economy is particularly important. The use of the flexible state aid framework and the spending of NextGenerationEU and other EU recovery funds can help to ensure that inequalities do not escalate and there is a stable future for the EU.

Introduction

Upward convergence refers to EU Member States improving their performance vis à vis certain economic or social policy targets, while disparities among them decrease. Although such a technical concept is difficult to communicate to a general audience, upward convergence captures the essence of the EU and is fundamental to sustaining the cohesion and legitimacy of the Union.

Member States and their citizens, by signing up to be part of the EU, have the implicit expectation that EU membership will lead to economic prosperity and social progress, for themselves and everyone across the community. Less developed countries have joined the EU with the aspiration of becoming wealthier and making progress towards better working and living conditions by reaping the fruits of the internal market thanks to the freedom of movement for citizens, capital, goods and services. If these expectations of balanced growth and progress are not met, the EU stops being perceived as a win-win scenario and discontent may set in.

Upward convergence as a political aspiration

Upward economic and social convergence has been a political aspiration of the EU since its foundation, and historical evidence confirms that the EU has achieved this in the past.

Article 174 of the Treaty on the Functioning of the European Union establishes that the EU will pursue actions leading to the strengthening of its economic, social and territorial cohesion, in particular promoting equal development and reducing disparities, while relying on the EU's notion of solidarity. Furthermore, although the term 'convergence' was explicitly used for the first time in the Maastricht Treaty (1992) with respect to monetary and fiscal indicators, for a full history of the social dimension of convergence one needs to go back to the origins of the EU. The Schuman Declaration of 9 May 1950 not only referred to the production and trade of coal, but also highlighted the need for the 'equalization and improvement of the living conditions of workers in these industries'.

Regarding the EU's achievements in reaching upward convergence, the World Bank defined the Union as the modern world's greatest 'convergence machine', thanks to its capacity to propel the newer Member States with low income along fast development paths in economic and, to a lesser degree, social areas (Gill and Raiser, 2012; Ridao-Cano and Bodewig, 2018). For example, Italy, one of the low-income founding members of the

EU, experienced unprecedented rapid convergence for several decades after 1957, becoming one of the most developed EU countries in the early 1990s. Ireland entered the EU in 1973 and, after a first decade characterised by slow convergence, it experienced fast progress and became one of the most developed countries in the EU. Although Greece, Portugal and Spain experienced slow convergence after their accession to the EU, more recently, following the enlargements of 2004 and 2007, the new central and eastern European Member States have achieved fast economic convergence, reaching the status of middle-income Member States.

Economic crisis of 2008–2013 and its aftermath

The founding fathers of the EU were convinced that social convergence would arise spontaneously through economic convergence (Vandenbroucke, 2017a).

The economic crisis experienced between 2008 and 2013 revealed the limitations of this belief. During this period, gross domestic product (GDP) fell abruptly and asymmetrically in EU Member States, participation in the labour market decreased dramatically and living conditions deteriorated considerably for certain sections of the EU population. Divergent patterns characterised the performance of EU countries, amplifying the economic and social disparities among them. The shock took years to be reabsorbed and Member States came back to their upward convergence trend only in 2014, when the recovery began and was consolidated. The asymmetric crisis left visible traces, with increased disparities among Member States and discontent towards the EU, but it also provided an opportunity to take actions to foster economic and social convergence.

Following the 2008–2013 economic crisis, the economic and social dimensions of convergence were no longer seen as two separate entities, as was originally believed by the founding fathers. Widespread agreement emerged that these dimensions should go hand in hand and that reforms should be put in place to facilitate this process. Consequently, the EU and its Member States promoted comprehensive growth strategies aimed at improving the inclusiveness, resilience and fairness of labour markets and social protection systems. Furthermore, the European Pillar of Social Rights was launched, with the ultimate aim of achieving better economic, living and working conditions in the EU, by translating economic convergence into equally successful social convergence.

COVID-19 crisis

At the beginning of 2020, Europe was entering its seventh year of uninterrupted growth. This economic expansion had led to strong job creation, with employment rates reaching a record high in the EU. In the fourth quarter of 2019, more than 196 million individuals aged 15–64 years were in employment in Europe – 14 million more than the value recorded during the peak of the economic crisis in the first quarter of 2013. Following the recovery of the economy in general (and of the labour market in particular), the unemployment rate of those aged 15–74 years had returned to its pre-crisis level in the last quarter of 2019 (one of the lowest of the last 10 years) – 6.6%, more than 5 percentage points lower than the spike recorded in the first quarter of 2013. In line with this robust recovery, good progress was recorded in most areas covered by the Social Scoreboard of the European Pillar of Social Rights (Eurofound, 2019a).

Following this consolidated economic and social recovery, the COVID-19 crisis erupted in March 2020. Italy was the first country severely hit by the spread of this novel virus at the end of February 2020, following which the outbreak quickly spread across Europe. By 13 March 2020, the number of cases of COVID-19 in Europe was greater than in China, and the World Health Organization considered Europe the active centre of the pandemic. Four days later, at least one death due to COVID-19 had been reported in all European countries. As a result of the spread of the virus, all Member States quickly implemented restrictive measures, including lockdowns and social distancing, to control the transmission of the disease.

While protecting the health of European citizens is the priority of the EU, the COVID-19 crisis also represented a major economic and social shock for the Member States, with profound and far-reaching consequences. As a result of the crisis, EU economies narrowed by 6.2% in 2020, while those of the euro zone contracted by 6.8%. The outputs of Croatia, France, Greece, Italy and Spain decreased by 8% or more, while Ireland was the only country recording positive GDP growth of 3.4%.

The COVID-19 crisis is unique, as it does not have an economic origin and is largely driven by non-economic factors. It is also unquestionably external and global in its nature, with unprecedented lockdown measures that halted the entire in-person ‘non-essential’ economy. Owing to lockdowns, the closure of shops and travel restrictions, consumer spending dropped in all Member States and what started as a massive supply-side shock quickly morphed into a demand shortfall with major economic and social implications (Borio, 2020).

Owing to the extent of the economic impact and the potential pervasiveness of the COVID-19 crisis in the social domain, including with regard to employment and poverty, there are strong concerns about the possible implications for economic and social divergence in the EU. In fact, the possible structural effects in the short and long run may include a huge decrease in the number of small businesses and the stock of human capital (due to unemployment and online-only education), more permanent telecommuting, an acceleration of the digital transformation and increased market concentration and decreased competition in certain sectors more affected by the lockdowns, such as the retail, hospitality and travel sectors. As a result, country differences may increase in both the economic and the social dimensions.

The EU and its Member States have quickly taken action to minimise the pandemic’s economic and social consequences, aiming to prevent a surge in disparities across countries. The recovery plan for Europe (negotiations began in April 2020 and the plan was agreed in July 2020) aims to mitigate the effects of the crisis.

By prioritising economic recovery, emergency aid, public health expenditure and investment in research and innovation, the EU aims to rebuild the economy and the internal market to its pre-COVID 19 levels, as well as build resiliency for future cross-border threats. The regulation establishing the Recovery and Resilience Facility, which was adopted by the Council of the EU on 11 February 2021, represents a significant ‘stepping up’ and a break with past policies of the EU, and will help Member States to address the economic and social impacts of the pandemic (European Parliament and Council of the European Union, 2021).

While the COVID-19 crisis is still unfolding, after a delayed start, the vaccination campaign is being successfully rolled out across all Member States and efforts are being boosted to detect and combat new strains of the virus.

The strong policy response to the pandemic has given economies the breathing space needed to maintain employment and keep viable firms afloat, and has limited the immediate impacts on unemployment. However, concerns are persisting regarding the possible developments in the aftermath of the crisis, when pandemic support programmes, such as short-time work and furlough programmes, will be withdrawn. Questions are arising about the implications for the working and living conditions of Europeans and the possible surge of social disparities and divergences across countries.

Structure of the report

This report is organised in five main chapters. The first chapter discusses the importance of convergence and outlines the monitoring tools created to perform the convergence analysis.

The second chapter investigates the past, from 2008 to 2019, along the three main dimensions of convergence: economic, social and institutional. It also reflects on potential drivers of convergence, using the example of employment.

The third chapter focuses on the short-term impact of the COVID-19 crisis by investigating changes in a number of economic and social indicators between 2019 and 2020. Furthermore, it discusses the possible effectiveness of the EU policy response.

The fourth chapter looks at the future implications of the COVID-19 crisis for economic and social convergence and explores how the world might look in the aftermath of the crisis using a forward-looking exercise and drawing on expertise from Eurofound's stakeholders and academic experts.

The final chapter, which contains policy messages and sets out areas for further research, concludes the report.

1 Upward convergence and how to measure it

Brief history of convergence

The concept of convergence (including its synonyms) is at the heart of the EU and is embedded in the European treaties in terms of its economic, monetary and social dimensions.

A full history of the concept of convergence in the EU can be found in Eurofound (2018a). To summarise, from as far back as the 1960s to the end of the 2000s, Member States have made substantial progress regarding convergence, particularly in the wake of progressive EU enlargement processes. In this respect, a crucial role has been played by both EU policies aimed at favouring convergence – such as the EU’s Cohesion Fund (European Parliament and Council of the European Union, 2013) – and the adoption of the euro (Estrada et al, 2013).

In this regard, the 2008–2013 economic crisis led to a paradigm shift. As a result of the crisis, the degree of socioeconomic heterogeneity among Member States increased considerably. Diverging trends among Member States were seen not only in the economic and financial spheres, but also in the social domain, including poverty and labour market conditions (Bongardt et al, 2013; Eurofound, 2018a). The significant diverging social trends recorded within the euro zone highlighted that economic convergence was not sufficient to reduce social inequalities; instead, ‘a stronger focus on employment and social performance is particularly important to increase resilience and deepen the Economic and Monetary Union’ (European Commission, 2017a).

In light of these trends, promoting convergence returned to the fore of the European agenda, with a greater emphasis on social convergence and its link with the economic domain (Eurofound, 2018a). The renewed debate on convergence began in 2012 with the ‘Four Presidents’ Report’, which discussed economic, as well as social and structural, imbalances. The report stated that, ‘in an economic union, national policies should be orientated towards strong and sustainable economic growth and employment while promoting social cohesion’ (Van Rompuy et al, 2012).

In 2015, the ‘Five Presidents’ Report’ highlighted, for the first time, the need for convergence in the economic and social dimensions of both the EU and the Economic and Monetary Union as part of the same agenda. For instance, the report recommended the establishment of

a national body that would be in charge of tracking performance and policies in the field of competitiveness in order to prevent economic divergence. It also emphasised that labour markets and welfare systems needed to function properly and fairly if the Economic and Monetary Union was to succeed. As unemployment – and particularly long-term unemployment – fuels inequality and social exclusion, efficient labour markets that are able to absorb shocks are essential in driving the smooth functioning of the Economic and Monetary Union and in building more inclusive societies (Juncker et al, 2015).

The need ‘to complete the Economic and Monetary Union and strengthen the convergence of economic and social performances’ was subsequently highlighted by the *White paper on the future of Europe: Reflections and scenarios for the EU27 by 2025* (European Commission, 2017b). This need was further bolstered by a series of reflection papers that reiterated that economic and social convergence needed to be fully aligned and geared towards higher standards of living and social conditions.

European Pillar of Social Rights and the Social Scoreboard

A further step towards the integration of economic and social convergence was the establishment of the European Pillar of Social Rights, which was launched in November 2017. The concept of convergence is one of the backbones of the Pillar, which was ‘designed as a compass for a renewed process of upward convergence towards better working and living conditions in the European Union’ (European Commission, 2018a). Its aim is to promote social protection as a social investment. The Pillar represents the latest step towards guaranteeing economic and social equality in the EU and is one of the major social advances of the last decade in the EU.

The Pillar offers a reflection of how the changing nature of work is affecting EU countries differently. Growing trends in job outsourcing, automation in production and price competition from large emerging countries, together with demographic changes brought about by increasing migration flows and ageing populations, all play a significant role. These global trends have already manifested their potential through increasing productivity; however, they also have the capacity to widen disparities both between and within Member States.

Twenty principles are enshrined in the Pillar in the form of rights, with the aim of ensuring and increasing the resilience of upward convergence between Member States in terms of sustainable economic and social performance. The goal of the Pillar is not to harmonise welfare systems but to improve them and make them ready for the new challenges faced by the EU and its Member States.

The Pillar builds on principles and rights previously established at different times, in different ways and in different forms, aiming to make them more visible and explicit for citizens and actors at European, national, regional and local levels. These principles can be divided into the following three categories: equal opportunities and access to the labour market, dynamic labour markets and fair working conditions, and public support/social protection and inclusion.

The European Pillar of Social Rights follows the ideas introduced in the 2013 Social Investment Package – which was a precursor to a revised focus on social investment, human capital and equal opportunities – and is often thought of as an important paradigm shift (Vandenbroucke, 2017b). In the Pillar, economic and social performances are now seen as interdependent – two sides of the same coin – as opposed to the more traditional belief that economic performance is a precondition for social development. With this underlying philosophy at the root of the Pillar, social policies are seen as an investment in citizens, a way to generate returns through both social inclusion and economic growth.

To monitor the performance of Member States, the Pillar includes an online Social Scoreboard. The Social Scoreboard is a central tool for monitoring both social- and employment-related performance and convergence on the path towards better living and working conditions. The headline indicators are analysed using the methodology agreed by the Employment Committee and the Social Protection Committee and the findings are presented in the joint employment report (European Commission, 2018b). The Social Scoreboard is intended to feed into the annual European Semester process of economic policy coordination, generating input for country-specific recommendations.

European Pillar of Social Rights Action Plan and the Porto Social Summit

In the middle of the COVID-19 pandemic, with the aim of consolidating Europe as home to the most equal societies in the world, the highest standards in working conditions and broad social protection, the European Commission launched the European Pillar of Social Rights Action Plan, which represents a set of concrete initiatives for building fairer and better-functioning labour markets and good welfare systems for the benefit of all Europeans.

As President von der Leyen said in her speech to the European Parliament on 20 January 2021, Europe is preparing to speed up the green and digital transition in the aftermath of the COVID-19 pandemic. As the change towards a greener, fairer and more inclusive future will entail costs and challenges, special attention should be paid to social issues and helping communities and individuals in this change. The Action Plan represents a concerted effort – with the involvement of all levels of governance, social partners and other actors – to fully implement the Pillar's principles.

Together with the set of initiatives enshrined in the European Pillar of Social Rights Action Plan, the Commission also proposed three EU headline targets to be achieved by the end of the decade in the areas of employment, skills and social protection.

- At least 78% of the population aged 20 to 64 years should be in employment by 2030.
- At least 60% of all adults should participate in training every year.
- The number of people at risk of poverty or social exclusion should be reduced by at least 15 million by 2030.

Strategies to achieve these targets are indicated, by guiding joint efforts in creating a strong social Europe and finding a sustainable approach. Complementing the EU's bold political goals for the green and digital transition, social targets will help focus policy efforts on achieving results and are an important incentive for reform and investment in the Member States.

The Trio Presidency of Germany, Portugal and Slovenia set itself the goal of promoting long-term upward convergence in the EU and strengthening social cohesion. Along these lines, the Porto Social Summit, held on 7 and 8 May 2021 and organised by the Portuguese Presidency of the Council, provided the opportunity to reaffirm the commitment and ambition to put people first in Europe's recovery and beyond. The Porto Social Summit was also an occasion to rally forces to renew, at the highest political level, the commitment to implement the European Pillar of Social Rights.

On 7 May 2021, partners signed up to the three 2030 headline targets set out in the Commission's European Pillar of Social Rights Action Plan in a joint Porto Social Commitment. The commitment emphasised the importance of implementing the Pillar in these challenging times, confirmed the Pillar as a compass of upward economic and social convergence, and reaffirmed the aim of continuing to work towards improving innovation, sustainable economic development, cohesion and convergence. The commitment also called for a regular assessment of the developments being made towards the 2030 headline targets and upward convergence.

The importance of the European Pillar of Social Rights in contributing to upward economic and social convergence is also emphasised in the Porto Declaration, signed on 8 May 2021.

European policy response to COVID-19 and convergence

Jean Monnet famously stated that ‘Europe will be forged in crises, and will be the sum of the solutions adopted for those crises’. However, every crisis has its own characteristics and prompts its own responses (Buti and Papaconstantinou, 2021). In this regard, the COVID-19 crisis is incredibly unique. It is not a policy-driven crisis like the one that occurred between 2008 and 2013, but unquestionably a crisis caused by an exogenous factor, against which macroeconomic policies have no effect on determining the way out. The crisis has come as a consequence of lockdown measures that have been unprecedented in living memory and that halted the entire in-person ‘non-essential’ economy. These measures will play a crucial role in shaping the aftermath of the COVID-19 pandemic, especially the extent to which the crisis and the ensuing recovery might affect the functioning of the EU as a ‘convergence machine’.

In March 2020, there were strong concerns about the implications of the COVID-19 crisis for upward economic and social convergence. Given the extent of the crisis, there were concerns over the possibility that the EU and its Member States might not be able to create the instruments necessary to avoid new divergences caused or exacerbated by the pandemic. The result of inaction would have been sacrificing convergence and putting the future of the EU at risk, with all the potential systemic risks associated with that.

A recovery plan for Europe

Against this gloomy expectation of a lack of reaction, the European policy response was, by contrast, full and unprecedented. In a matter of a few months, the EU and its Member States quickly took action to minimise the fallout on the economy of the COVID-19 pandemic and the social consequences. Furthermore, all of the instruments put in place embedded the concept of upward convergence or avoiding divergence at their core.

The pandemic had reached all Member States by 13 March 2020; by 23 April, EU leaders had already decided to work towards establishing an EU recovery fund aimed at mitigating the effects of the crisis. They tasked the European Commission with urgently producing a proposal that would clarify the link between the fund and the EU’s long-term budget. The proposal, a recovery plan for Europe, was presented by the European Commission on 27 May 2020.

On 21 July 2020, EU leaders agreed on a recovery effort currently valued (late 2021) at €806.9 billion, NextGenerationEU, to help the EU tackle the crisis caused by the pandemic (value in 2018: €750 billion). Alongside the recovery package, EU leaders agreed on a €1,210.9 billion (2018: €1,074.3 billion) long-term EU budget for 2021–2027. Among other things, the budget will support investment in the digital and green transition and in resilience. Together with the €540 billion in funds already in place for the three safety nets (for workers, for businesses and for Member States), the overall EU recovery package amounts to €2,364.3 billion.

The European Parliament and the Council of the EU reached a preliminary agreement on the package on 10 November 2020. On 10–11 December, the European Council addressed the concerns raised on the agreement and cleared the path for the recovery package to be adopted. The regulation establishing the Recovery and Resilience Facility was adopted by the Council of the EU on 11 February 2021. This instrument, which is at the heart of NextGenerationEU, provides Member States with €723.8 billion (2018: €672.5 billion) in support to help them address the economic and social impact of the COVID-19 pandemic. The Recovery and Resilience Facility aims not just to rebuild the EU economy and strengthen resilience, but to ensure a sustainable recovery that mitigates the economic and social impact of the crisis and furthers the green and digital transition, while fostering economic and social convergence.

In order to strengthen the EU and earn the support of its citizens, the underlying idea of this forward-looking initiative is that no country or region should be left behind while helping with the rebuilding of economies and societies after COVID-19. As part of this, economic and social convergence are implicitly recognised as one of the main objectives of the EU.

Measuring upward convergence in the EU

Upward convergence is a technical term that describes Member States improving their performance as regards a certain economic or social policy target, while the disparities among them decrease. It describes two concepts: improvements and convergence.

In both academic and policy research, convergence is usually defined in economic terms, with the investigation of convergence across economic units remaining a pertinent focus across the literature. Economists and econometricians are interested in knowing if rich countries are set to remain rich or if poor countries will catch up and thus converge, becoming rich themselves (Sala-i-Martin, 1996). While interest in convergence can be traced back many decades, the lack

of available data meant that the first academic studies on convergence were not published until the end of the 1980s, when the convergence debate finally captured the attention of the academic community and policymakers.

In this context, scholars following neoclassical growth theory – such as Solow (1956) – argued that similarities in investment rates and technical progress between two economies would also imply a certain pattern of convergence between the two, with a negative correlation occurring between the rates of economic growth experienced within a group of countries and their initial levels of economic development. Such a concept implies that poorer countries have the potential to grow faster than richer countries, meaning economic convergence can be achieved (Székely and Kuenzel, 2021).

Eurofound's approach to upward convergence

Eurofound (2018a) provided the first formal mathematical definition of upward convergence. In its pioneering and data-driven work, Eurofound defines upward convergence as the condition realised when a Member State's performance improves to the point that it draws closer to an ideal policy target, while at the same time narrowing the gap between itself and other countries. Upward convergence, or moving closer together in an upward trajectory, is therefore the union of two concepts: an improvement in performance and convergence itself, that is to say, the reduction of disparities. As such, measuring upward convergence inherently involves the measurement of these two concepts.

The concept of performance improvement is ultimately related to a policy target, in other words the desirable orientation of the indicator towards, for example, better

living and working conditions. This implies a normative interpretation of the improvement of an indicator, which can technically occur if the indicator's level increases or decreases. For example, in the case of employment rates, upward convergence is observed when the indicator increases and disparities among countries decline, while for unemployment rates, upward convergence is observed when the indicator falls and disparities among countries decrease. As such, the concept of upward convergence is a normative concept strictly related to the policy target.

As demonstrated by Eurofound (2018a), average levels may hide patterns in individual countries, which implies that the investigation of upward convergence should also consider the situation in all countries. Indeed, the improvement of an indicator at the EU level does not necessarily imply that levels are improving for all Member States. To take account of these aspects, Eurofound distinguishes between two types of upward convergence.

- Upward convergence, or upward convergence in the weak sense, occurs if the EU, as a whole, records an improvement in its performance (towards the policy target), while reducing its disparities. In this case, not every Member State (or region) needs to show an improvement.
- Strict upward convergence occurs if all countries (and regions) improve their performance (towards the policy target) while reducing the disparities between them.

In addition to these two cases, and following the same logic, Eurofound (2018a) defines three other possible situations: upward divergence, downward divergence and downward convergence. Box 1 provides details about the statistical measures used to monitor upward convergence.

Box 1: Statistical measures of upward convergence

Based on the assumption that a country with a weaker performance in social indicators, especially in the area of employment, is likely to develop faster than a country with a stronger performance in these indicators, Eurofound adopts the following three statistical measures to monitor upward convergence on the path towards better working and living conditions. These measures of convergence focus on different aspects of convergence and have different policy interpretations.

1. **Beta convergence** refers to a process in which poor regions develop faster than rich regions and therefore catch them up. It links to the empirical definition of convergence postulated by growth models and is used to measure if countries starting from initially low levels of GDP per capita (or any other employment and socioeconomic indicator) develop faster than richer countries. Beyond being used to test this classical hypothesis of income convergence, this definition of convergence is adapted to other variables of interest to assess if worse-performing countries or regions catch up with better-performing ones (see, for instance,

Signorelli (2005) for an analysis of the convergence of employment rates). Technically, to calculate unconditional beta convergence, the following regression should be estimated:

$$\ln(\Delta y_{i,t}) = \alpha + \beta \ln(y_{i,t-1}) + \varepsilon_{i,t}$$

where $y_{i,t}$ is the level of indicator y in country i at time t ; $\Delta y_{i,t}$ is the growth rate of indicator y in country i at time t ; α and β are the parameters to be estimated; and $\varepsilon_{i,t}$ is the error term. This equation analyses the relationship between the growth of an indicator over a certain period of time and its initial value. Beta convergence exists if the relationship is statistically significant and negative; as such, countries in which the initial level is higher see a slower pace of growth. The magnitude of parameter β gives an indication of the speed of the convergence process.

2. **Sigma convergence** refers to the overall reduction in disparities among countries or regions over time and is measured by the evolution of the statistical measures of dispersion or inequalities (for example, the standard deviation, coefficient of variation and Theil index). The standard deviation is a measure of the dispersion of a set of data values. In the present case, a low standard deviation in an indicator signals that the values recorded by Member States are close to the EU mean, while a high standard deviation indicates that they are spread out over a wider range. The coefficient of variation is a standardised measure of dispersion. It is defined as the ratio of the standard deviation to the mean and is often expressed as a percentage. The Theil index is used in this case as a measure of regional inequality, which can be broken down into two components: one captures the extent of disparities between regions within the Member States and the other captures the extent of the disparities among them.
3. **Delta convergence** was coined by Heichel et al (2005) to describe the analysis of countries' distance from an exemplary model, for example the best performer or a set of best performers. Delta convergence is measured through the sum of the distances between the top performers and the other countries:

$$\delta_t = \sum_{i=1}^N (\text{MAX}(x_{i,t}) - x_{i,t})$$

where δ_t is delta convergence and $x_{i,t}$ is the level of indicator x in country i at time t . A reduction in distance from the frontrunner over time implies convergence. In particular, if the sum of the distances decreases over time, delta convergence can be identified, while an increase in the sum of the distances suggests that countries are diverging. Delta convergence is a measure of how countries or other units are becoming similar to the top performer. While the presence of outliers can skew the data, it is a good quantitative measure of whether convergence towards a certain policy target is in fact occurring.

convergEU: the Eurofound R package for upward convergence analysis

As part of its work on convergence, Eurofound has created a tool to calculate all measures of upward convergence and to better understand the dynamics of Members States' performance against the framework of convergence. The tool builds on Eurofound's work on measuring convergence (Eurofound, 2018a), takes on board the Joint Assessment Framework methodology (Employment Committee, 2017) to assess convergence trends through time in Member States, and allows a full analysis of convergence for given indicators to be automatically performed in a few minutes.

All of the computational tools developed by Eurofound are available from Eurofound (2020a).

The initial supporting code was developed in Stata (Eurofound, 2019b); the advantage was that the code could be adapted to analyse other indicators, but the adaptation required custom edits for each new indicator. To improve the tools and fully automate the analysis starting from a given indicator (for example, employment rate, healthy life years or job quality index) published on the Eurostat website or locally available, the code has been transferred and further developed into the open source R language and published as the `convergEU` R package in the Comprehensive R Archive Network.

Furthermore, to distribute convergence analysis to a wider non-technical audience, the R package was used as the engine of the user-friendly interface of an online app (Eurofound, 2020b). The online app was developed in R-Shiny and embedded in the Eurofound website (Eurofound, 2021a).

As far as the literature shows, as of July 2021, no other software is available that allows calculations of upward convergence to be automatically performed.

The app allows upward convergence to be analysed for three types of indicators:

- Eurofound’s survey indicators
- European Pillar of Social Rights indicators (the Social Scoreboard)
- the Gender Equality Index indicators developed by the European Institute for Gender Equality (EIGE)

While Eurofound and EIGE data are stored in the app because they are provided at regular time intervals, the European Pillar of Social Rights indicators are updated more frequently. Thus, the Pillar data can be downloaded live from Eurostat via the app, ensuring that the most up-to-date data are used for the analysis.

To use the app, it is sufficient to choose various options from a dropdown menu and the app will provide a complete convergence analysis for the selected indicator in a ‘fiche’ html format, which can be saved as a PDF. Options available to customise the results include Member State groupings and time periods. The Member State grouping option customises the analysis for the entirety of the EU27 or for specific subgroups of the EU Member States, such as the EU12, EU15 or EA19. It is also possible to run the analysis for one Member State and compare it with the analysis for a subgroup of other Member States. The time option empowers the user to select the time period for the analysis (pending data availability for that period). For indicators requiring a low number of imputations, the app provides an imputation feature. It is also possible to smooth indicators if considered necessary.

The fiche displays informative results and charts to show Members States’ performance and if they are converging on the selected indicator (for example, employment rate, gender employment gap or people at risk of poverty). The fiche also calculates sigma, beta and delta convergence. The ‘Member States dynamics’ charts highlight the differences in the situations of single Member States – the performance of each country is standardised for each year and then the scores are compared according to their standard deviation from the EU mean. The charts build on the Joint Assessment Framework methodology of the Employment Committee and the Social Protection Committee (Employment Committee, 2017). Unweighted averages are used to assign to each Member State the same level of representativeness and importance in the computation of the overall trend.

As demonstrated by Eurofound (2018a), average levels may hide patterns in individual countries; the improvement of an indicator at the EU level does not necessarily imply that levels are improving for all Member States. The ‘Convergence and divergence patterns’ chart captures the behaviour of each Member State over time in comparison with the EU average; the policy-worthy cases are, for example, those in which a Member State performed better than the EU average, recovered or fell behind.

2 Upward convergence from 2008 to 2019

Analytical approach

Over recent decades, EU Member States have significantly (upwardly) converged in terms of their economic and social outcomes (European Commission, 2014, 2015). While from the mid-1970s to 1993, northern and southern Europe converged towards western Europe, from the mid-1990s to the onset of the 2008–2013 economic crisis, central and eastern Europe converged towards western Europe (Raiser and Gill, 2012). Interestingly, convergence mainly occurred at country level and was weaker at regional level. Some Member States have exhibited sustained north–south or west–east divides or regional divergence, as is the case particularly for countries that have recently joined the Union (Monfort, 2008; Bongardt et al, 2013).

The economic crisis of 2008–2013 had a significant negative impact on the convergence process of some key labour market and social indicators. The crisis amplified differences among Member States in social and economic outcomes: Portugal’s debt to GDP ratio is twice as high as that of the Netherlands; unemployment in Greece is more than seven times higher than that in Czechia; long-term unemployment among young people in Italy is more than 20 times that in Denmark; and the incidence of self-reported unmet need for medical care is more than 100 times higher in Estonia than in Austria and the Netherlands. While EU Member States have often been proud of their individuality, these differences in performance are not a cause for pride, as they are too great to be sustainable in the EU of today.

The gradual economic recovery from 2014 to 2019 meant that this divergence started to stabilise or, in some cases, even reverse. In 2019, Europe entered its sixth year of uninterrupted growth, with higher growth rates recorded in Member States with lower levels of GDP per capita. This economic expansion led to strong job creation, with employment rates reaching record highs in the EU by the end of 2019. In the fourth quarter of 2019, almost 192 million individuals aged 20–64 years were in employment in Europe – 13 million more than during the height of the economic crisis, in the first quarter of 2013. In line with the robust recovery, the proportion of people at risk of poverty or social exclusion (AROPE) decreased markedly. Since 2014, almost 10 million people have emerged from poverty

or social exclusion, with five million doing so in 2017 alone. The total overall AROPE rate – which in 2017 corresponded to 22.5% of the total population (113 million people) – is now below pre-crisis levels.

While these numbers are indicative of positive developments for the European economy and labour market, not all Member States and population groups have benefited from these improved conditions. The labour market participation of young people is still below pre-crisis levels, with youth unemployment remaining particularly high in certain Member States. Furthermore, while the economic recovery has facilitated income convergence in the EU, significant variations are still recorded in several areas. For example, unemployment rates remain particularly high in Croatia, Cyprus, Greece, Italy and Spain, while AROPE levels are still exceedingly high in Bulgaria and Greece.

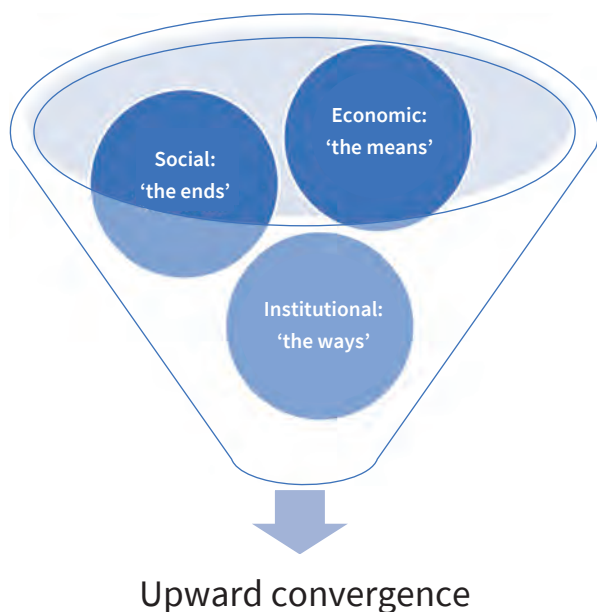
Framework of investigation

This chapter analyses developments in upward convergence in Europe between 2008 and 2019.

While there is now agreement that economic and social convergence should go hand in hand, the complex relationship between economic and social convergence has recently been amended by an increasing emphasis on the pivotal role of institutions and institutional quality.

For this reason, to produce evidence of a multidimensional understanding of upward convergence and to shed light on the link between economic and social convergence, this chapter adopts the theoretical framework provided by Landesmann and Székely (2021) and investigates economic and social convergence as well as convergence in institutional quality.

According to Landesmann and Székely (2021), convergence in the EU is composed of three main dimensions: economic, social and institutional (Figure 1). These three dimensions interlink and affect each other. Economic convergence increases the ‘means’: the productive capacity of a society. This is the basis for achieving social convergence, which constitutes the ‘ends’. Institutional convergence improves the quality of institutions: the ‘ways’ of achieving economic convergence and turning it into social convergence.

Figure 1: The three dimensions of convergence

Source: Authors' creation, based on Landesmann and Székely (2021)

This framework is based on the conviction that good institutions lead to fast economic convergence. Conversely, a lack of sufficient institutional convergence is likely to slow, or even reverse, economic convergence at some point. Equally, deficiencies in social convergence can lead to political reactions hindering progress (and possibly leading to reversals) in economic and institutional convergence, according to Landesmann and Székely (2021).

The links among these three dimensions are of course difficult to establish and the strengths of these can change over time or due to other factors. For example, there may be periods where a lack of institutional convergence has only a mild, if any, impact on economic convergence, while in other periods the negative impact can be swift and strong on both economic and social dimensions. Conversely, there might also be times in which improvements in institutional quality do not lead to similar improvements in the economic and social spheres.

However, overall, sound institutional quality is linked to better economic performance and convergence in the EU (for example, Iancu, 2009; Rodríguez-Pose, 2013). Kaufmann et al (2002) found a strong positive causal effect of better governance leading to higher per capita income. On the other hand, a lack of redistributive institutions might prevent the 'fruits of convergence' (Landesmann and Székely, 2021, p. 4) from being equally distributed among citizens and being turned into social convergence. Furthermore, the lack of social convergence could spark a political backlash and lead to a deterioration in institutional quality. Overall, 'institutional development is essential for enhancing the

capacity to transform economic convergence into social convergence' (Landesmann and Székely, 2021, p. 4).

Although it is still unclear how the mechanics of these relations work and more research is needed to understand how economic convergence can be translated more successfully into social convergence, the ways in which institutional convergence affects – and is affected by – economic and social convergence are manifold and complex, and depend on the context of each country.

Importantly, Landesmann and Székely (2021) highlight that economic, institutional and social convergence do not imply that there is a unique economic, institutional or social model that European countries should converge towards. While the EU treaties allow the EU to govern directly in some policy areas, there is ample room for different models in the various countries, reflecting the different choices of Member States and citizens. Therefore, promoting upward economic, social and institutional convergence does not mean promoting convergence to a single European social model; instead, it means allowing different European social models to coexist and flourish and allowing Member States to converge upwards towards better working and living conditions.

Data and methods

Against this background, the analysis in this chapter extends Eurofound's (2018a) methodological framework of upward convergence by adopting the Landesmann and Székely (2021) theoretical framework. Therefore, the analysis of economic and social convergence is complemented by an investigation of convergence in institutional quality in the EU. The findings add to existing research by investigating upward convergence in a unique set of indicators and by providing an additional focus on the regional dimension of upward convergence. Furthermore, this chapter goes beyond the analysis of the distance from the top performers by also investigating the trend in overall disparities and the catching up of poorer performers to the best-performing regions and Member States.

The data analysed in this chapter show developments in upward convergence in the Member States from 2008 to 2019. To capture the manifold aspects of convergence and provide firm conclusions about increases or decreases in disparities, the analysis used the three operationalisations of convergence (sigma, delta and beta convergence) presented in detail in Box 1 in the previous chapter.

- Sigma convergence refers to the reduction in disparities measured using the standard deviation between Member States' performance over time.
- Delta convergence refers to the sum of the distances between Member States and the unweighted average of the five top-performing countries in each year.

- Beta convergence describes a process by which countries or regions with initially weaker performance record larger improvements towards the policy goal than those countries or regions that were initially better performing and, hence, are catching up.

The analysis was supported, subject to data availability at the regional Nomenclature of Territorial Units for Statistics (NUTS 2) level, by an analysis of relative regional performance using a quintile cluster approach. Analysing upward convergence at the regional level allows a fine-grained picture of Europeans' lives to be gained. Recent academic and policy debates have highlighted the risk of increasing regional disparities in the EU in economic terms (Monfort, 2020). Moreover, researchers argue that opposition to the concept of the EU is 'mainly driven by a combination of long-term economic and industrial decline, low levels of education, and a lack of local employment opportunities' (Dijkstra et al, 2018). Therefore, monitoring and analysing regional convergence and inequalities are vital to ensuring economic and social cohesion in the EU.

Analysis of convergence at regional level relied on the classification of EU NUTS 2 regions into five clusters. The clusters were assigned based on the quintile ranking of regions in each year. For instance, cluster 1 contains the regions 'lagging behind', that is, the 20% of regions with the poorest performance, while cluster 5 contains the 'top-performing regions', that is, the 20% of regions with the strongest performance for each year and indicator. This methodology allows the relative

performance of regions over time to be captured. The mobility of regions between clusters is assessed alongside the ranking of regions in the five clusters at the beginning and the end of the time period (2008–2019). Data imputation was performed where necessary, but several NUTS 2 regions were not suitable for reconstruction because of data availability and/or changes in their classification.

The indicators under investigation were selected to represent the quality of life and working conditions of European citizens (Table 1). Many are headline indicators of the Social Scoreboard and reflect the three subdimensions of the Social Scoreboard: equal opportunities, fair working conditions, and social protection and inclusion.

Some indicators reinforce the analysis of Social Scoreboard indicators with additional perspectives on quality of life and working conditions in Europe based on recent debates on working time and the precariousness of work. For instance, in the economic dimension, GDP per capita is investigated as a traditional variable of interest in the academic and policy debate around upward convergence and represents economic activity. Furthermore, analysing disposable household income and income inequality provides a perspective on citizens' financial situation and on the developments of this situation along the income distribution. The national minimum wage levels indicator complements the analysis of economic convergence, driving the analysis beyond GDP and providing additional perspectives on trends in other economic aspects concerning EU citizens.

Table 1: Overview of indicators

Economic dimension	Social dimension	Institutional dimension
GDP per capita (in purchasing power standards)	Employment rate*	WGI – rule of law
Disposable household income per capita (in purchasing power standards)*	Unemployment rate*	WGI – government effectiveness
Income inequality (income quintile share ratio)*	Gender employment gap*	WGI – regulatory quality
National minimum wage levels	Rate of young people not in employment, education or training*	WGI – voice and accountability
	Early school leavers rate*	WGI – control of corruption
	AROPE rate*	Ease of Doing Business Index
	Unmet medical needs*	European Quality of Government Index

Notes: WGI: Worldwide Governance Indicator; *headline indicator of the Social Scoreboard.

Some headline indicators of the Social Scoreboard were not analysed in this report owing to their similarity with already analysed indicators (for instance, the long-term unemployment rate shows trends similar to the unemployment rate) or for reasons of data availability over time (for instance, the indicator ‘people who have basic digital skills’ is available only from 2015 onwards).

The institutional dimension is analysed using World Bank indicators (the Worldwide Governance Indicators) in a few subdimensions representing institutional quality, and the Ease of Doing Business Index is used to analyse the institutional environment in terms of economic activity. The European Quality of Government Index is employed to highlight divides in institutional quality at the regional level.

Particular attention is paid to the geographical dimension of upward convergence. Divergence with a distinct geographical dimension (southern divergence and the east catching up) during the 2008–2013 economic crisis was a real test for European cooperation, cohesion and solidarity. Further divergence – especially the falling behind of already disadvantaged countries and regions in southern Europe – could endanger the European project.

Indicators used to measure economic convergence

In academic research, convergence is usually defined in economic terms. Economists are traditionally interested in analysing whether poorer countries will catch up with richer countries and thus converge (Sala-i-Martin, 1996). In the past, scholars following neoclassical growth theory – such as Solow (1956) – argued that similarities in investment rates and technological progress between two economies implied a pattern of convergence between the two. While the limitations of this approach were later highlighted, the EU was labelled a ‘convergence machine’ by the World Bank (Raiser and Gill, 2012; Ridao-Cano and Bodewig, 2018) for its ability to propel poorer, and newer, Member States towards becoming high-income economies.

To investigate upward convergence in the economic dimension, GDP per capita (in purchasing power standards (PPS)) was examined as a measure of economic activity and as the traditional variable for economic convergence analysis. To go beyond GDP,

a perspective on disposable household income and the income quintile share ratio were included; in other words, the distribution of income and income inequality were examined. Finally, national minimum wage levels were analysed to include a perspective on upward convergence trends in a major policy tool in the context of recent debates and policy initiatives aimed at ensuring adequate working and living conditions in the EU.

Gross domestic product per capita

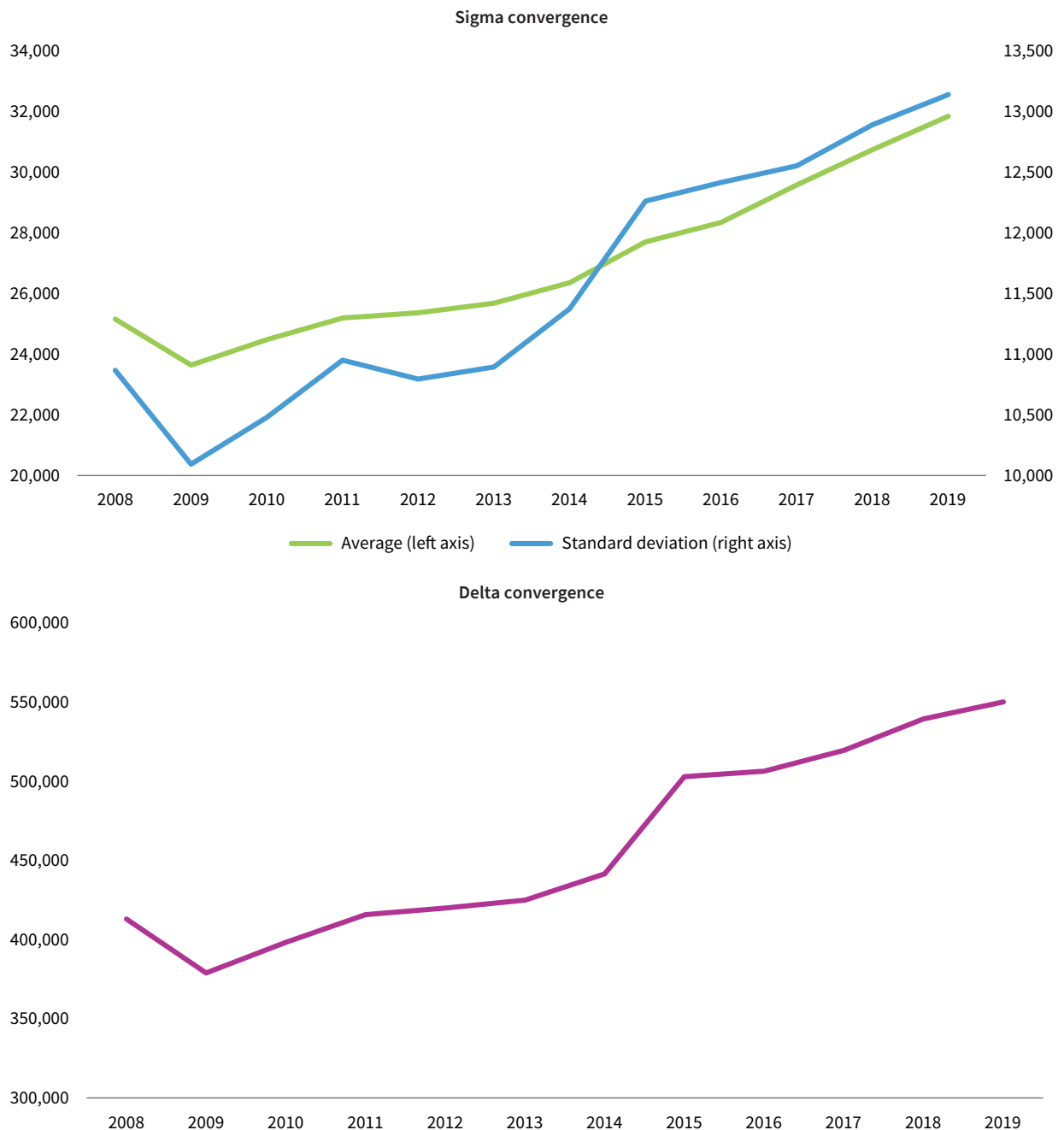
GDP is a measure of economic activity. It refers to the total value of all the goods and services produced by a country in a particular year (controlled for inflation rates), divided by the number of people living there. Basic figures are expressed in PPS, which represents a common currency that eliminates the differences in price levels between countries to allow meaningful comparisons. The indicator is based on the European Statistical System.

The dynamics in GDP per capita in PPS are often investigated as the prime proxy for whether or not Member States are converging upwards in the economic dimension. On average in the EU, GDP per capita increased from 25,300 PPS in 2008 to 31,200 PPS in 2019 (Figure 2). Patterns vary, however, in levels and gaps over that time span: in 2008 and 2009, the average GDP per capita in PPS dropped against the backdrop of the economic crisis. After this initial setback, the upward trend in the unweighted average was restored. Greece was hit particularly hard by the 2008–2013 economic crisis, while the largest increases in GDP per capita in PPS occurred in Ireland and Luxembourg. Both countries outperformed the rest of the Member States. However, increases and levels of GDP per capita in PPS in Ireland and Luxembourg must be interpreted with caution owing to the presence of multinational corporations and unrepresentative investment patterns.

The analysis of standard deviation as a measure of disparities (sigma convergence) and the overall distance of Member States from the average of the five best-performing countries (delta convergence) shows that disparities between European Member States increased from 2009 to 2019 following an initial drop in 2009 after the 2008 financial crisis.

Overall, GDP per capita shows **upward sigma and delta divergence from 2009 to 2019** after an initial decrease in disparities in both measures in 2009.

Figure 2: Sigma and delta convergence in GDP per capita (PPS), EU27, 2008–2019



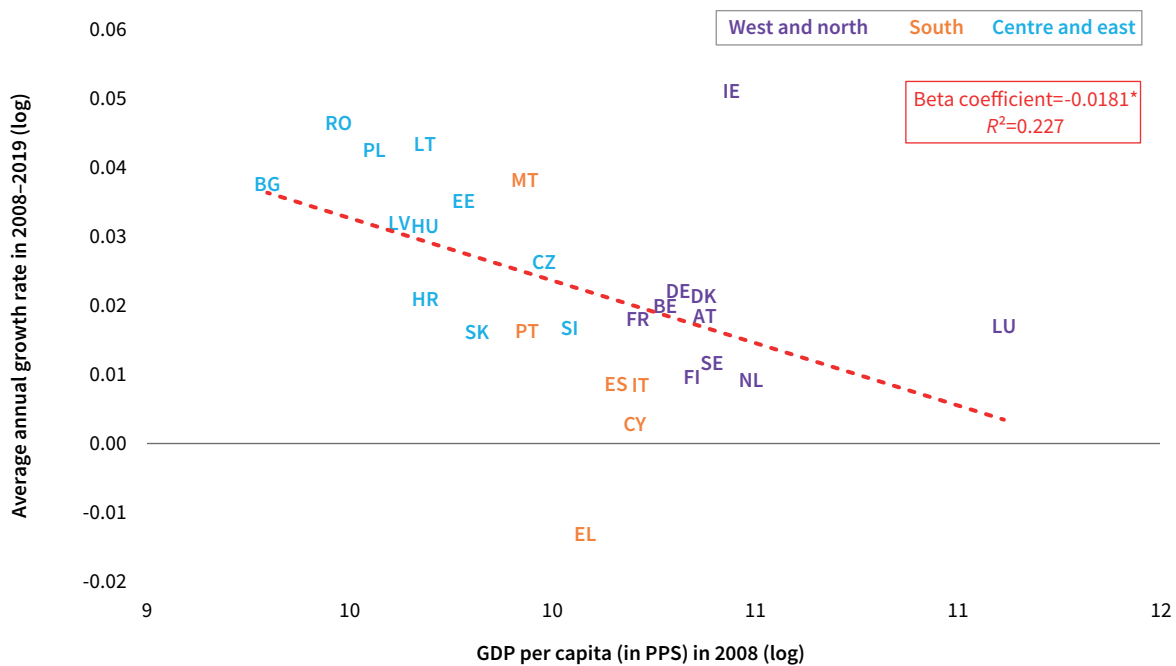
Source: Authors' own calculations, based on Eurostat data

Figure 3 provides clear **evidence of beta convergence** in the form of initially poorer Member States catching up with richer countries. Despite the 2008–2013 economic crisis, convergence between Member States in the EU occurred at a considerable rate of 1.8% per year. This is in line with rates of economic convergence found in previous research (see, among others, Barro and Sala-i-Martin, 1992; Barro, 2012).

The catch-up process was driven by **fast growth rates in central and eastern European Member States** – for instance in the Baltic states, Bulgaria, Hungary and Romania. Initially richer north-western European

Member States grew more moderately – except for Ireland, although this case must be treated with care as previously mentioned. Southern European Member States were initially positioned between the central and eastern European countries lagging behind and the north-western leaders. However, hit particularly hard by the 2008–2013 economic crisis, the **southern European Member States fell behind** (except Malta and, to some extent, Portugal), with lower annual average growth rates in GDP per capita than central and eastern European countries, but also lower than most north-western Member States. Especially in Greece,

Figure 3: Unconditional beta convergence in GDP per capita (PPS), EU27, 2008–2019



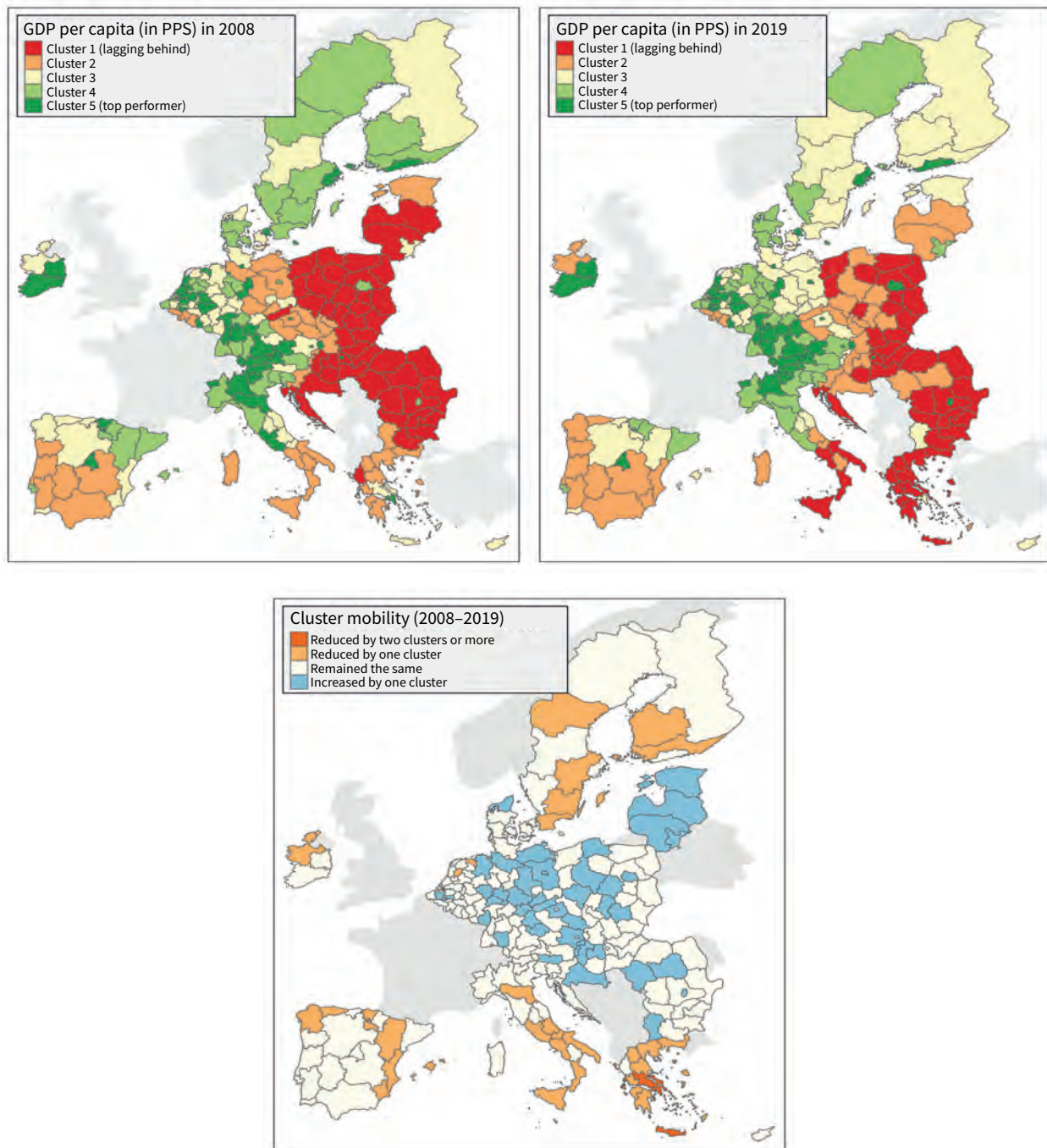
Note: *The beta coefficient is statistically significant at a 95% confidence interval.
 Source: Authors’ own calculations, based on Eurostat data

economic activity decreased sharply, but Cyprus, Italy and Spain also recorded lower annual average growth rates than other countries.

Trends in GDP per capita in PPS at the regional level (NUTS 2) show a **geographical shift in the regions that are lagging behind, namely from the east to the south** (Figure 4). The left-hand map in Figure 4 shows that, in 2008, most regions in central and eastern European Member States were in the poorest performing cluster (i.e. cluster 1; red), and regions in the south of Europe (Greece, the south of Italy, Portugal and the south of Spain) were mostly in the slightly better performing cluster 2. In 2019, many regions in the south – especially in Greece and the south of Italy – deteriorated to cluster 1 while many regions in central and eastern Europe

improved to cluster 2 or more. These two contrasting developments – upward mobility of central and eastern European regions and deterioration in southern European regions – are evident in the bottom map in Figure 4 depicting cluster mobility. However, despite the catch-up in the east, there are still eastern areas in the poorest performing 20% of regions (cluster 1). Capital regions in the east are economic powerhouses that are outperforming the rest of the regions in these countries. Furthermore, there was a marked level of heterogeneity between the clusters in which regions were placed in some countries, especially in the south of Europe. For instance, Italy and Spain recorded marked north–south divides, with the northern regions performing well.

Figure 4: Regional quintile clusters of GDP per capita in PPS in 2008 and 2019 and cluster mobility from 2008 to 2019, EU NUTS 2



Note: Data are missing for French NUTS 2 regions.

Source: Authors' own calculations, based on Eurostat data

Disposable household income

This indicator reflects the purchasing power of households and their ability to invest in goods and services or save for the future. It is measured as the balance between primary income and the redistribution of income in cash (social contributions paid, social benefits in cash received, current taxes on income and wealth paid, and other current transfers), based on final consumption. Disposable household income is expressed

in PPS and calculated per capita. The indicator is based on the European Statistical System and, in the form of an index (2008=100), this is also a headline indicator of the Social Scoreboard. Data are missing from Malta for this indicator.

Among others, the influential report of Stiglitz et al (2009) made it clear that GDP fares poorly as a measure of economic well-being on its own. Therefore, in this analysis, GDP is complemented with a household

perspective. Figure 5 shows a steady increase in the unweighted average of disposable household income in the EU27 from 2008 to 2019. In 25 Member States, disposable household income increased – only in Greece did it decrease. The largest increases occurred in Lithuania and Romania.

Disparities between Member States, as measured by the standard deviation (sigma convergence) and distance to the average of the top-performing countries (delta convergence), did not show a linear pattern. Initial decreases in disparities from 2008 to 2010 in both convergence measures were followed by an increase

from 2010 to 2014 (delta) or 2015 (sigma). Following this, both measures of convergence recorded a subsequent decrease in disparities until 2019. However, while the measure of sigma convergence declined well below the initial level in 2008, the distance from the frontrunners (delta) was higher in 2019 than in 2008.

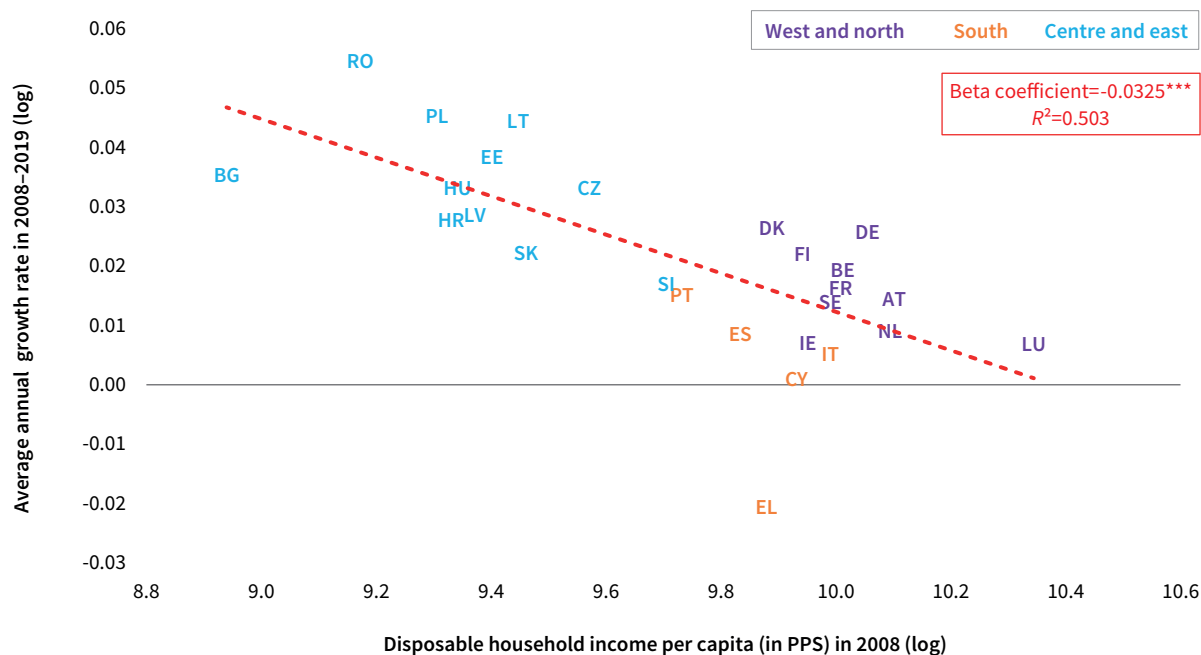
Therefore, overall, disposable household income showed a trend of **unstable upward sigma convergence and upward delta divergence**. In more recent years, however, there was a return to a slight upward sigma and delta convergence trend (2016–2019).

Figure 5: Sigma and delta convergence in disposable household income per capita (PPS), 2008–2019



Note: Data are missing for Malta.
Source: Authors' own calculations, based on Eurostat data

Figure 6: Unconditional beta convergence in disposable household income per capita (PPS), 2008–2019



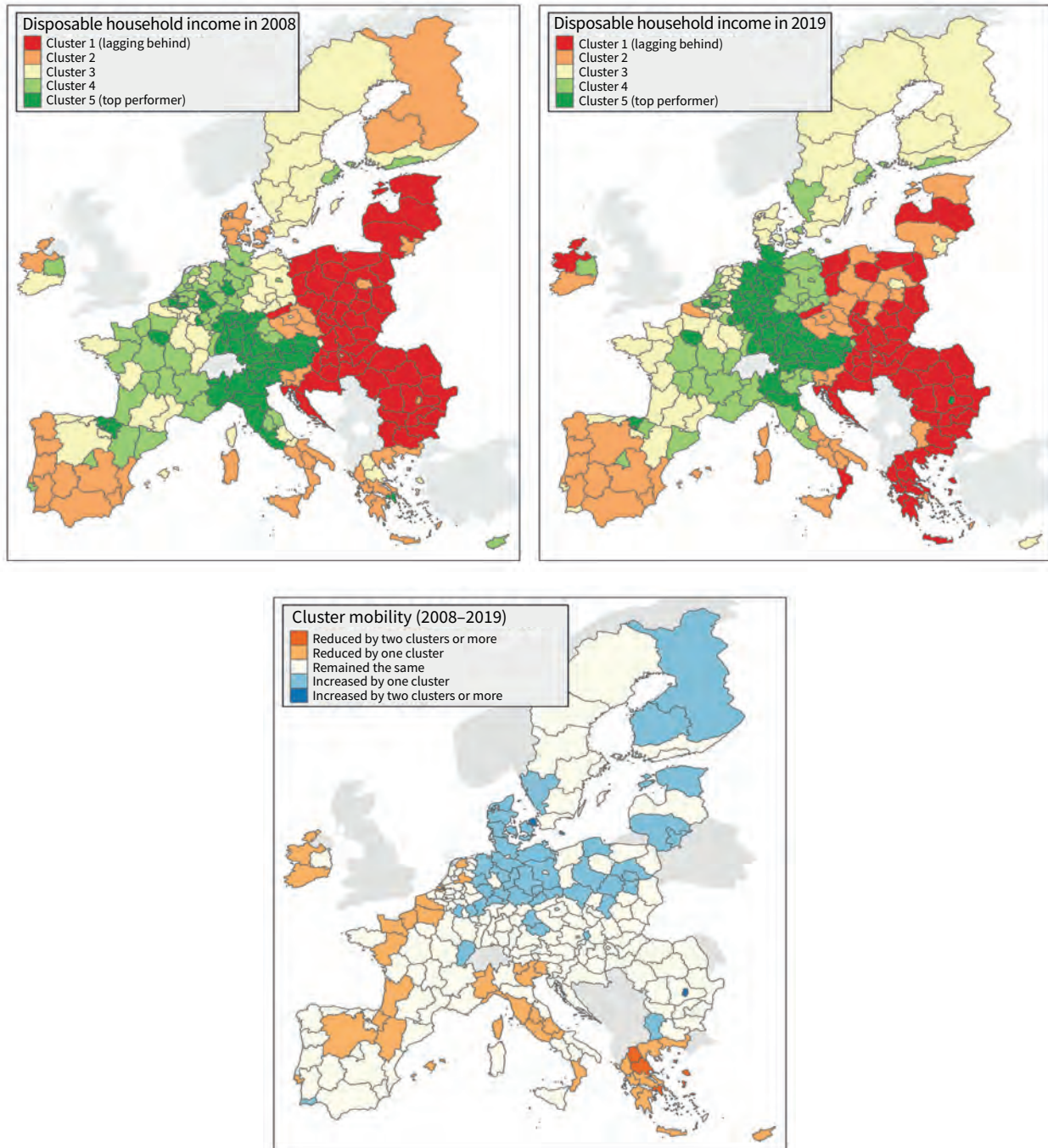
Notes: Data are missing for Malta; ***the beta coefficient is statistically significant at a 99.9% confidence interval.

Source: Authors' own calculations, based on Eurostat data

Figure 6 reveals a pattern of **beta convergence resulting from a robust catch-up process** of poorer Member States with richer countries, similar to the pattern observed for GDP per capita in PPS. Initially poorer performing countries caught up at a rate of 3.3% per year. Initially poorer performing countries in central and eastern Europe showed high annual average growth rates and were catching up with richer northern and western European Member States. However, southern European countries that were initially placed between the poorer performing and top-performing countries began to fall behind, with Cyprus, Italy, Portugal and Spain recording smaller growth rates than the emerging central and eastern European economies. Moreover, Greece recorded an absolute decrease in disposable household income between 2008 and 2019.

At the regional level (Figure 7), geographical patterns are visible, as in the case of GDP per capita in PPS, such as the **persistent west–east and north–south divides**. However, the mobility of regions between quintile clusters over time is less pronounced than for GDP. Central and eastern European regions were mostly placed in the worst-performing cluster (cluster 1) in 2008 and their catch-up was more moderate than for GDP per capita in PPS. Some eastern regions were improving, mostly in Poland and the Baltic states, but the majority remained in cluster 1 in 2019. Many improvements between 2008 and 2019 occurred in Denmark and northern and eastern Germany. Deterioration in the south of Europe was less pronounced than that observed for GDP per capita. Greek regions moved to the worst-performing cluster (cluster 1) during this time period. In Italy and Spain, within-country disparities were high: some regions are in the top-performing cluster, but some regions (mostly in the south of the countries) deteriorated. However, apart from one region in southern Italy (Calabria), which deteriorated from cluster 2 in 2008 to cluster 1 in 2019, no regions in Italy or Spain are now in cluster 1.

Figure 7: Regional quintile clusters of disposable household income per capita in PPS in 2008 and 2019 and cluster mobility from 2008 to 2019, EU NUTS 2



Note: Data are missing for Malta.

Source: Authors' own calculations, based on Eurostat data

Income inequality

Income inequality is measured in this study using the income quintile share ratio. This is measured as the ratio of the total income of the 20% of the population with the highest income (the top quintile) to that of the 20% of the population with the lowest income (the bottom quintile). The indicator is based on the European Union Statistics on Income and Living Conditions (EU-SILC) and is a headline indicator of the Social Scoreboard.

While economic activity per capita and income per household are important indicators for measuring the 'richness' of a country, considering the distribution of income between citizens is also important, as higher levels of inequality are not conducive to economic growth, cause macroeconomic instability or lead to social conflict. Reversing inequality is a political imperative for the EU, particularly in the context of drivers of inequality such as globalisation, technological change and tax reforms.

On average, income inequality increased from 4.77 in 2008 to 4.82 in 2019 (Figure 8). After remaining relatively stable from 2008 to 2012, the unweighted average increased sharply from 4.78 in 2012 to 5.05 in 2015. However, from 2015 onwards, the unweighted average of income inequality decreased again. At the same time, both sigma and delta convergence showed increasing disparities between Member States. However, the pattern over time was unstable, with reductions in the measures of both sigma and delta convergence from 2008 to 2011 and a subsequent increase to a peak in

2015. Afterwards, sigma convergence returned until 2019. The sum of distances to the frontrunners, however, declined only slightly after 2015.

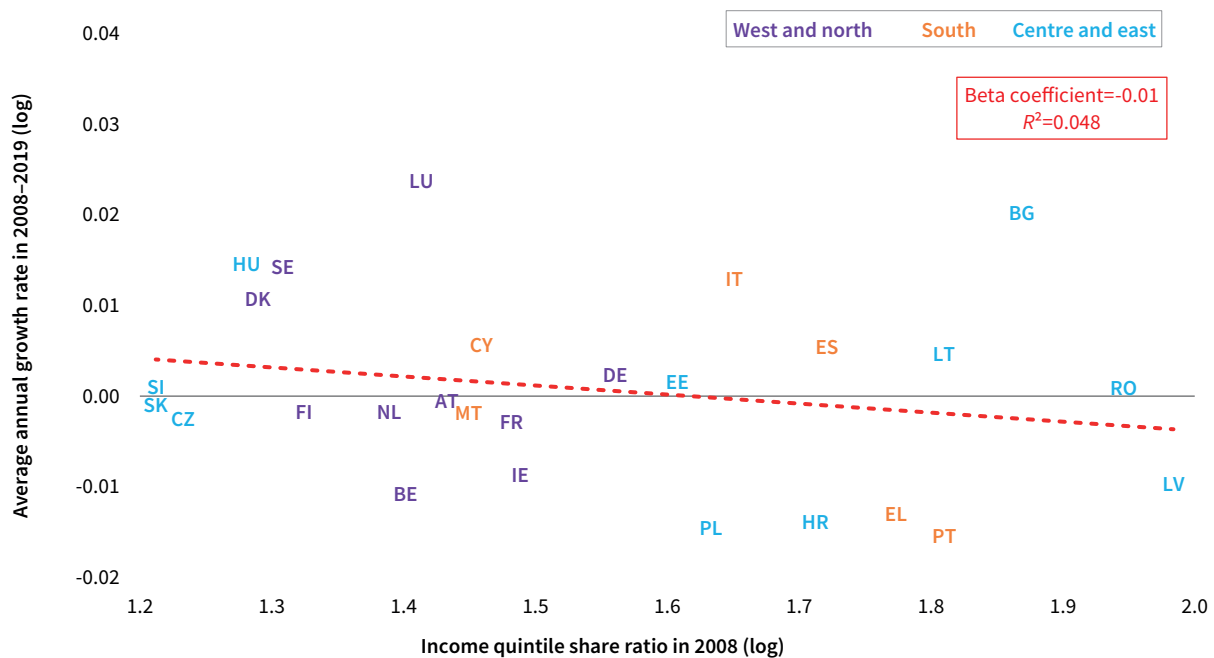
Overall, divergence trends in income inequality were unstable during the period under investigation. **Downward sigma and delta divergence was evident from 2012 to 2015**, indicating a delayed impact of the 2008–2013 economic crisis. The EU returned to an upward sigma convergence pattern during the economic recovery (2015–2019), but experienced only slight upward delta convergence.

Figure 8: Sigma and delta convergence in income inequality (income quintile share ratio), EU27, 2008–2019



Source: Authors' own calculations, based on Eurostat data

Figure 9: Unconditional beta convergence in income inequality (income quintile share ratio), EU27, 2008–2019



Note: The beta coefficient is statistically not significant.
 Source: Authors' own calculations, based on Eurostat data

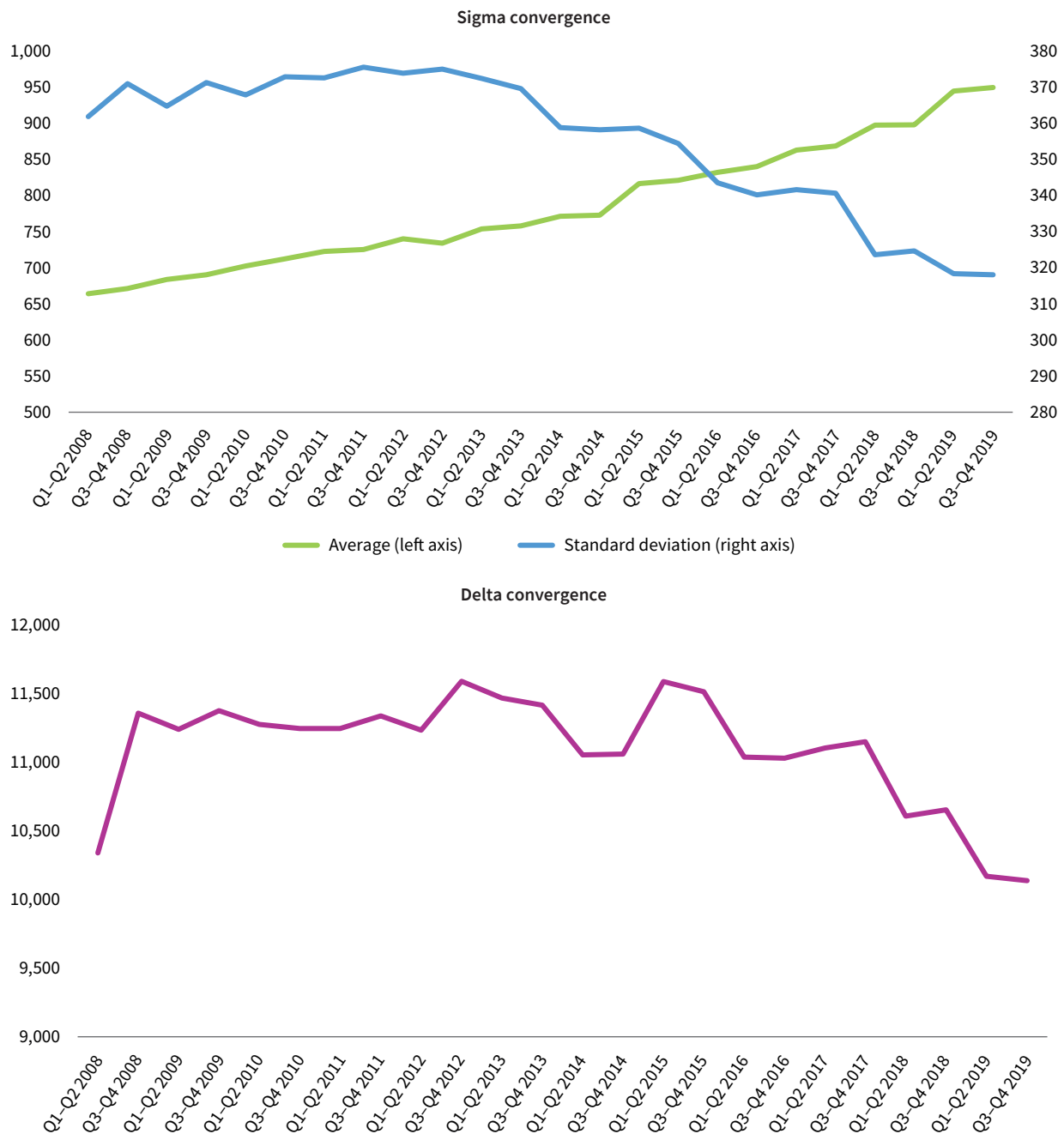
Figure 9 reveals only **poor evidence of a beta convergence process** resulting from a catch-up process of initially more unequal Member States. The catch-up process is not statistically significant and shows heterogeneous developments at the country level. Reductions and increases in income inequality occurred among countries that had both initially higher and initially lower levels of inequality in 2008. Northern and western European Member States tended to record initially low levels of income inequality, with some countries increasing (Luxembourg, Sweden and Denmark) and some decreasing (Belgium and Ireland). Income inequality was slightly higher in 2008 in southern European Member States, but again both increases (Italy) and decreases (Greece and Portugal) occurred. Both the lowest and the highest levels of inequality were found in central and eastern European countries. Czechia, Slovakia and Slovenia recorded the lowest levels of income inequality initially, with few changes between 2008 and 2019. On the other hand, Latvia, Romania and Bulgaria showed the highest initial levels of income inequality with further increases in Bulgaria, stagnation in Romania and decreases in Latvia.

National minimum wage level

The national minimum wage level indicator is based on Member State national minimum wages for employees in all sectors or at least in a majority of them. It is reported biannually and adjusted to differences in purchasing power (PPS). Germany introduced a minimum wage in the first half of 2015. Austria, Cyprus, Denmark, Finland, Italy and Sweden do not have a national minimum wage and are not included in the analysis. The source of these data was the Eurostat website (data are submitted to Eurostat by national statistical institutes and ministries of labour and social affairs).

The minimum wage, as an important labour market policy instrument, has attracted significant academic and policy attention in recent years. The new European Commission, which took office in December 2019, reiterated the EU's commitment to fair wages for workers. On 28 October 2020, the European Commission put forward a proposal for an EU directive on adequate minimum wages, which aims to ensure that all workers in the EU earn a fair and adequate wage by 2024, no matter where they live.

Figure 10: Sigma and delta convergence in monthly minimum wage (PPS), 2008–2019



Note: Germany introduced a national minimum wage in Q1–Q2 2015; Austria, Cyprus, Denmark, Finland, Italy and Sweden do not have a national minimum wage.

Source: Authors' own calculations, based on Eurostat data

Figure 10 shows a steady increase in the unweighted average of monthly minimum wages from 664 PPS at the beginning of 2008 to 949 PPS at the end of 2019. Minimum wage increases were highest in Romania and Poland, but also in Bulgaria. At the same time,

disparities between Member States, measured by both standard deviation (sigma convergence) and the distance from the average of the five best-performing countries (delta convergence), decreased steadily.

Figure 11: Unconditional beta convergence in monthly minimum wage (PPS), 2008–2019



Notes: Austria, Cyprus, Denmark, Finland, Italy and Sweden do not have a national minimum wage; Germany introduced a national minimum wage in 2015 and is not included in this analysis; *** the beta coefficient is statistically significant at a 99.9% confidence interval.

Source: Authors' own calculations, based on Eurostat data

Therefore, overall, there was stable **upward sigma and delta convergence** in national minimum wage levels in the EU.

In line with this, there was a **robust upward beta convergence pattern** resulting from a catch-up process of countries with initially much lower minimum wages (Figure 11). The rate of the catch-up process was considerable at 2.3% per year (statistically significant). Central and eastern European countries recorded the highest increases in minimum wages, among which Romania and Bulgaria were catching up significantly with the leading north-western countries. At the high end of the minimum wage scale, minimum wages increased more modestly. The catching up process of southern European Member States was much slower than in central and eastern countries. For instance, in Greece, the minimum wage barely increased between 2008 and 2019.¹

Summary of upward convergence trends in the economic dimension

Overall, this section finds **robust upward trends** towards the policy goals after a brief setback at the beginning of the 2007–2008 financial crisis in most economic indicators (except for income inequality). However, convergence patterns vary depending on the measure of convergence. The dominant pattern in terms of the standard deviation and the sum of distances from the frontrunners was upward sigma and delta divergence between Member States (except for disposable household income (sigma) and national minimum wage levels (both)). This reflects that more work is needed to close the gaps in disparities between Member States and regions in the EU in the economic dimension. However, most economic indicators recorded upward beta convergence resulting from a robust catch-up process of initially poorer performing countries to the frontrunners. The catch-up process was mostly fuelled by strong performances in central and eastern European Member States, which were making ground towards the better performing western countries.

¹ Eurofound (2021b) offers a more detailed perspective on developments in minimum wages in Europe.

Nevertheless, the catch-up process was uneven, with a **clear geographical shift in those countries and regions lagging behind, namely from east to south** (except for income inequality, where the catch-up process was modest and no clear geographical pattern was evident). While the west–east divide persists, the catch-up process was driven by above-average improvements in central and eastern European countries. However, dynamic capital regions were the main beneficiaries of the economic catch-up, while some regions in the east continued to lag behind. Southern European Member States fell behind from their initial position between the poorer performing central and eastern countries and the leading north-western countries before the 2008–2013 economic crisis. Southern regions in southern European countries were hit especially hard by the crisis and are increasingly being left behind.

Indicators used to measure social convergence

Historically, the economic and social dimensions of the EU have been seen as separate entities, and it was assumed that social progress would follow as a logical outcome of economic growth. However, the economic crisis and the widespread discontent among Europeans about worsening social conditions prompted a paradigm shift. It is now broadly accepted that economic and social convergence should go hand in hand – the European Pillar of Social Rights is a testament to the new equal footing of the economic and social dimensions in European policymaking. The Pillar serves to strengthen the social dimension of the EU and was designed as a major initiative – or ‘compass’ – to guide, support and promote social convergence. However, academic literature on convergence has focused mainly on economic convergence. Eurofound (2018a, 2018b, 2018c, 2019a, 2019c, 2019d, 2020c, 2020d) has worked towards filling this gap to provide a comprehensive picture of upward convergence trends in the employment and socioeconomic dimensions.

The investigation in this section draws mainly on indicators from the European Pillar of Social Rights Social Scoreboard. It commences with an analysis of key labour market participation indicators: the employment rate and the unemployment rate (the long-term unemployment rate was not analysed in

this report owing to it being similar in nature and trends to the unemployment rate). This is enriched by looking at convergence in terms of the number of hours people spend at work, with the aim of contributing to the emerging debate on the desirable amount of working time. The previous economic crisis revealed how crises tend to hit vulnerable groups disproportionately. Therefore, this report includes an analysis of the labour market participation of women (i.e. the gender employment gap) and young people (the rate of young people not in employment, education or training (NEET)). Equal opportunities for young people and human capital creation inequalities in their education are also important aspects of quality of life and are analysed through the early school leavers rate. The analysis continues with a discussion of upward convergence in poverty-related indicators (i.e. the AROPE rate). In the light of the ongoing health crisis, the report finishes its investigation of the social dimension with an analysis of upward convergence in the self-reported unmet need for medical care.

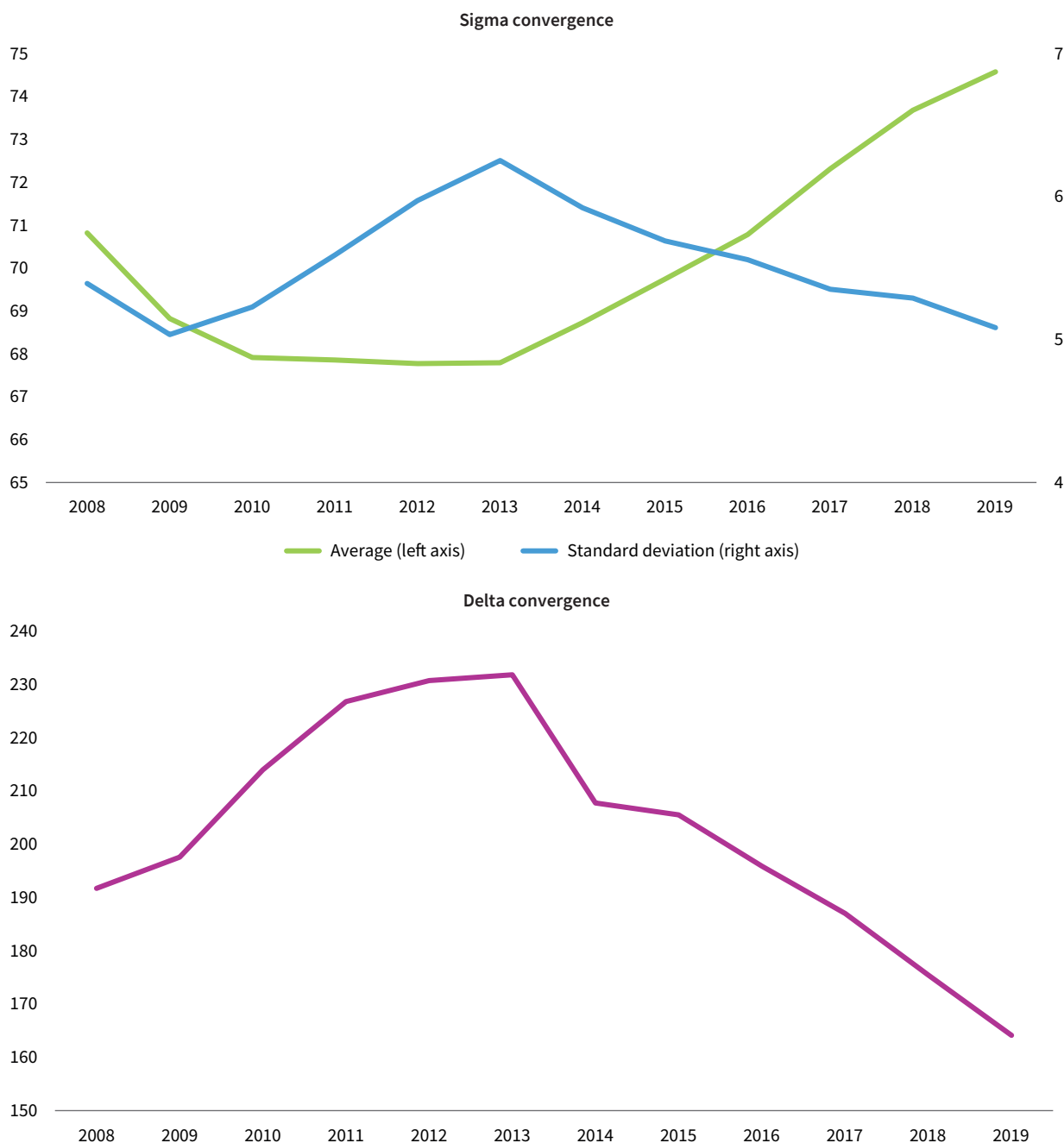
Employment rate

The employment rate is the percentage of people aged 20–64 years who are in employment. The indicator is based on the European Union Labour Force Survey (EU-LFS) and this is a headline indicator of the Social Scoreboard. It is calculated by dividing the number of persons aged 20–64 years in employment by the total population of the same age group.

Fairer and more well-functioning labour markets are essential to achieving a just and social Europe. The 2008–2013 economic crisis was a substantial setback in this ambition. The employment rate recorded a decrease in the unweighted average from 70.8% in 2008 to 67.8% in 2013 during the economic crisis (Figure 12). With the subsequent recovery, however, it bounced back strongly to 74.6% in 2019. Disparities between Member States as measured by the standard deviation (sigma) and the distance to the average of the five best-performing countries (delta) followed a similar cyclical pattern: they increased during the 2008–2013 economic crisis but declined afterwards.

Overall, there was a cyclical pattern in the employment rate, with downward sigma and delta divergence during the economic crisis and upward sigma and delta convergence during the recovery period.

Figure 12: Sigma and delta convergence in the employment rate (%), EU27, 2008–2019

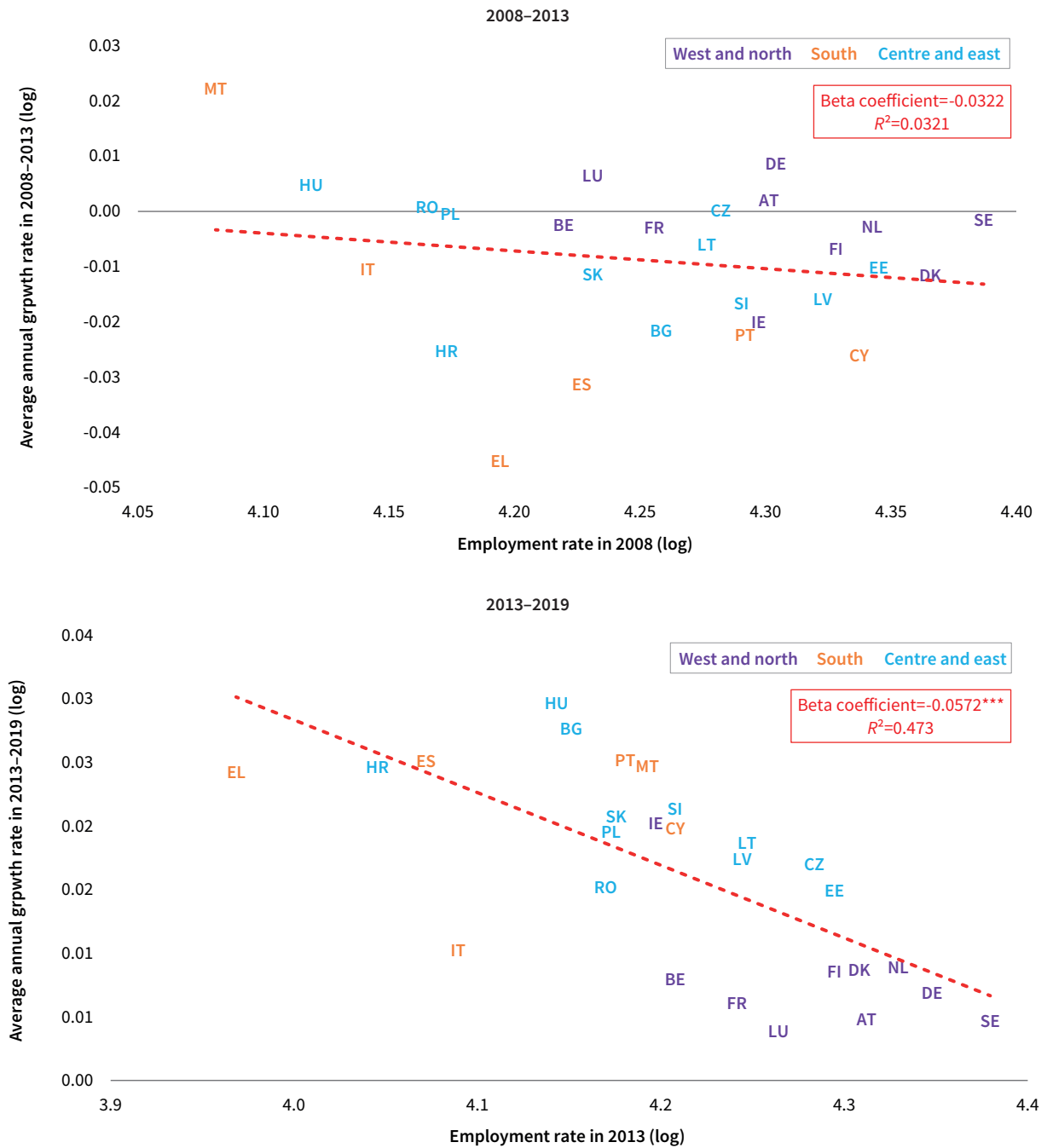


Source: Authors' own calculations, based on Eurostat data

Such a cyclical pattern would violate the assumption of linear annual growth rates on which unconditional beta convergence relies. Therefore, beta convergence is presented and analysed separately for 2008–2013 and 2013–2019. Figure 13 shows the catch-up process for both periods. While both periods show a catch-up process, the rate of the catch-up process was stronger in the recovery period (2013–2019) than in the 2008–2013 economic crisis, and only the latter was statistically significant. This indicates that the recovery boosted the catching up of poorer performing countries.

Between 2008 and 2013, southern European Member States fell behind from positions in the middle of the scale. In particular, Cyprus, Greece, Portugal and Spain saw large reductions in their employment rates from 2008 to 2013. During the recovery period, labour markets in some southern European countries such as Cyprus, Malta and Portugal were catching up with better performing northern and western European countries, while others, such as Italy, fell further behind. At the same time, central and eastern European countries – which were largely spared from the worst employment impacts of the 2008–2013 economic crisis – were

Figure 13: Unconditional beta convergence in the employment rate (%), EU27, 2008–2013 and 2013–2019



Note: The beta coefficient for 2008–2013 is statistically not significant. ***The beta coefficient for 2013–2019 is statistically significant at a 99.9% confidence interval.

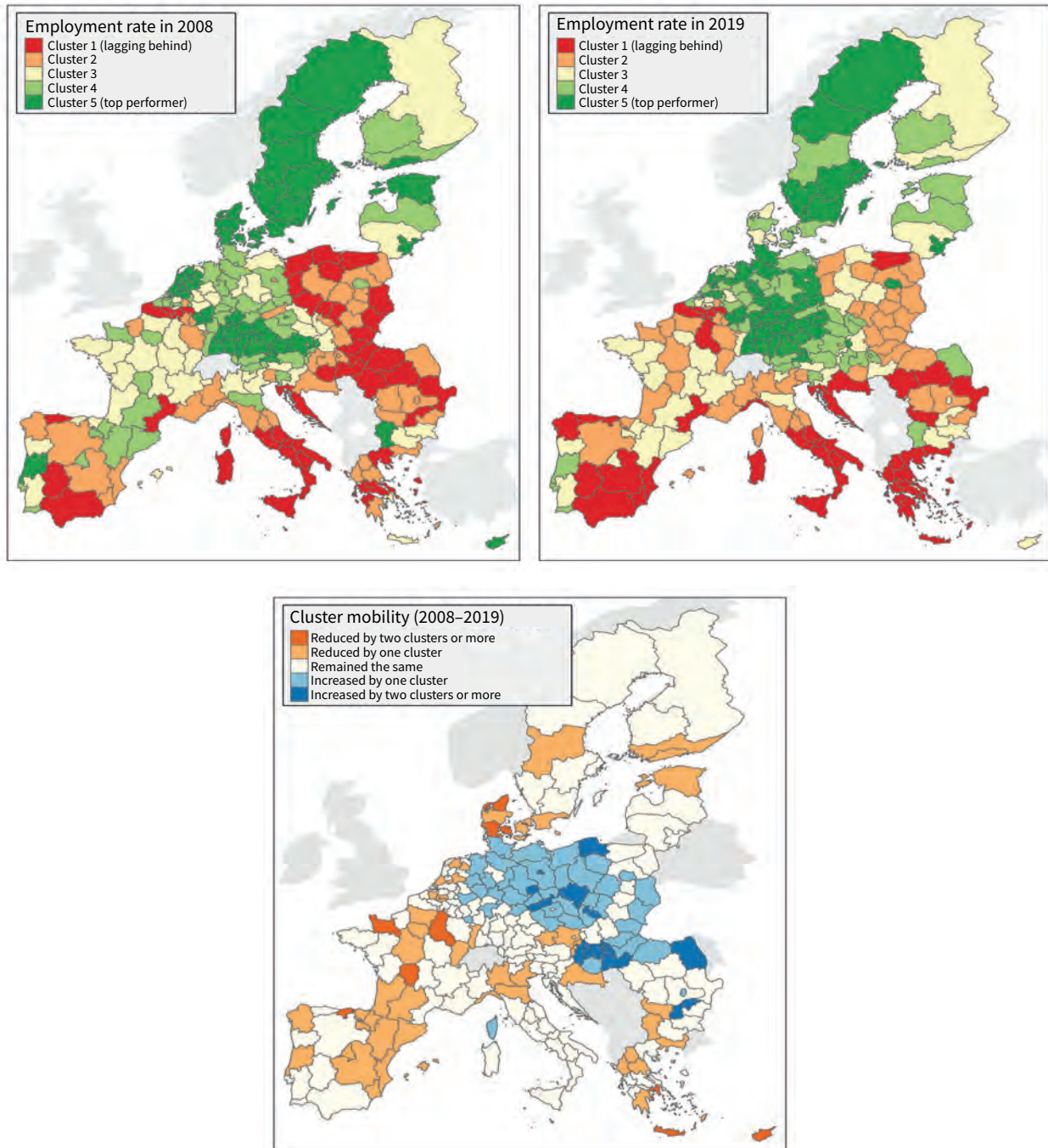
Source: Authors' own calculations, based on Eurostat data

catching up quickly with still better performing northern and western European Member States during the recovery.

This **geographical shift of the regions in poor employment situations from the east to the south** is evident at the regional level. The left-hand map in Figure 14 shows that regions in the south of Spain, south of Italy, Greece and central and eastern Europe were lagging behind (cluster 1) in 2008, as were some

Belgian and French regions. In 2019 (as shown in the right-hand map in Figure 14), many central and eastern European regions improved to cluster 2 or cluster 3, while regions in Spain, Italy and France, but also in Denmark, deteriorated. Indeed, the cluster mobility map (bottom map in Figure 14) shows that most negative mobility occurred in western and northern European countries, while southern regions continued to be left behind and eastern regions (including eastern Germany) improved.

Figure 14: Regional quintile clusters of the employment rate in 2008 and 2019 and cluster mobility from 2008 to 2019, EU NUTS 2



Note: Data are missing for Irish NUTS 2 regions.

Source: Authors' own calculations, based on Eurostat data

Unemployment rate

The unemployment rate is the percentage of people aged 15–74 years who are unemployed. The indicator is based on the EU-LFS and is a headline indicator of the Social Scoreboard.

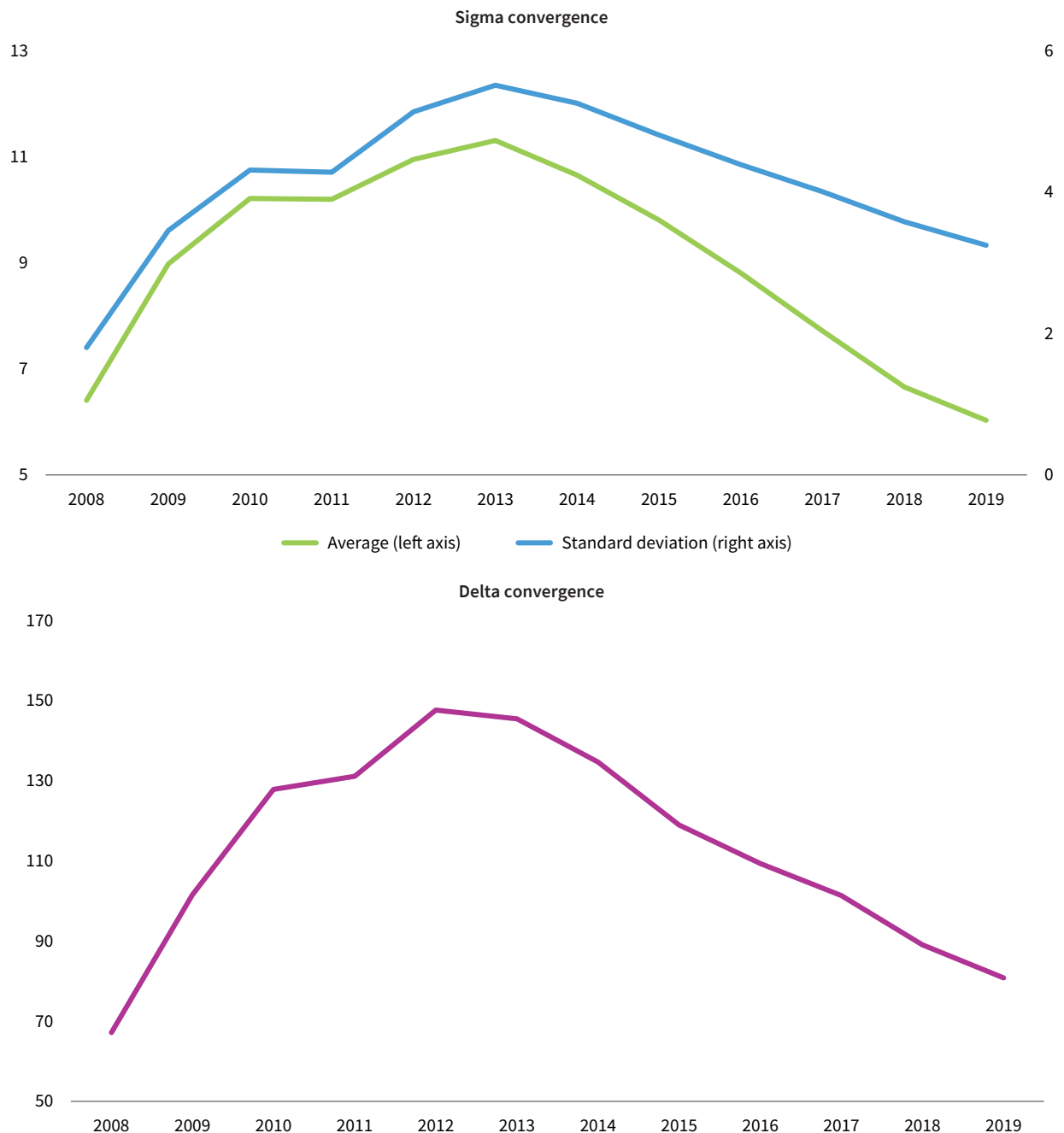
The second indicator related to the labour market reveals a similar picture. During the 2008–2013 economic crisis, the average unemployment rate increased from 6.4% in 2008 to 11.3% in 2013 (Figure 15).

In the subsequent recovery period, it decreased again to 6.0% in 2019. Both measures of disparities, the standard deviation (sigma) and the sum of distances from the average of the five best-performing countries (delta), increased during the economic crisis from 2008 to 2013 and declined again afterwards. However, developments at the national level show the uneven impact of the 2008–2013 economic crisis on European labour markets. In 2008, Poland (17.8%) and Slovakia (16.3%) recorded the highest unemployment rates, and Greece

(10%) and Spain (9.2%) ranked in the middle of the scale. In 2019, Poland (3.2%) and Slovakia (6.7%) had recorded substantial reductions, while Greece (16.3%) and Spain (15.5%) had high shares of unemployment.

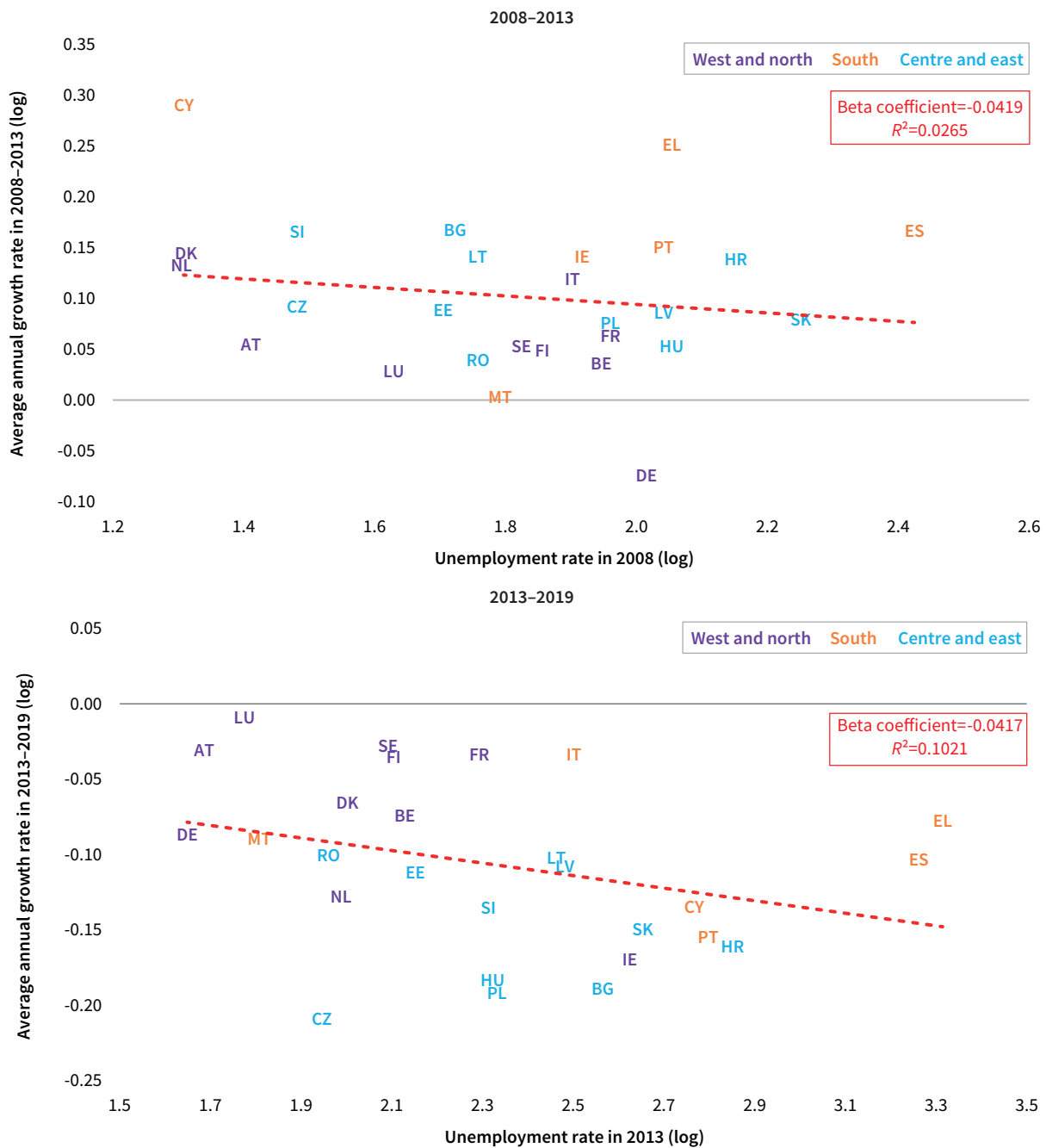
Overall, **the unemployment rate**, like the employment rate, **displayed a cyclical pattern**. During the 2008–2013 economic crisis, there was downward sigma and delta divergence among EU Member States, while, after 2013, upward convergence was restored.

Figure 15: Sigma and delta convergence in the unemployment rate (%), EU27, 2008–2019



Source: Authors' own calculations, based on Eurostat data

Figure 16: Unconditional beta convergence in the unemployment rate (%), EU27, 2008–2013 and 2013–2019



Note: The beta coefficients are not statistically significant.
Source: Authors' own calculations, based on Eurostat data

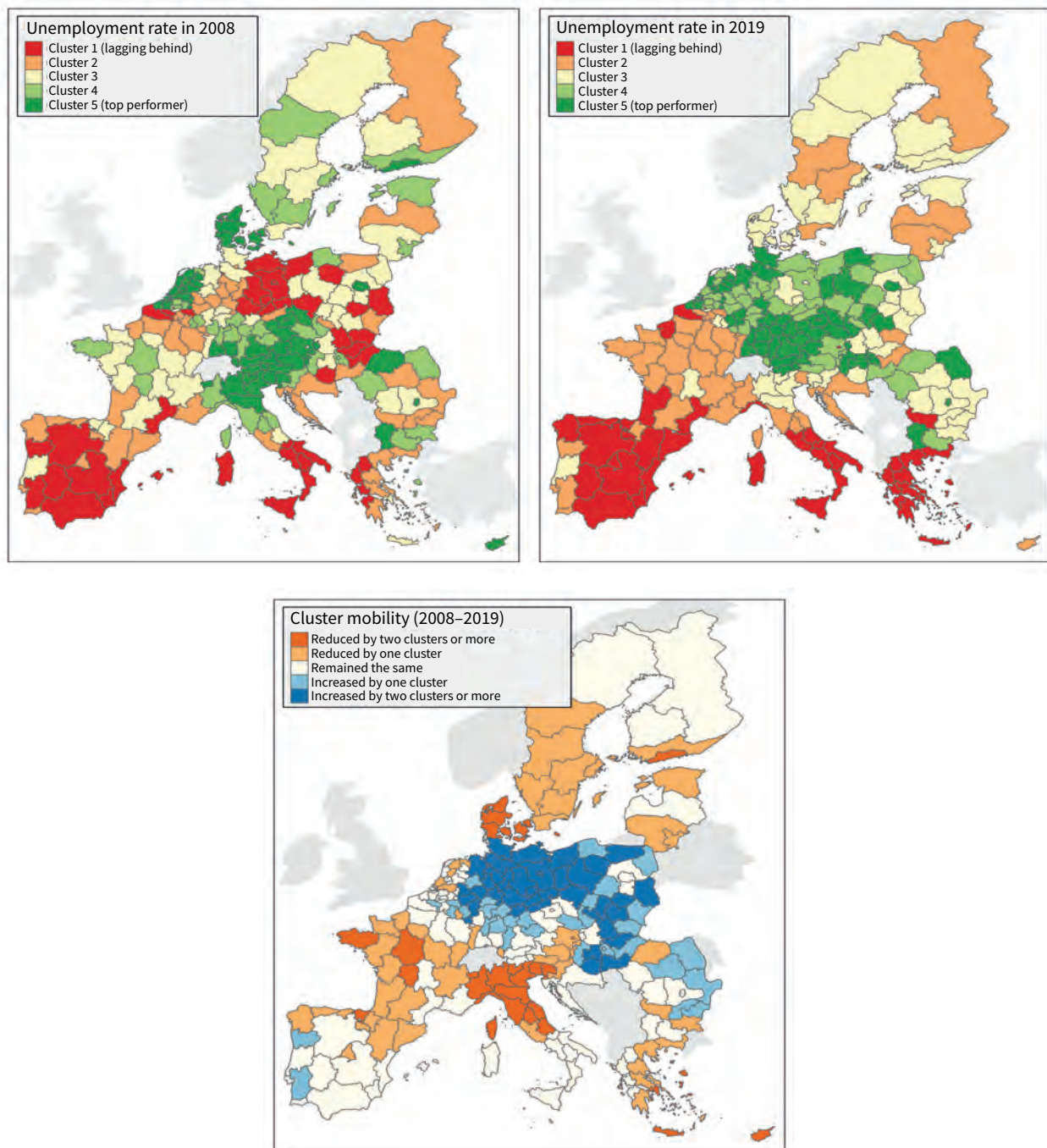
This uneven impact of the economic crisis on unemployment in Member States is also evident in the developments in beta convergence (Figure 16). While southern European countries such as Cyprus, Greece and Spain recorded the largest increases in unemployment rates during the crisis period (2008–2013), Germany had a negative annual average growth rate. In the recovery period, the annual reductions in the unemployment rate

were largest among central and eastern European Member States (Bulgaria, Czechia, Hungary and Poland) and only modest among southern European countries (Greece, Italy and Spain). However, both periods were characterised by a catch-up process, although this was not statistically significant. Therefore, there is only weak evidence of beta convergence, even during the recovery period.

At the regional level, this **shift in the areas lagging behind, namely from the east to the south**, is even more evident (Figure 17). In 2008, regions in southern Europe (in Greece, the south of Italy, Portugal and Spain), as well as in eastern Germany and Poland, were lagging behind in the poorest performing cluster (cluster 1). In 2019, only one region in central and eastern Europe was among the poorest performing 20% of regions, while large parts of Spain, southern Italy and

Greece, as well as France, were placed in the poorest performing cluster. The map of cluster mobility between 2008 and 2019 (bottom map in Figure 17) confirms the substantial catch-up process in central and eastern Europe, but also in eastern and northern Germany. The situation deteriorated in the north of Italy, France and some regions in Nordic countries, especially Denmark, which lost its position as a top-performing country.

Figure 17: Regional quintile clusters of the unemployment rate in 2008 and 2019 and cluster mobility from 2008 to 2019, EU NUTS 2



Note: Data are missing for Irish NUTS 2 regions.

Source: Authors' own calculations, based on Eurostat data

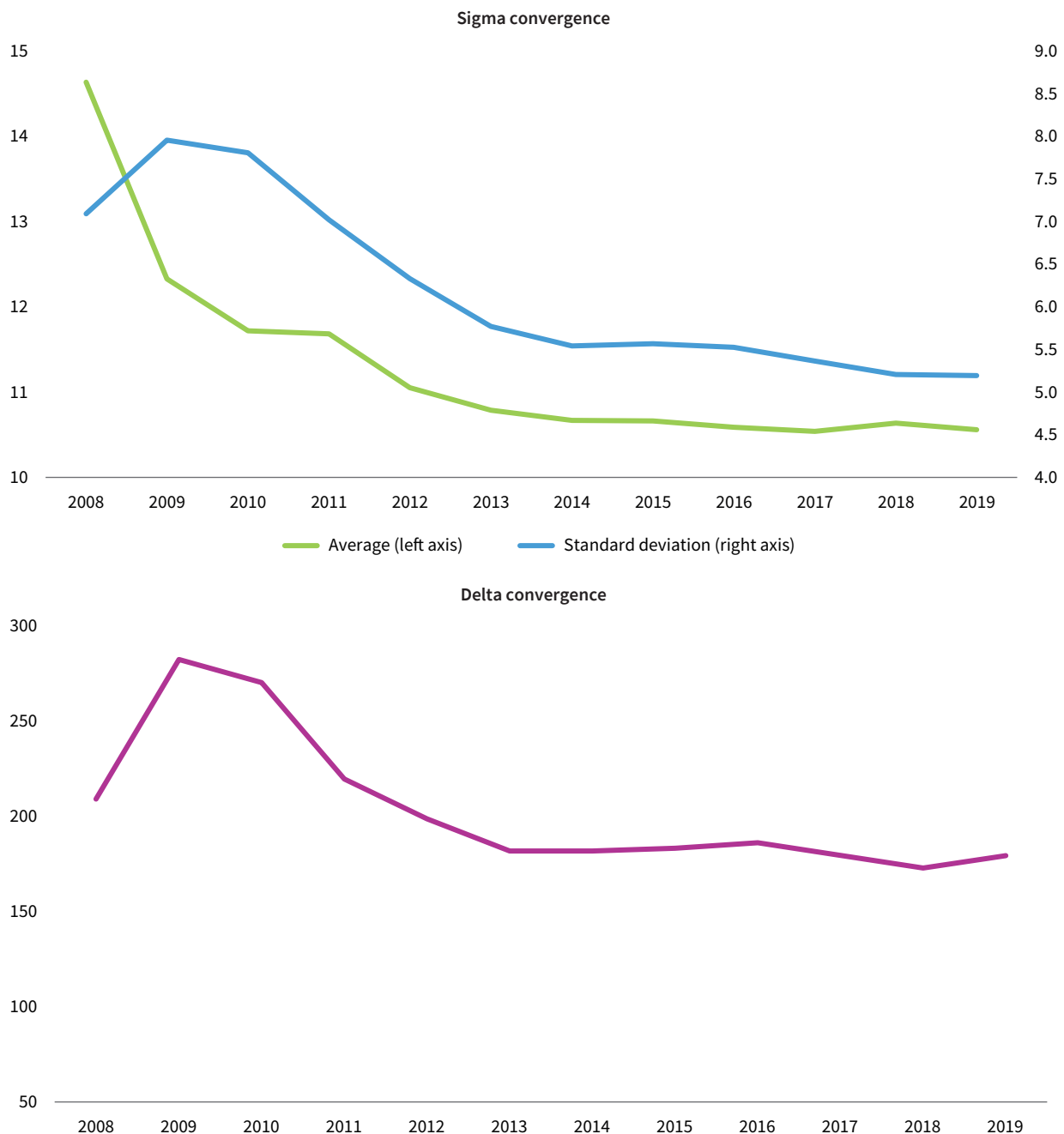
Gender employment gap

The gender employment gap is defined as the difference between the employment rates of men and women aged 20–64 years. The indicator is based on the EU-LFS and is a headline indicator of the Social Scoreboard.

Despite progress in the last decade, the employment rate and pay levels of women still lag behind those of men, indicating continued gender-based stereotypes and discrimination in the labour market. Figure 18 shows that the EU, on average, has made progress in closing the gender employment gap. It decreased from

14.6% in 2008 to 10.6% in 2019. Disparities among Member States, as measured by the standard deviation and the sum of distances from the frontrunners, increased initially from 2008 to 2009, but then continued to decrease relatively steadily. Nevertheless, progress towards achieving greater **gender equality has stagnated in recent years**, with no further significant reductions in the gender employment gap and a stagnation or slowdown of reductions in the disparities between Member States from 2013 (delta convergence) or 2015 (sigma convergence) onwards.

Figure 18: Sigma and delta convergence in the gender employment gap (%), EU27, 2008–2019



Source: Authors' own calculations, based on Eurostat data

Figure 19: Unconditional beta convergence in the gender employment gap (%), EU27, 2008–2019



Note: The beta coefficient is statistically not significant.

Source: Authors' own calculations, based on Eurostat data

Differences in the gender employment gap at the country level remain high. The gender employment gap remains particularly high in central, eastern and southern European Member States: 20.7% in Malta, 20% in Greece, 19.6% in Italy and 19% in Romania (all in 2019). The Nordic countries (Finland, 2.7%; Sweden, 4.7%) and the Baltic states (Lithuania, 1.6%; Latvia, 3.8%) recorded the lowest gender employment gaps in 2019.

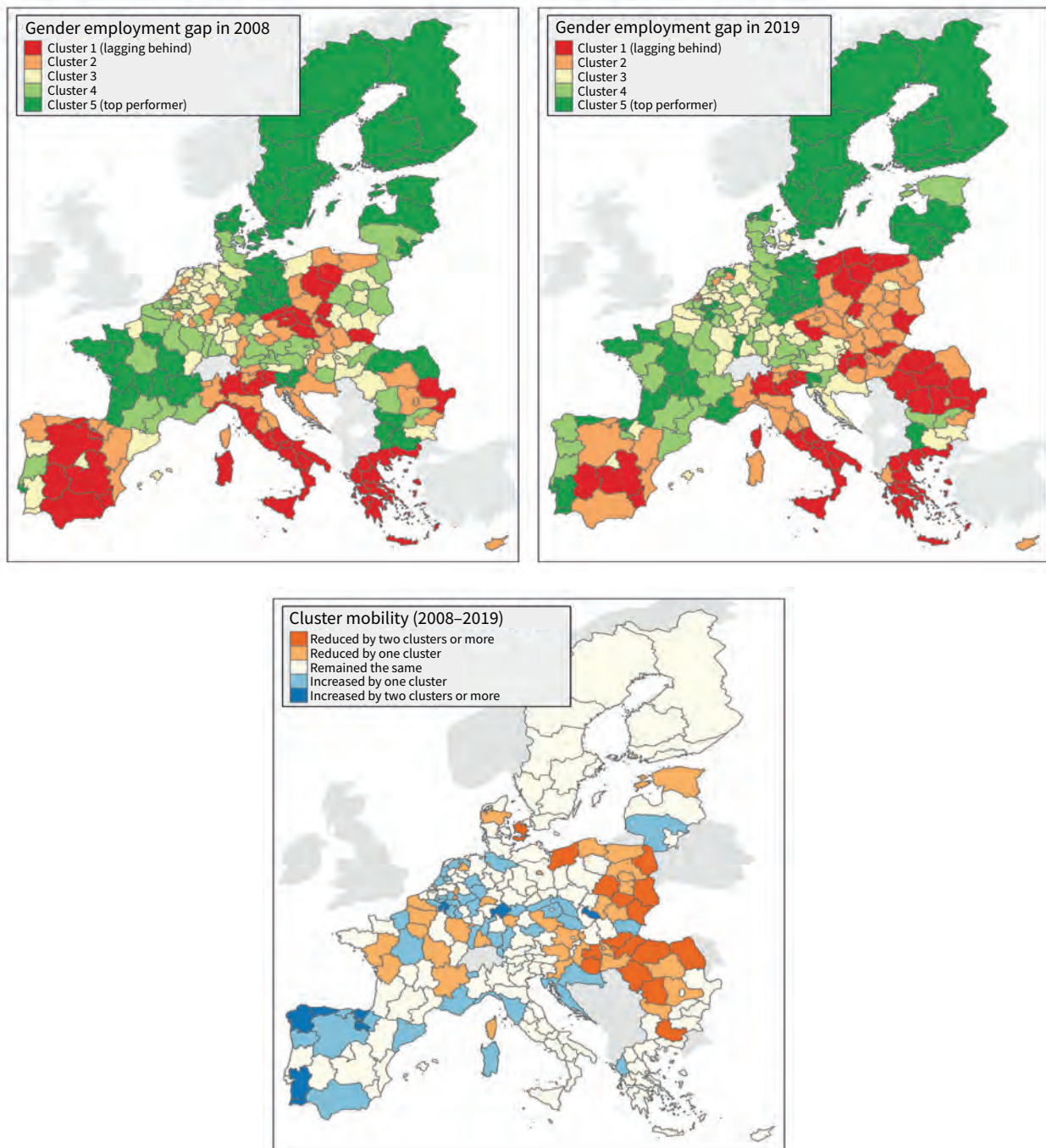
Overall, the analysis shows upward sigma and delta convergence from 2009 onwards, but this trend slowed down, with stagnation in recent years in both the average gender employment gap and the disparities measures of sigma and delta convergence.

The analysis of unconditional beta convergence shows divergence, with initially poorer performing Member States falling further away from more equal countries (Figure 19). Increases in the gender employment gap in some eastern European Member States are among the causes of this pattern. Researchers have linked the deterioration in gender equality in the labour market to democratic backsliding and the election of right-wing or

populist governments opposed to progressive values (Roggeband and Krizsan, 2018), as well as to social norms, gender stereotyping and discrimination (the 'sticky floors', as mentioned by Ciminelli et al (2021), for example).

A regional analysis of the gender employment gap reveals how **existing north–south and west–east divides persist** in the absence of a beta convergence process (Figure 20). Many regions in southern European Member States such as Greece, Italy and Spain are lagging behind in gender equality alongside regions in central and eastern European countries such as Bulgaria, Poland, Romania and Slovakia. In contrast to the dynamic catch-up process of central and eastern European regions in many other social and economic indicators, the relative performance of regions in the east further deteriorated. Some small improvements occurred in southern European countries, for instance Portugal and Spain, but this was not sufficient to constitute a catch-up process for southern European regions. Many regions in Greece, Italy and Spain remained in the least performing cluster in 2019.

Figure 20: Regional quintile clusters of the gender employment gap in 2008 and 2019 and cluster mobility from 2008 to 2019, EU NUTS 2



Note: Data are missing for Irish NUTS 2 regions.

Source: Authors' own calculations, based on Eurostat data

Rate of young people not in employment, education or training

The youth NEET rate is the percentage of young people aged 15–29 years who are not in employment, education or training. The indicator is based on the EU-LFS and is a headline indicator of the Social Scoreboard.

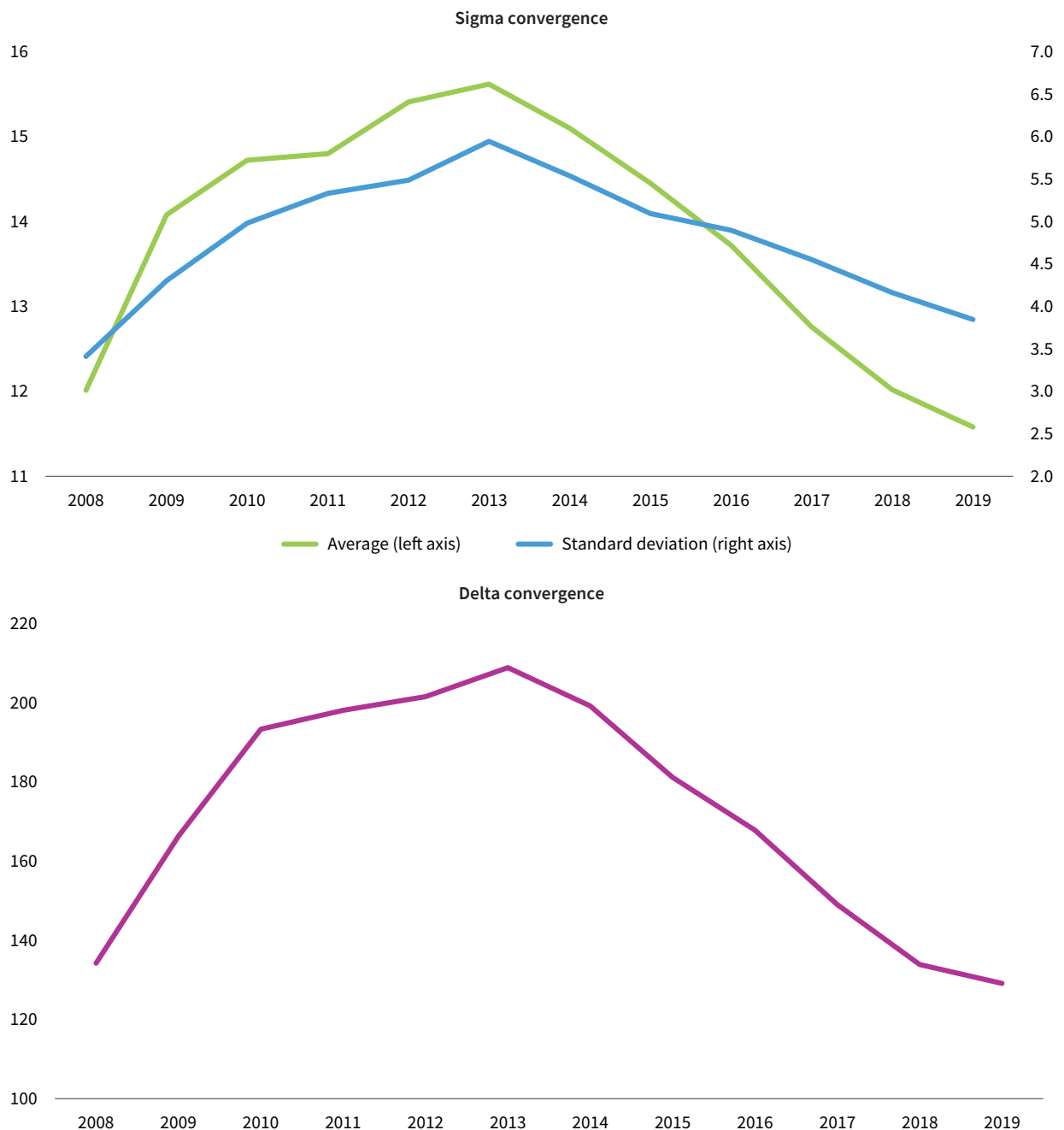
Young people were among the group hit the hardest by the 2008–2013 economic crisis, in particular regarding their labour market opportunities. The youth NEET rate increased sharply in the first year of the 2008–2013 economic crisis, from 12.0% in 2008 to 14.1% in 2009,

and peaked in 2013 at 15.6% (Figure 21). At the same time, disparities, measured as the standard deviation (sigma convergence) and the distance to the average of the five leading countries (delta convergence), increased. During the subsequent recovery period from 2013 to 2019, the average youth NEET rate and disparities decreased again. Nevertheless, differences at the country level in the youth NEET rate remained high in 2019, with more than one-fifth of the young population not in employment, education or training in Italy (22.2%) and a high youth NEET rate in Greece

(17.7%), Romania (16.8%) and Bulgaria (16.7%). In contrast, the labour market situation of young people was substantially better in the Netherlands (5.7%) and Sweden (6.3%).

Overall, there was a **cyclical pattern in sigma and delta convergence** in line with the ups and downs of the economic cycle. During the 2008–2013 economic crisis, EU Member States recorded downward sigma and delta divergence and, during the subsequent recovery period, upward sigma and delta convergence returned.

Figure 21: Sigma and delta convergence in the youth NEET rate (%), EU27, 2008–2019

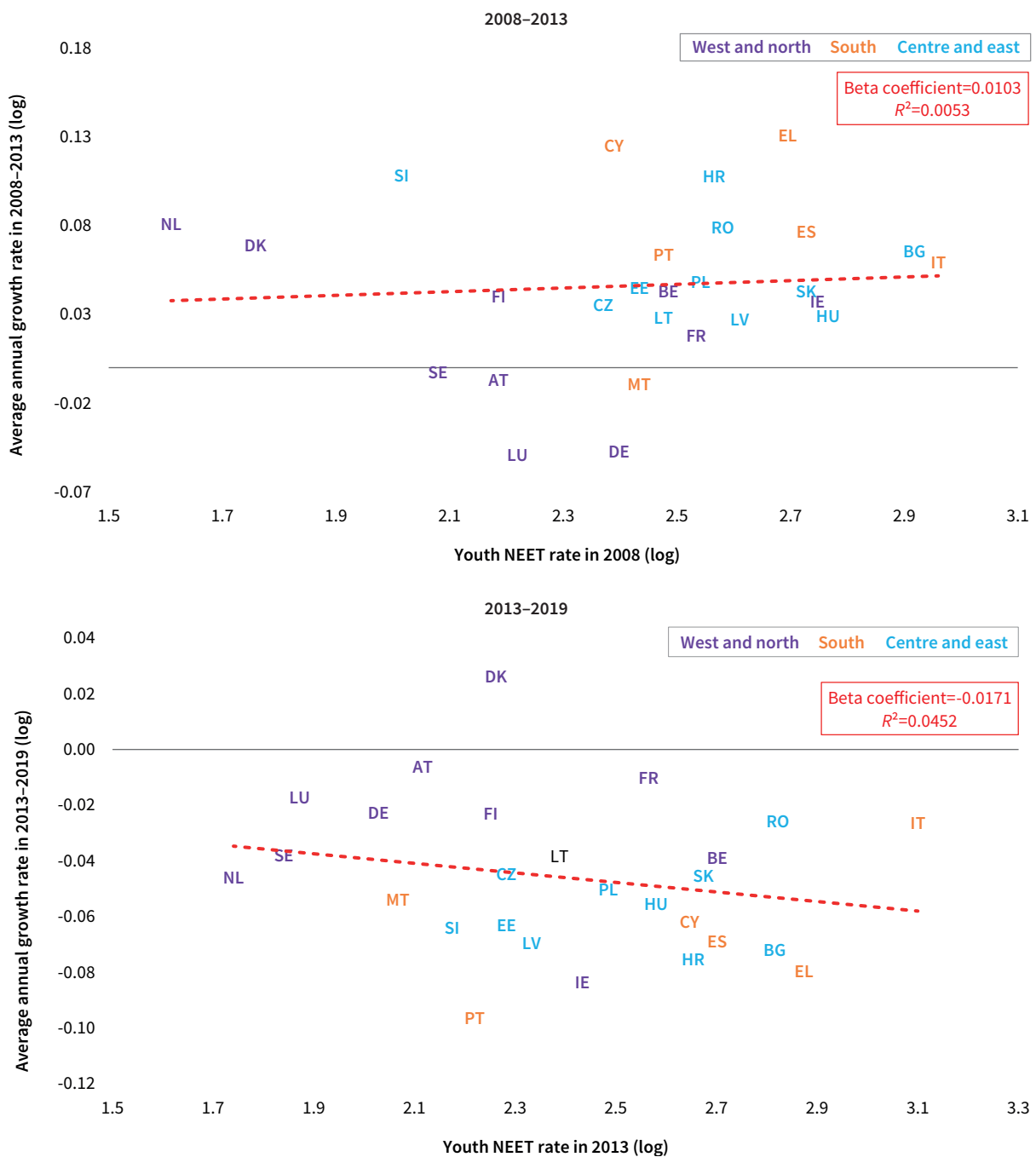


Source: Authors' own calculations, based on Eurostat data

The analysis of beta convergence is split into two periods, as sigma and delta convergence suggest a cyclical pattern. During the 2008–2013 economic crisis, initially poorer performing Member States recorded a trend of **beta divergence, albeit not statistically significant** (Figure 22). Some countries fell behind better performing countries, with deterioration particularly in countries already lagging behind, such as Croatia, Cyprus and Greece. However, there were also improvements in better performing countries – Sweden, Austria, Luxembourg and Germany – which contributed to the trend of divergence in unconditional beta

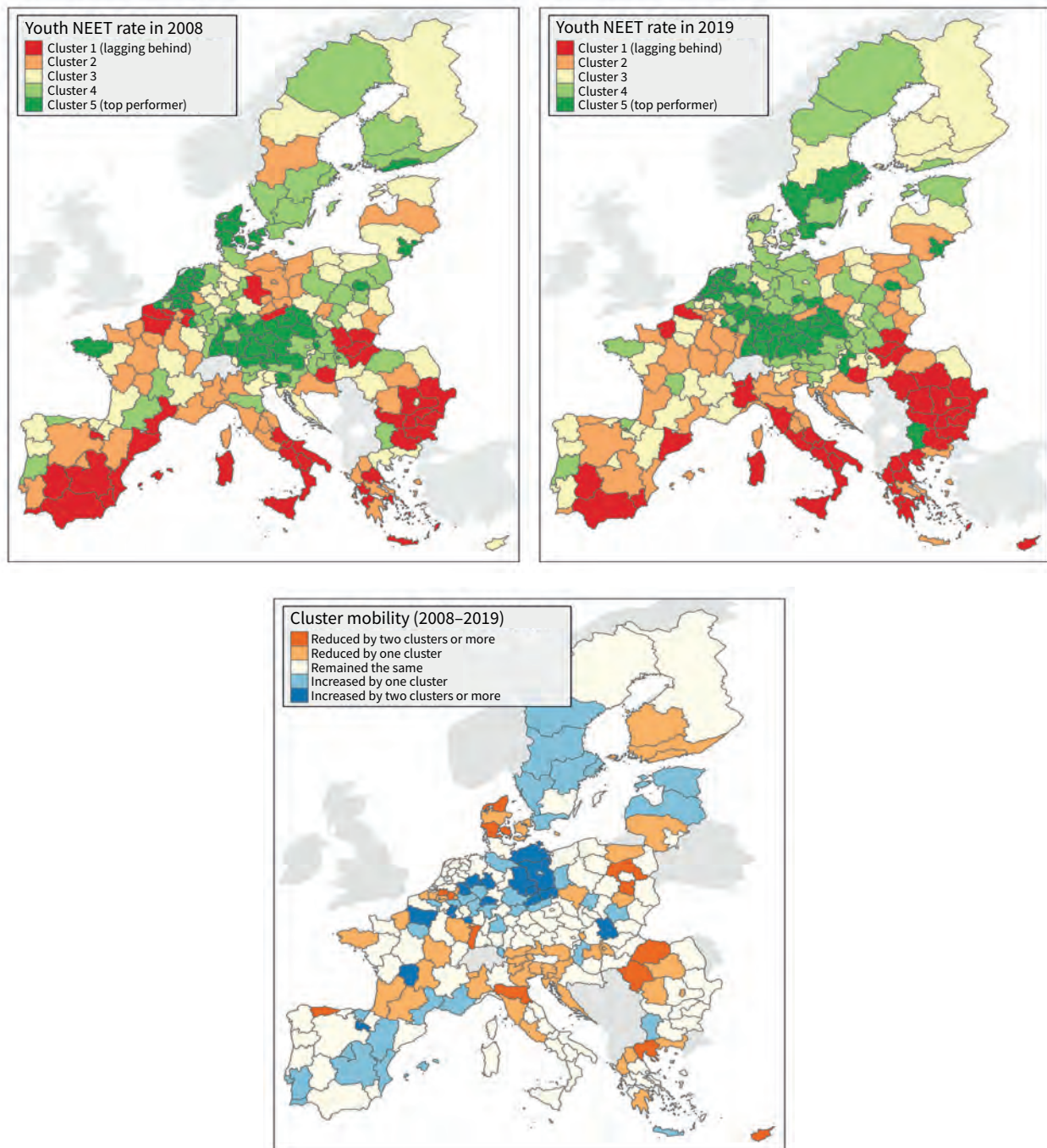
convergence. During the subsequent recovery period, poorer performing Member States were catching up again and tended to record beta convergence, albeit the trend is not statistically significant and the variance explained by it is low ($R^2=4.5\%$). However, improvements in poorer performing countries such as Italy, Romania and France were below average. On the other hand, some countries that were hit hard by the 2008–2013 economic crisis contributed to the overall catch-up process with a substantial decline in their youth NEET rate (for example, Bulgaria, Croatia, Greece and Spain).

Figure 22: Unconditional beta convergence in the youth NEET rate (%), EU27, 2008–2013 and 2013–2019



Note: The beta coefficients are statistically not significant.
Source: Authors' own calculations, based on Eurostat data

Figure 23: Regional quintile clusters of the youth NEET rate in 2008 and 2019 and cluster mobility from 2008 to 2019, EU NUTS 2



Note: Data are missing for Irish NUTS 2 regions.

Source: Authors' own calculations, based on Eurostat data

The analysis at the regional level shows the **divide between the north and the south**, but a more geographically mixed catch-up process (Figure 23). The best-performing regions were in western and northern countries such as the Netherlands, Germany, Austria and Denmark and – to some extent – Sweden. Improvements occurred from 2008 to 2019 mostly in

eastern Germany, Sweden and some French and Spanish regions. The catch-up process of central and eastern European regions observed in other indicators failed to materialise in the youth NEET rate, with Bulgarian and Romanian regions among the poorest performers and only a few improvements in central and eastern European regions.

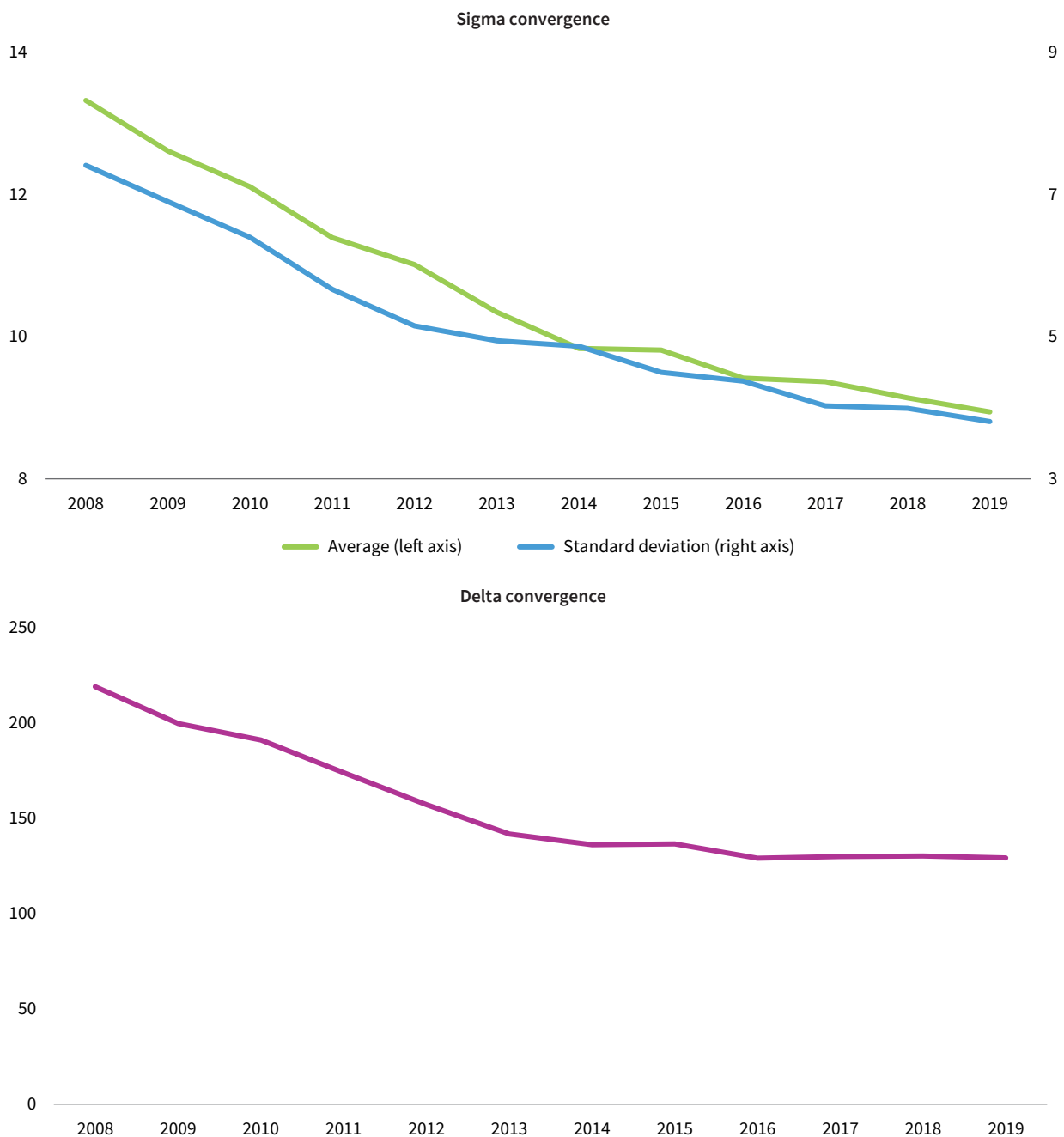
Early school leavers rate

This indicator is defined as the percentage of the population aged 18–24 years with, at most, a lower secondary education and who, during the four weeks preceding the survey, were not in further education or training. The indicator is based on the EU-LFS and is a headline indicator of the Social Scoreboard.

While young people were hit hard by the 2008–2013 economic crisis in terms of their labour market opportunities, their education participation and human capital accumulation are also crucial aspects of quality

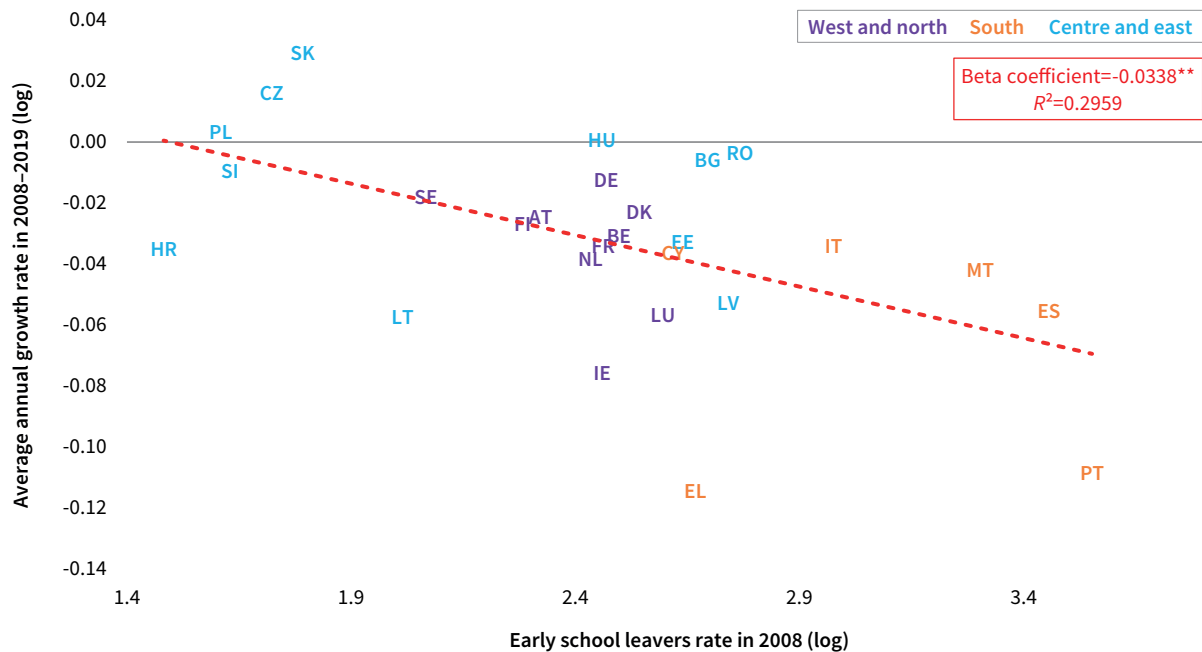
of life and work. In contrast with the cyclical pattern in the youth NEET rate, the early school leavers rate indicates a **stable and robust upward sigma and delta convergence pattern** in the EU27 during the period under investigation (2008–2019). Figure 24 shows a decrease in the unweighted average of European Member States from 13.3% in 2008 to only 8.9% in 2019. At the same time, disparities decreased, measured as both the standard deviation (sigma convergence) and the distance to frontrunners (delta convergence), albeit delta convergence recently slowed down.

Figure 24: Sigma and delta convergence in the early school leavers rate (%), EU27, 2008–2019



Source: Authors' own calculations, based on Eurostat data

Figure 25: Unconditional beta convergence in the early school leavers rate (%), EU27, 2008–2019



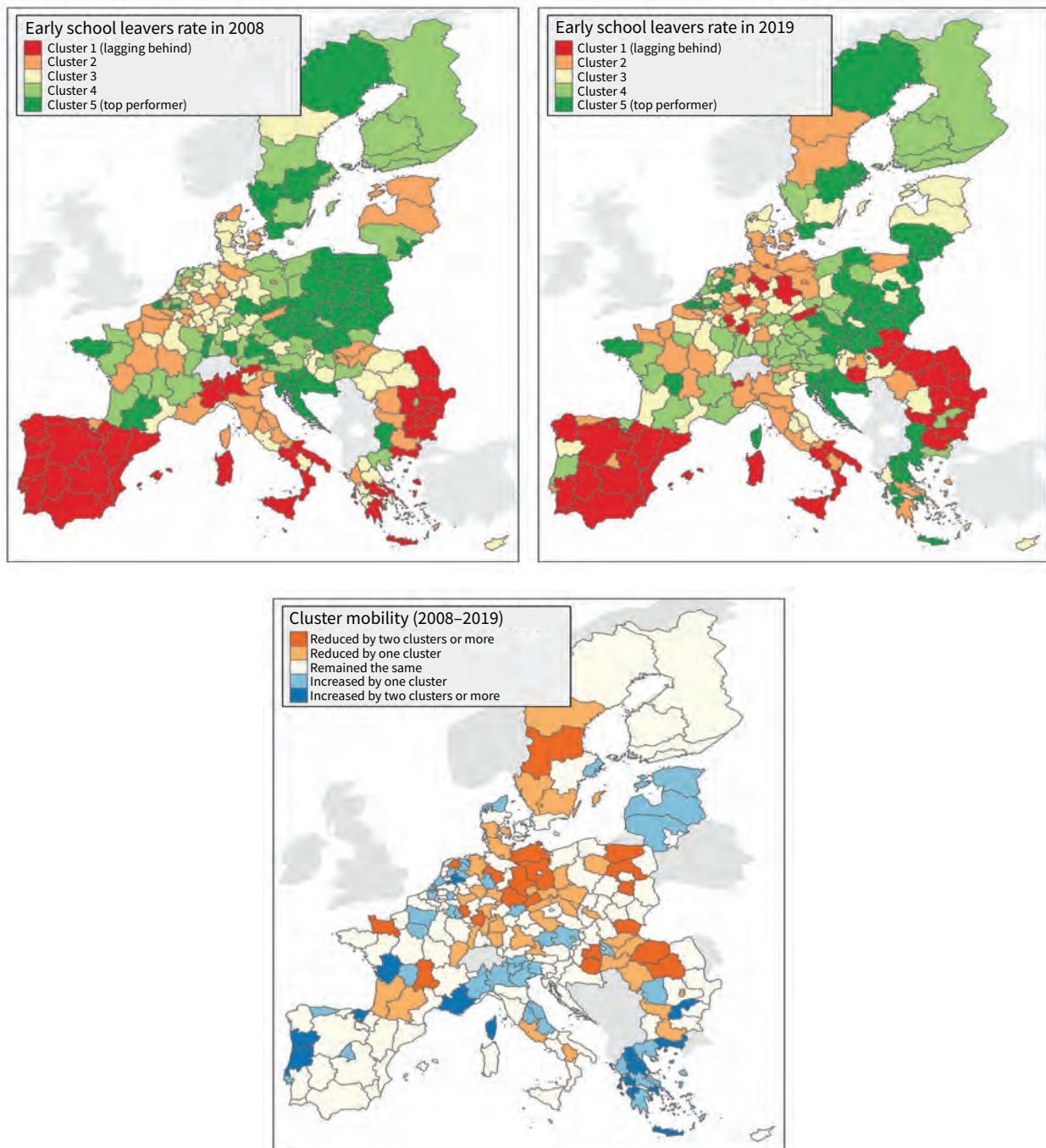
Note: **The beta coefficient is statistically significant at a 99% confidence interval.

Source: Authors' own calculations, based on Eurostat data

Furthermore, there was **robust beta convergence** where countries with initially higher early school leavers rates caught up with frontrunners (Figure 25). Greece and Portugal in particular recorded significant improvements. In 2008, a group of central and eastern European countries were the frontrunning countries: Croatia, Slovenia and Poland. Croatia – a leading country in 2008 and 2019 – decreased its rate of dropout from education even further. However, other central and eastern European countries that were not among the leaders recorded almost no improvements (Hungary, Bulgaria and Romania). Southern European Member States were lagging behind in 2008 but recorded mostly higher-than-average improvements, contributing to the catch-up process, which occurred at a rate of 3.4% per year (statistically significant). Northern and western European Member States – initially placed between the leading group and the southern European countries lagging behind – saw greater improvements than the frontrunners, but less improvement than the southern European Member States. Luxembourg and Ireland, in particular, recorded improvements in their early school leavers rate.

The regional analysis of the early school leavers rate reveals **different regional patterns from other social indicators**. In contrast with the catch-up process of central and eastern European regions in most other indicators in this dimension, central and eastern regions recorded some deterioration in the early school leavers rate, albeit from the position of top performers (Figure 26). Regions in Sweden, eastern Germany and France also deteriorated. Improvements in quintile clusters occurred in some southern European regions (Greece and some improvements in Italy and Portugal), but these improvements did not constitute a catch-up process – they were not strong or consistent enough to close the gaps between the southern regions lagging behind and the frontrunners in the east and north of Europe. In 2019, there were still many regions in southern Europe among those lagging behind.

Figure 26: Regional quintile clusters of the early school leavers rate in 2008 and 2019 and cluster mobility from 2008 to 2019, EU NUTS 2



Note: Data are missing for Irish NUTS 2 regions.

Source: Authors' own calculations, based on Eurostat data

At risk of poverty or social exclusion rate

The AROPE rate is the number of people who are at risk of poverty, severely materially deprived or living in a household with a very low level of work intensity. This indicator is based on EU-SILC and is a headline indicator of the Social Scoreboard.

Measures of poverty and being at risk of poverty are a crucial aspect of measuring quality of life in Europe and fighting poverty is an important policy goal of the EU.

Figure 27 shows that the average AROPE rate in the EU grew during the 2008–2013 economic crisis from 24% in 2008 to 25.6% in 2013. With the subsequent recovery, the AROPE rate dropped to 21.1% in 2019. The AROPE rate is highest in Bulgaria (32.8% in 2019), Romania (31.2% in 2019) and Greece (30% in 2019). While this represents a significant reduction for Bulgaria and Romania (from 44.8% and 44.2% in 2008, respectively), it represents an increase for Greece (from 28.1% in 2008). Disparities, as measured by the standard

deviation (sigma convergence) and distance to the average of the five best-performing countries (delta convergence), increased and reached a peak in 2012. Afterwards, they decreased again until 2019.

Overall, this analysis revealed a **cyclical pattern in the AROPE rate in the EU between 2008 and 2019**, with downward sigma and delta divergence during the economic crisis and upward sigma and delta convergence during the subsequent recovery.

Figure 27: Sigma and delta convergence in the AROPE rate (%), EU27, 2008–2019

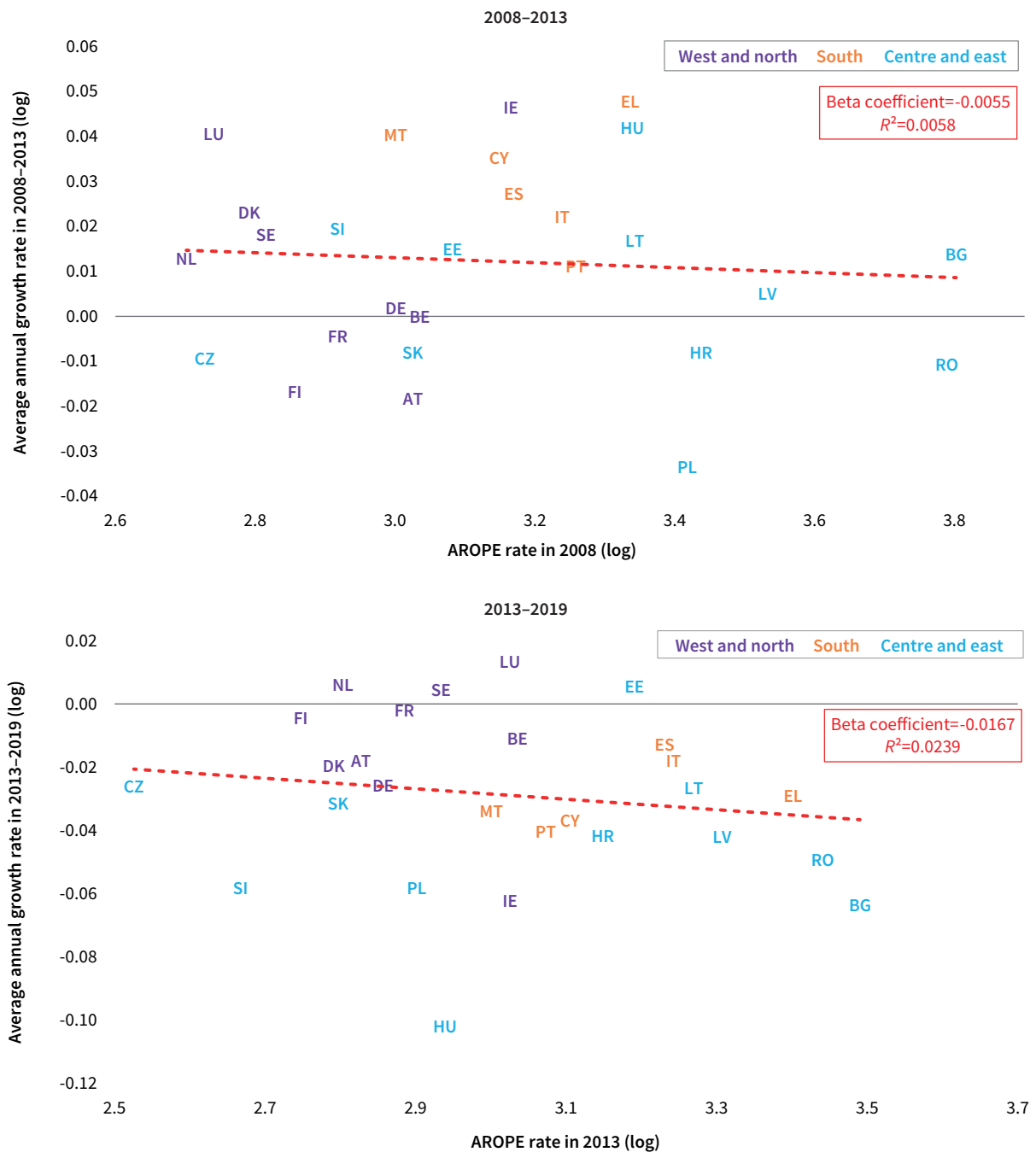


Source: Authors' own calculations, based on Eurostat data

The analysis of unconditional beta convergence (Figure 28) shows that there tended to be a **catch-up process or beta convergence process** in both periods, during the 2008–2013 economic crisis and during the subsequent recovery period, albeit not statistically significant. Southern Member States such as Greece, Malta, Cyprus and Spain, which were placed in the middle of the AROPE scale in 2008, saw large increases during the 2008–2013 economic crisis. Moreover,

initially well-performing countries such as Luxembourg, Ireland and Hungary saw the AROPE rate rise during the crisis. During the recovery period, decreases in the AROPE rate in southern Member States were only slightly higher than in well-performing northern and western Member States. The catch-up process was mostly driven by more pronounced decreases in central and eastern Member States with initially higher AROPE rates, such as Bulgaria, Romania and Hungary.

Figure 28: Unconditional beta convergence in the AROPE rate (%), EU27, 2008–2013 and 2013–2019



Note: The beta coefficients are statistically not significant.
Source: Authors' own calculations, based on Eurostat data

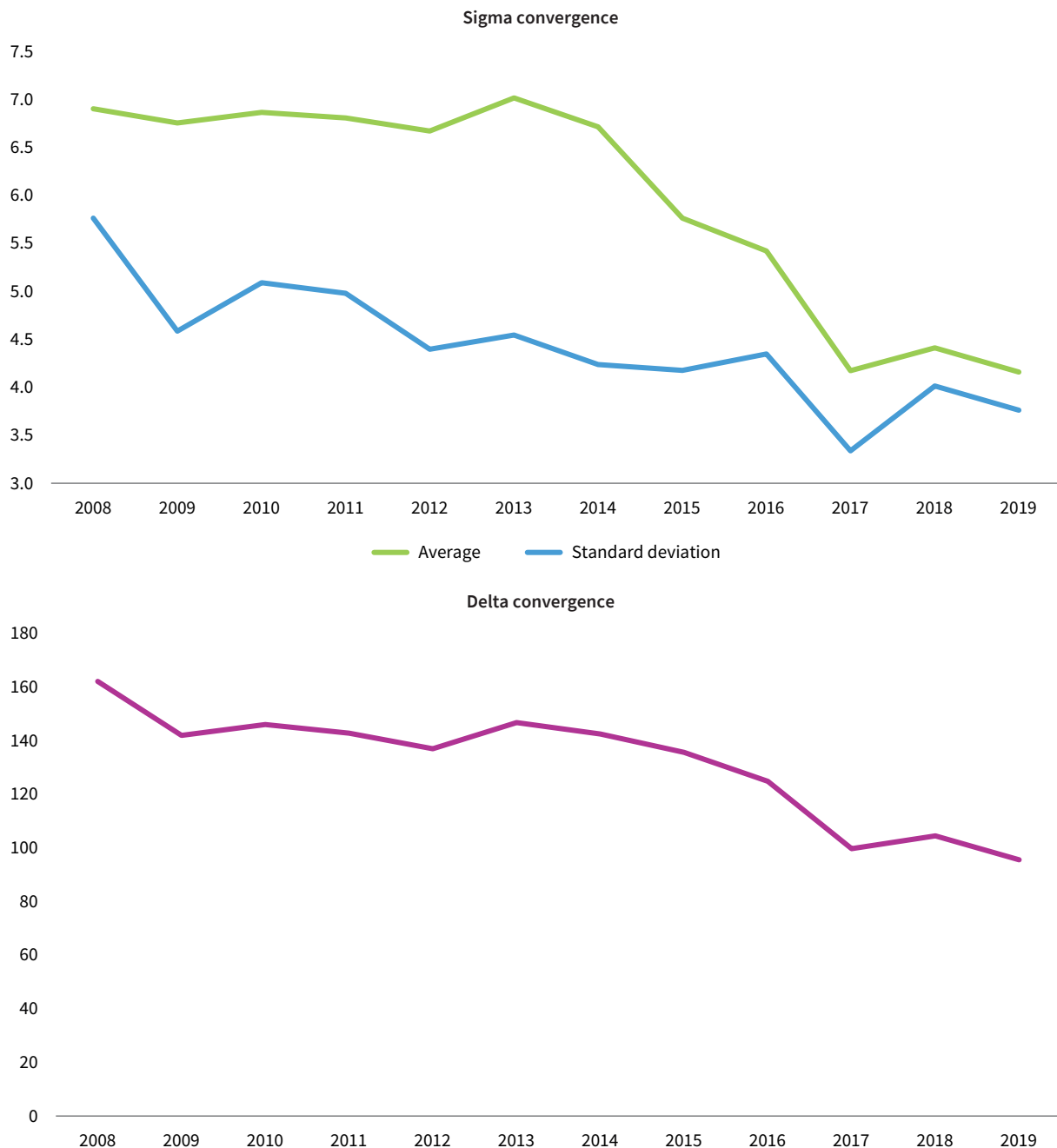
Unmet medical needs

The unmet need for medical care is defined as the percentage of people aged 16 years and over who report unmet needs for medical care. This indicator is based on EU-SILC and is a headline indicator of the Social Scoreboard.

The COVID-19 pandemic has highlighted the importance of health and healthcare. The share of people with self-reported needs for medical care that were not met by healthcare facilities was already a focus area of social convergence before the pandemic and a headline indicator of the Social Scoreboard. During the period of

investigation, but especially from 2013 to 2017, the average share of people reporting unmet medical needs in the EU dropped from 6.9% in 2008 to 4.2% in 2019 (Figure 29). Impressive reductions occurred in Bulgaria, where the share of people reporting unmet medical needs dropped from 22.4% in 2008 to just 2.4% in 2019, as well as in Croatia (from 15.3% to 4.2%) and Latvia (from 18.9% to 7.9%). Unfortunately, some countries recorded increases in unmet medical needs, such as Estonia (from 10% in 2008 to 17.6% in 2019) and Denmark (from 2.9% in 2008 to 8% in 2019). At the same time, disparities, as measured by the standard deviation (sigma convergence), decreased, especially during the

Figure 29: Sigma and delta convergence in unmet medical needs (%), EU27, 2008–2019



Source: Authors' own calculations, based on Eurostat data

recovery period (2014–2019). The distance from the average of the five best-performing countries (delta convergence) decreased steadily from 2008 to 2019.

Overall, this suggests **steady and robust upward sigma and delta convergence** in unmet medical care needs in the EU.

The analysis of unconditional beta convergence (Figure 30) shows **beta convergence resulting from a robust catch-up process** of initially poorer performing countries to the frontrunners in unmet medical needs. Significant improvements occurred in countries such as Bulgaria, Germany and Spain, which were at the higher end of the unmet medical needs scale in 2008. However, at the same time, countries with an initially lower share of people reporting unmet medical needs saw increases between 2008 and 2019, such as the frontrunners Slovenia, Belgium, Finland and Denmark. Most countries performing poorly in 2008 were from central and eastern Europe (even though the overall frontrunner, Slovenia, is also part of the same region), but these countries did not share the same positive catch-up experience as Bulgaria, Latvia and Croatia; in Slovakia and Estonia, the share of people with unmet medical needs even increased. Most southern European

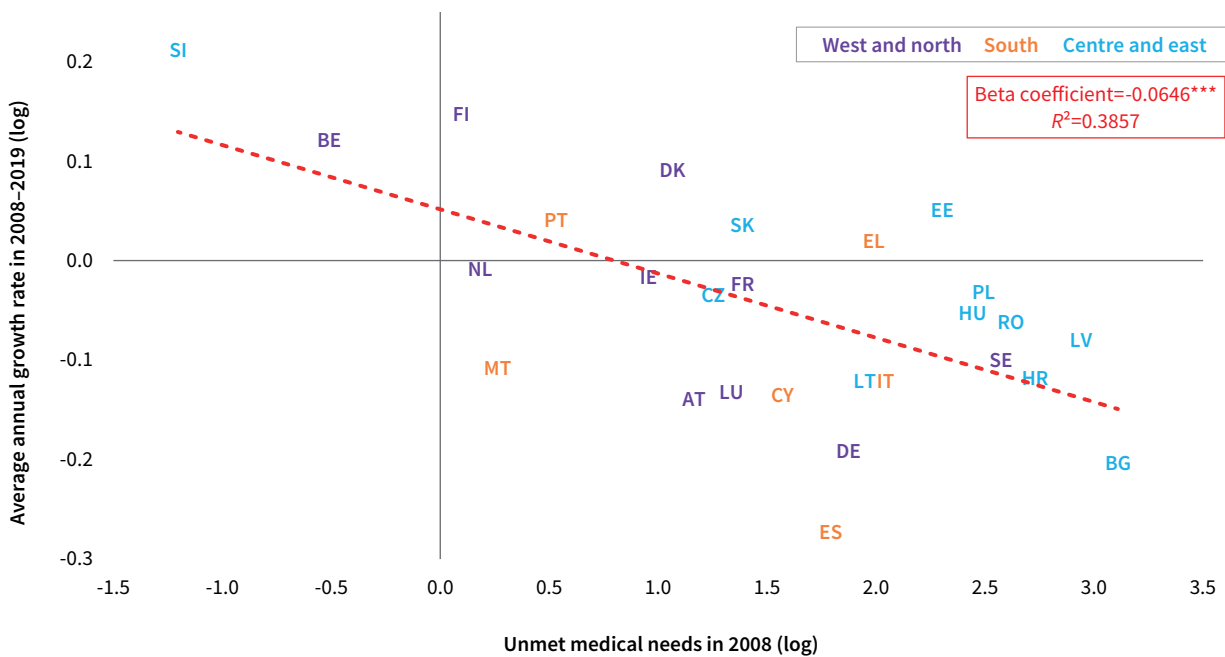
Member States were initially placed between poorly performing central and eastern European countries and better performing northern and western European Member States. Except for Portugal and Greece, southern European countries saw larger average annual growth rates and fuelled the overall catch-up process.

Summary of upward convergence trends in the social dimension

Overall, **most employment- and poverty-related indicators show a correlation to the business cycle** both in the average and in the measure of disparities. In good times, the average improves towards the desired policy goal and disparities between Member States tend to decrease, while in bad times the average deteriorates and disparities widen.

The **2008 financial crisis upended convergence in social indicators** in the EU and, during the subsequent 2008–2013 economic crisis, downward divergence prevailed among European Member States in most social indicators (employment rate, unemployment rate, youth NEET rate and AROPE rate). The subsequent **recovery period in the EU restored upward convergence** in most of these indicators until 2019.

Figure 30: Unconditional beta convergence in unmet medical needs (%), EU27, 2008–2019



Note: ***The beta coefficient is statistically significant at a 99.9% confidence interval.
 Source: Authors' own calculations, based on Eurostat data

The gender employment gap, working hours and unmet medical needs indicators were more resilient to the 2008–2013 economic crisis and recorded relatively steady upward convergence from 2008 to 2019. However, improvements in gender equality subsequently stagnated and disparities have not reduced further.

The **2008–2013 economic crisis had a severely uneven impact on social indicators** throughout the EU. While central and eastern European countries were catching up, southern European Member States were hit particularly hard by the impacts of the crisis and fell behind in many social indicators. The 2008–2013 economic crisis affected the catch-up process of poorly performing countries with better performing Member States, which was much stronger during the subsequent recovery period (2014–2019). However, the gender employment gap shows unconditional beta convergence, indicating that poorly performing Member States are falling behind leading countries instead of catching up. Continued effort towards ensuring convergence is required in all areas of the social dimension of the EU.

Indicators used to measure institutional convergence

The interaction between economic, social and institutional convergence is complex and manifold, as discussed earlier. Institutional convergence, defined as upward convergence in institutional quality, should have an impact on economic and social convergence following the framework of Landesmann and Székely (2021).

Empirical research on institutional convergence is rare. Data availability is a major limitation, with large quantitative datasets mostly relying on perception measures of the quality of institutions. As institutional quality is a social phenomenon, perceptions of institutional quality vary from person to person. With this caveat, measures of perceived institutional quality allow comparisons across countries and time, allowing the development of institutional convergence in the EU to be analysed.

While institutional quality converged in central and eastern European Member States in the early 2000s with the transformation of eastern Europe and the incentive of EU accession, post-accession reforms decelerated and even reversed in some countries (Jurlin and Čučković, 2010; Ward-Warmedinger and Székely, 2018)

compared with the benchmark of north-western European countries. Schönfelder and Wagner (2019) found some convergence in institutional quality in the EU driven by these early improvements following the accession of new Member States. Nevertheless, they found that the quality of institutions deteriorated in southern European countries, weakening the overall institutional convergence process. In line with that, Alesina et al (2017) found no institutional convergence and showed that southern European institutions were falling behind the northern frontrunners.

This section analyses the trends in upward convergence in institutional indicators from the World Bank – the Worldwide Governance Indicators (WGIs) and the Ease of Doing Business Index – and points to regional divides in institutional quality using the European Quality of Government Index.

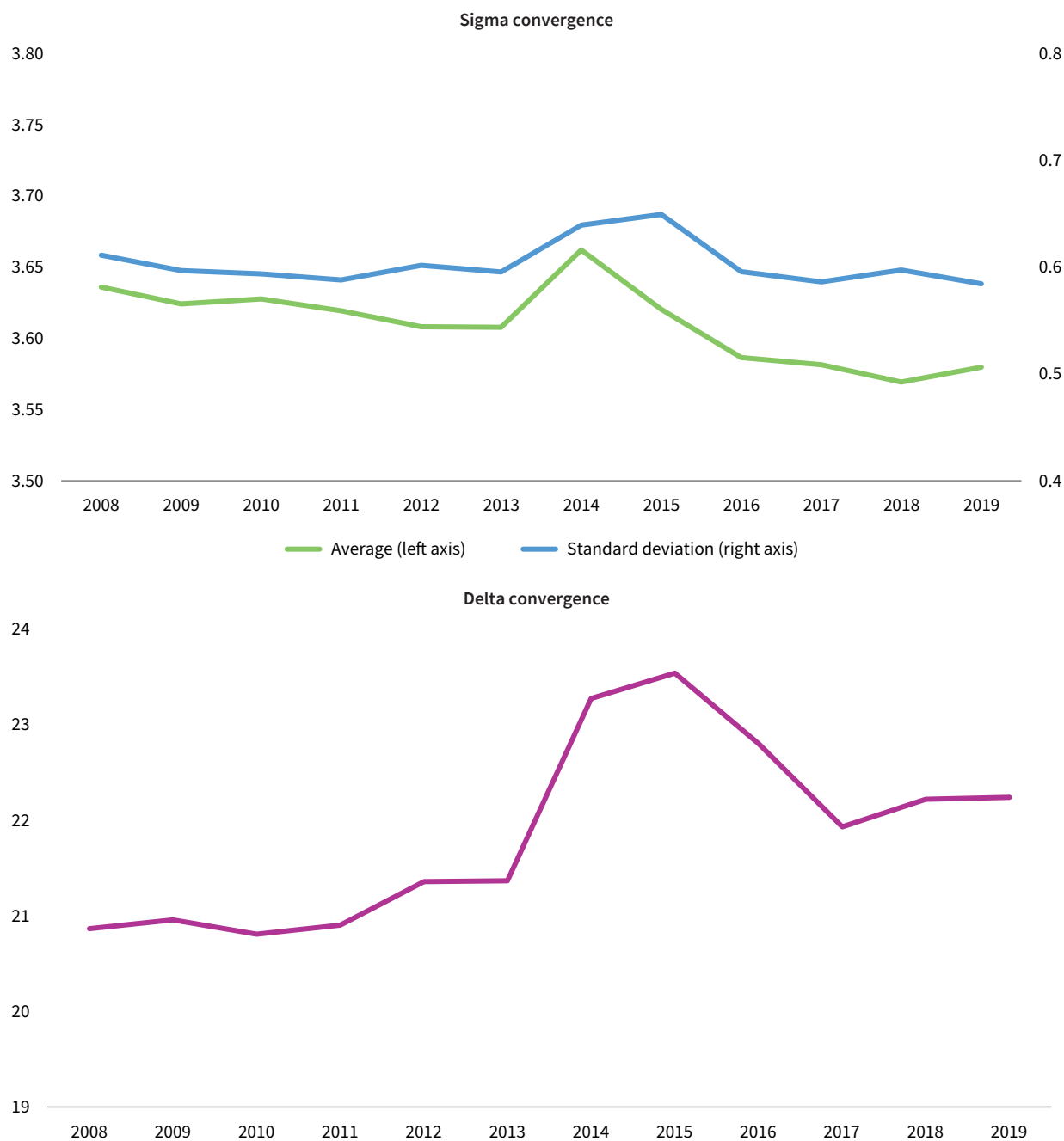
Rule of law

This WGI dimension reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence. The index scores were rescaled to range from 0 (weak performance) to 5 (strong performance).

Citizens' confidence in institutions to ensure the rule of law is a dimension of institutional quality that is central to the functioning of society and the economy. Figure 31 shows a slight decrease in the EU's unweighted average score in the WGI rule of law dimension. It decreased from 3.64 in 2008 to 3.58 in 2019 with an intermediate peak at 3.66 in 2014. The perceived strength of the rule of law varies considerably between countries. In 2019, the rule of law was perceived by citizens to be the strongest in the Nordic countries Finland (4.5), Denmark (4.4) and Sweden (4.4), as well as in the western European countries Austria (4.4), Luxembourg (4.3) and the Netherlands (4.3). The lowest score in the rule of law dimension was recorded in the central and eastern European countries Bulgaria (2.5), Croatia (2.9) and Romania (2.9), as well as in southern countries such as Italy (2.8) and Greece (2.7). Disparities as measured by the standard deviation (sigma convergence) decreased slightly from 2008 to 2019, while the distance from the average of the five best-performing countries (delta convergence) increased.

Overall, the EU recorded **slight downward sigma convergence, but downward delta divergence** in the perceived rule of law measure.

Figure 31: Sigma and delta convergence in the WGI rule of law, EU27, 2008–2019

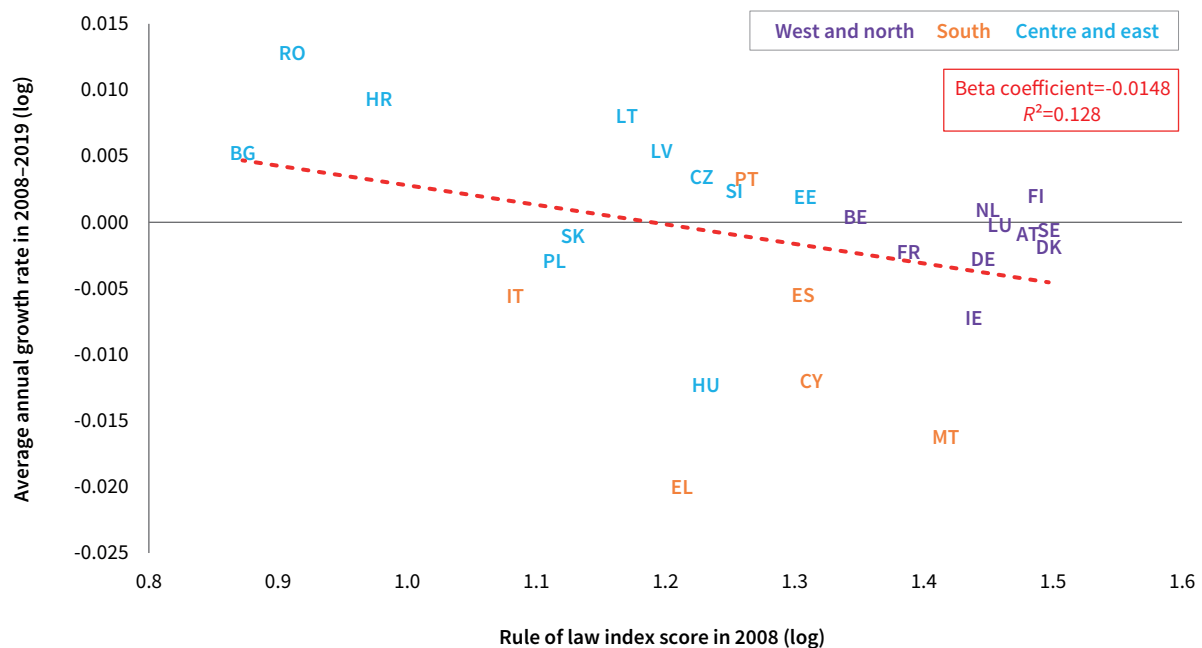


Note: Index scores were rescaled to 0–5.
 Source: Authors’ own calculations, based on the World Bank WGI

Figure 32 shows **beta convergence resulting from a catch-up process** of countries with initially lower scores in the rule of law dimension with better performers, albeit not statistically significant. This catch-up effect was mostly driven by above-average improvements in initially poorly performing countries in central and eastern Europe (Bulgaria, Romania and Croatia), but also by a slight deterioration in many initially well-performing countries in northern and western Europe. Positive developments in this dimension of

institutional quality in central and eastern European countries are in stark contrast with a significant deterioration in Hungary. Negative annual average growth rates in southern European Member States, which were initially placed between leading northern and western European countries and those central and eastern European Member States lagging behind, point to a perceived deterioration in the rule of law in Greece, Malta, Spain and Italy.

Figure 32: Unconditional beta convergence in the WGI rule of law, EU27, 2008–2019



Note: The beta coefficient is statistically not significant; index scores were rescaled to 0–5.

Source: Authors' own calculations, based on the World Bank WGIs

Government effectiveness

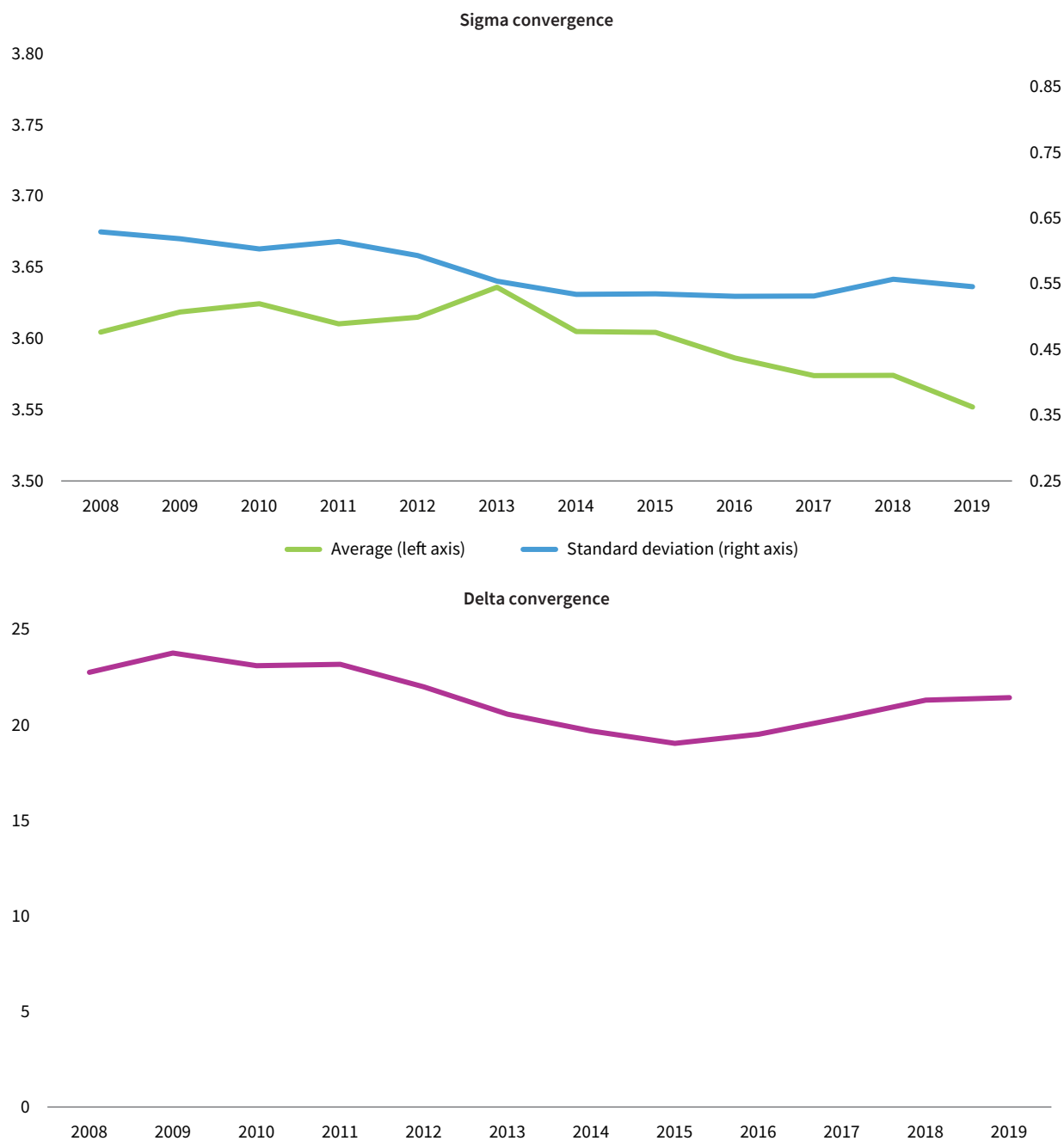
This WGI dimension reflects perceptions of the quality of public services, the quality of the civil service and its degree of independence from political pressure, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The index scores were rescaled to range from 0 (weak performance) to 5 (strong performance).

A second important dimension of institutional quality is the perception of (national) government effectiveness. This dimension covers the ability of governments to deliver high-quality public services and credible policy initiatives. Figure 33 shows a slight increase in the average score for perceived government effectiveness from 2008 to 2013 (from 3.6 to 3.64) followed by a decrease until 2019 (to 3.55). Again, scores vary

considerably at the country level. In 2019, the Nordic countries Denmark (4.44), Finland (4.43) and Sweden (4.33) were again leading the field. The lowest scores were recorded in Romania (2.22), Bulgaria (2.84) and Croatia (2.91), but also in Greece (2.91) and Italy (2.96). Disparities as measured in terms of the standard deviation (sigma convergence) between the Member States decreased slightly. The distance from the average of the five best-performing countries (delta convergence) also decreased between 2009 and 2015 but showed a slight upward trend from 2015 to 2019.

Overall, there was **slight upward sigma and delta convergence** in perceived government effectiveness in the EU from 2008 to 2013 followed by a **stagnation in sigma convergence and downward delta divergence** more recently (2015–2019).

Figure 33: Sigma and delta convergence in the WGI government effectiveness, EU27, 2008–2019

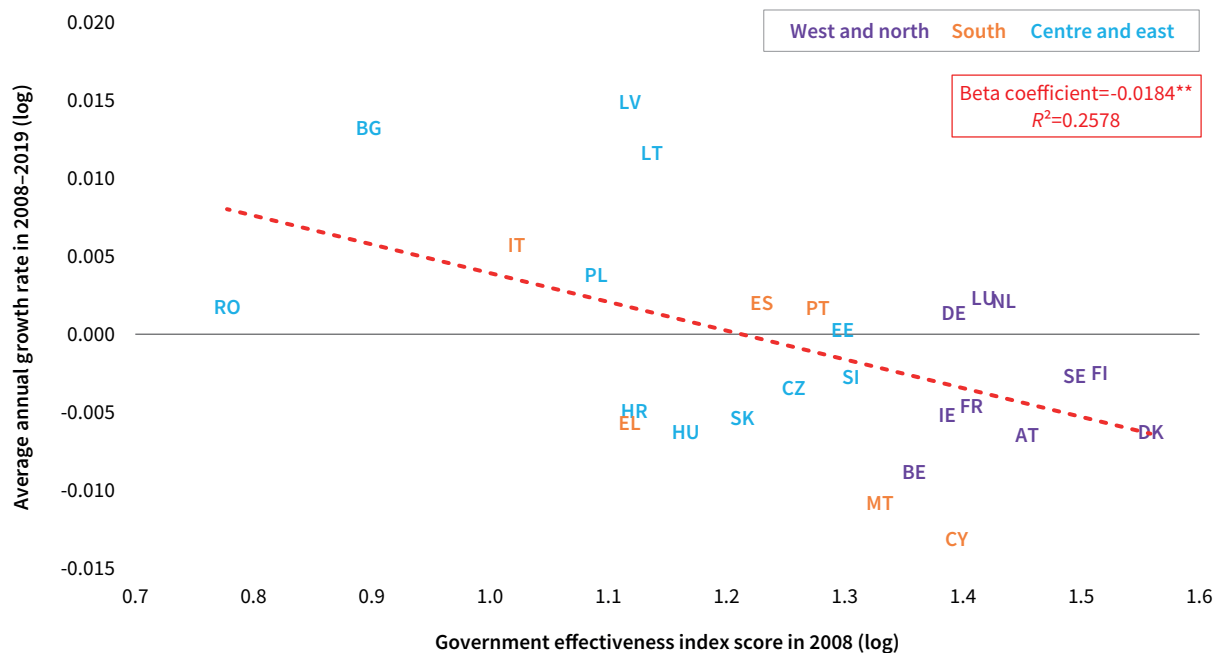


Note: Index scores were rescaled to 0–5.
Source: Authors’ own calculations, based on the World Bank WGI

The analysis of unconditional beta convergence shows evidence of **beta convergence resulting from a robust catch-up process** (Figure 34). The catch-up process occurred at a rate of 1.8% per year and was statistically significant. However, it was fuelled by improvements in countries initially lagging behind and by deterioration in initially leading countries in northern and western Europe, which saw decreases in perceived government effectiveness between 2008 and 2019 – including the top-performing Nordic countries Sweden, Denmark and Finland, but also Belgium, France, Austria and Ireland.

On average, central and eastern European Member States had the most negative perception of government effectiveness. However, only some of them caught up with better performing countries such as Bulgaria, Latvia and Lithuania. Others, such as Croatia, Hungary, Slovakia, Czechia and Slovenia, recorded a worsening of perceived government effectiveness. The southern European countries, which were initially placed between the central and eastern European countries lagging behind and the leading north-western cluster of countries, recorded mixed developments. While Cyprus,

Figure 34: Unconditional beta convergence in the WGI government effectiveness, EU27, 2008–2019



Notes: **The beta coefficient is statistically significant at a 99% confidence interval; index scores were rescaled to 0–5.

Source: Authors' own calculations, based on the World Bank WGIs

Greece and Malta showed large annual average decreases in perceived government effectiveness, Italy, Portugal and Spain improved slightly.

Regulatory quality

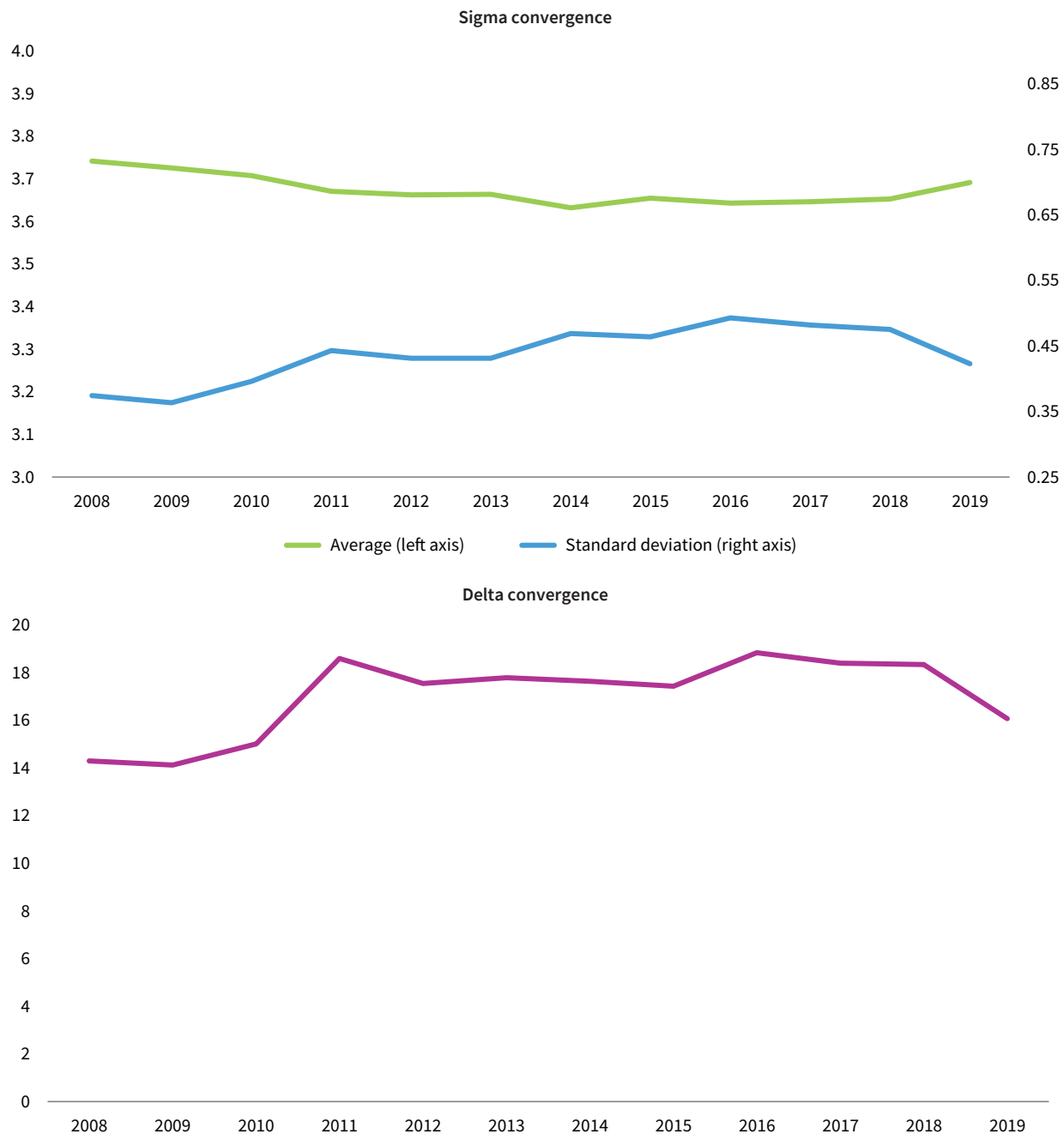
This WGI dimension reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The index scores were rescaled to range from 0 (weak performance) to 5 (strong performance).

Another important dimension of institutional quality related to economic and social convergence is the perceived regulatory quality. Citizens' perceptions of the ability of (national) governments to create and implement policies that are favourable to economic and social development is a crucial indicator of institutional quality.

Figure 35 shows a slight decrease in the average score for perceived regulatory quality in the EU from 3.74 in 2008 to 3.63 in 2014. The average subsequently increased again slightly to 3.69 in 2019. Country-level scores vary significantly: in 2019, the northern and western European countries achieved the best scores (the Netherlands: 4.36; Finland: 4.35; Sweden: 4.30; and Germany: 4.22). The lowest perceived regulatory quality was recorded in Romania (2.96), Bulgaria and Greece (both at 3.03), and Hungary (3.10). Disparities as measured in terms of the standard deviation increased from 2008 to 2016 and slightly decreased again afterwards until 2019. The distance to the average of the five best-performing countries increased from 2008 to 2010, then remained stable until 2018 and dropped in 2019.

Overall, there was **downward sigma and delta divergence from 2008 to 2011** followed by further downward sigma divergence until 2014 and stagnation in delta convergence. However, **in 2019 upward sigma and delta convergence returned**.

Figure 35: Sigma and delta convergence in the WGI regulatory quality, EU27, 2008–2019

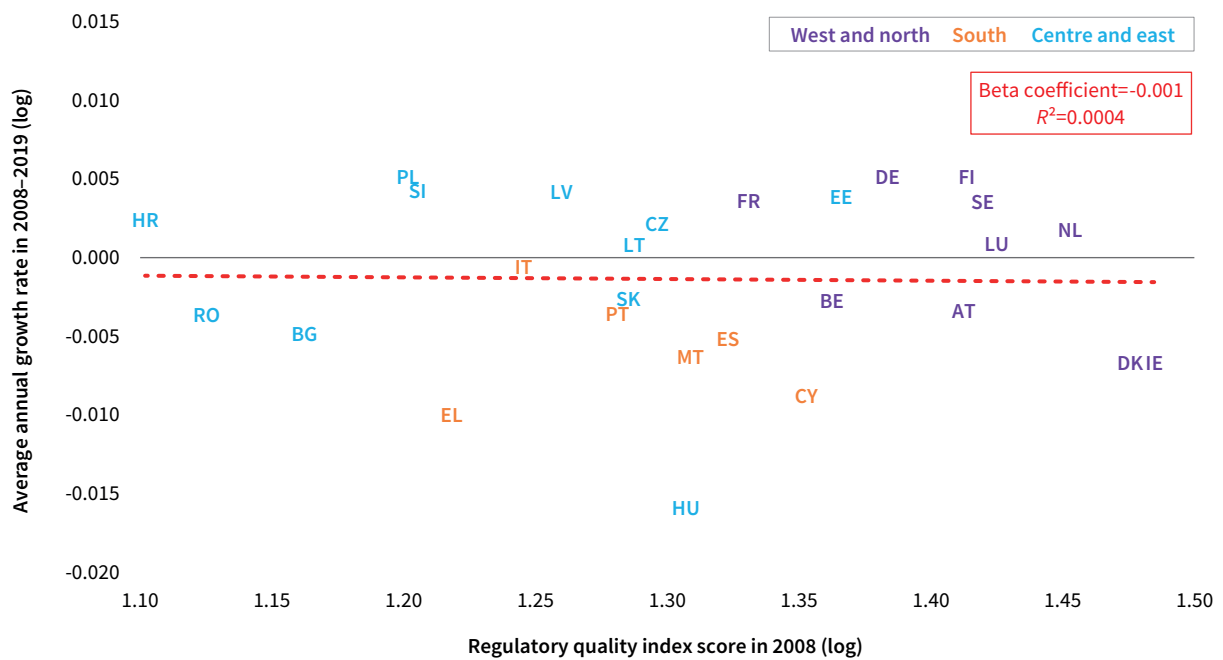


Note: Index scores were rescaled to 0–5.
 Source: Authors’ own calculations, based on the World Bank WGI

Figure 36 shows **almost no beta convergence and no catch-up process** of initially poorer performing countries. Slight improvements in central and eastern European countries (Poland, Slovenia, Latvia and Estonia) occurred alongside some deterioration (i.e. in Romania, Bulgaria and Slovakia). Hungary stands out as the country with the largest annual average deterioration in perceived regulatory quality. Most southern European Member States were initially placed in between the leading clusters and those that were lagging behind, but deteriorated between 2008 and

2019. The perceived regulatory quality dropped in particular in Greece and Cyprus, while Italy only saw slight deterioration. Northern and western European countries led the field and, while some countries improved their perceived regulatory quality (i.e. Germany, Finland, Sweden, Luxembourg and the Netherlands), some countries recorded a slight deterioration (i.e. Belgium and Austria, and Denmark and Ireland, the latter two being the countries that initially led the field).

Figure 36: Unconditional beta convergence in the WGI regulatory quality, EU27, 2008–2019



Notes: The beta coefficient is statistically not significant; index scores were rescaled to 0–5.

Source: Authors' own calculations, based on the World Bank WGI

Voice and accountability

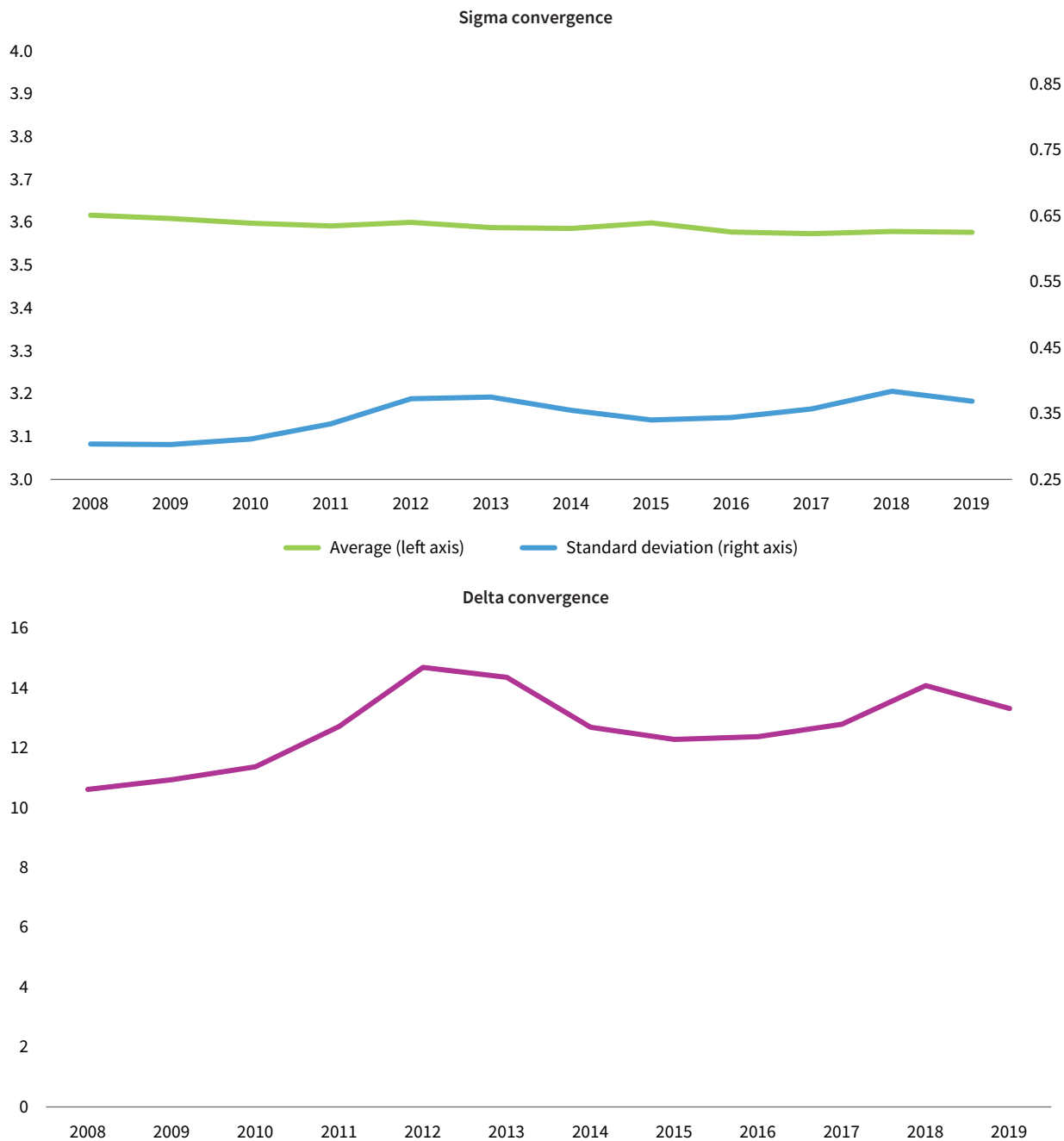
This WGI dimension reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media. The index scores were rescaled to range from 0 (weak performance) to 5 (strong performance).

The WGI dimension voice and accountability is an important indicator of how inclusive and participatory institutions are; it also includes freedom of the press. Figure 37 shows stability in the unweighted average score of EU Member States, albeit the score in 2019 was

slightly below the 2008 level. As in the previous indicators, institutional quality in terms of voice and accountability was perceived to be higher in Nordic countries, while central and eastern European Member States were lagging behind. Disparities, as measured in terms of the standard deviation (sigma convergence) and the distance to top performers (delta convergence), increased slightly over time, with a peak in 2012 and a temporary decrease until 2015.

Overall, this analysis suggests very **slight downward sigma and delta divergence** in the perceived voice and accountability of institutions in the EU.

Figure 37: Sigma and delta convergence in the WGI voice and accountability, EU27, 2008–2019



Note: Index scores were rescaled to 0–5.
 Source: Authors’ own calculations, based on the World Bank WGI

Figure 38 shows the **absence of beta convergence** in the form of a catch-up effect. Countries with higher scores in this WGI dimension recorded a better performance over time. This was driven by a deterioration in some central and eastern European Member States. In Hungary in particular, the perceived degree of participation in selecting governments and freedom of expression deteriorated. However, other central and eastern European countries, such as the

Baltic states, improved their score. Overall, northern and western European Member States were leading in this dimension, followed by southern European countries. Central and eastern European countries were lagging behind and, among the worst performers, only Croatia improved its situation, while Romania and Bulgaria saw further deterioration in this dimension of institutional quality.

Figure 38: Unconditional beta convergence in the WGI voice and accountability, EU27, 2008–2019



Notes: The beta coefficient is statistically not significant; index scores were rescaled to 0–5.

Source: Authors' own calculations, based on the World Bank WGI

Control of corruption

This WGI dimension reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the 'capture' of the state by elites and private interests. The index scores were rescaled to range from 0 (weak performance) to 5 (strong performance).

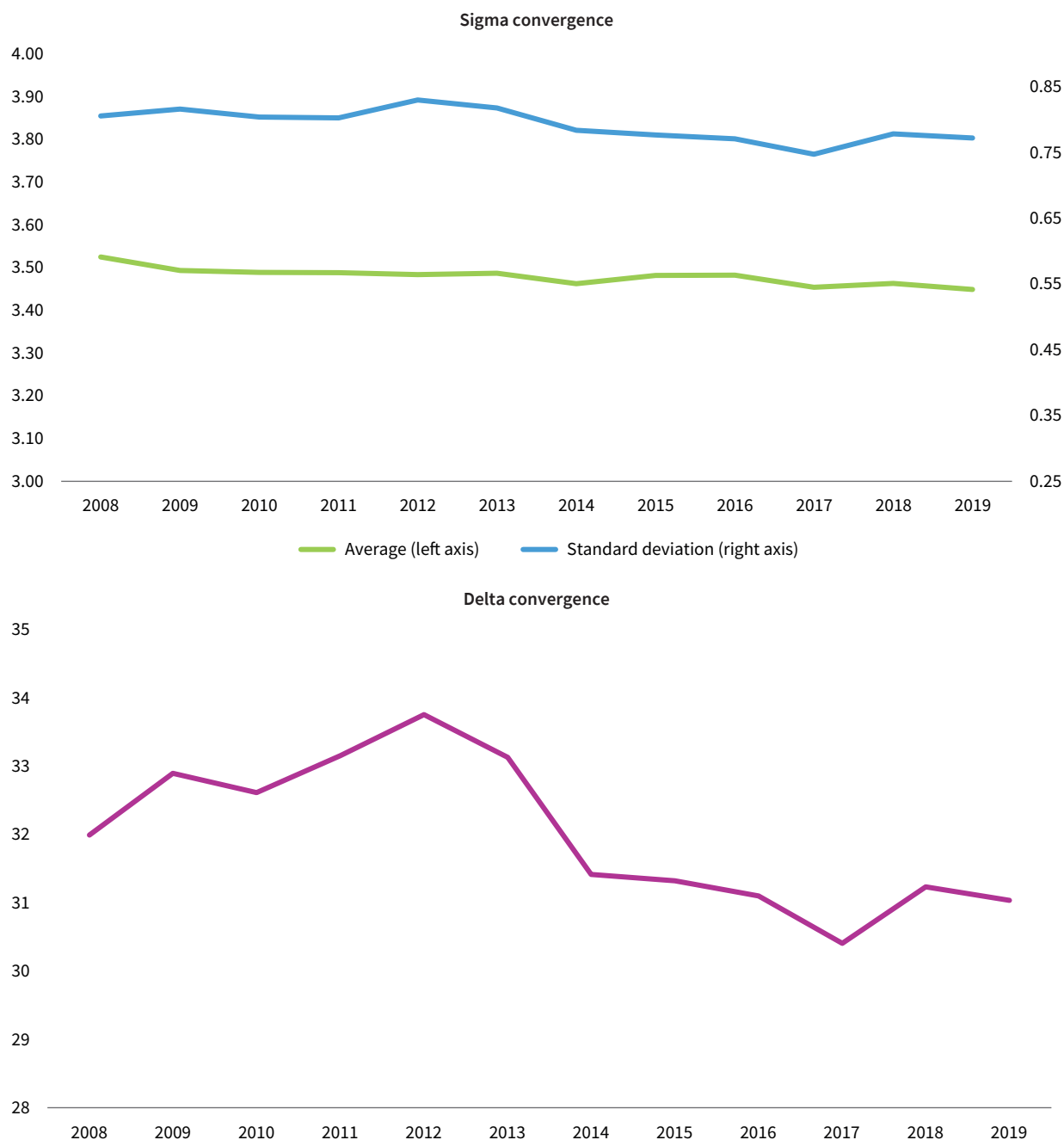
Corruption has the potential to harm economic and social convergence by preventing economic growth and damaging trust in societies. Therefore, the perception of the extent to which the (national) government is free from corruption is a fundamental dimension of institutional quality.

Figure 39 shows a slight decrease in the unweighted average of the government's perceived control of corruption score in EU Member States from 3.52 in 2008 to 3.45 in 2019. The Nordic countries Finland (4.65), Sweden (4.62) and Denmark (4.61) were perceived to be

the freest from corruption, but Luxembourg (4.61), the Netherlands (4.50) and Germany (4.40) also ranked among the best performers in 2019. In contrast, the lowest scores in control of corruption were recorded in Bulgaria (2.34), Romania (2.37), Greece (2.49) and Hungary (2.50). Disparities measured in terms of standard deviation (sigma convergence) slightly decreased over time. However, the distance from the average of the five best-performing countries (delta convergence) was more unstable over time. It increased from 2008 to 2012 but dropped until 2017. Slight increases were recorded in more recent years (2018 and 2019).

Overall, there was **slight downward sigma divergence** in the perceived control of corruption in the EU. From 2008 to 2012, the EU recorded downward delta divergence followed by downward delta convergence until 2017.

Figure 39: Sigma and delta convergence in the WGI control of corruption, EU27, 2008–2019

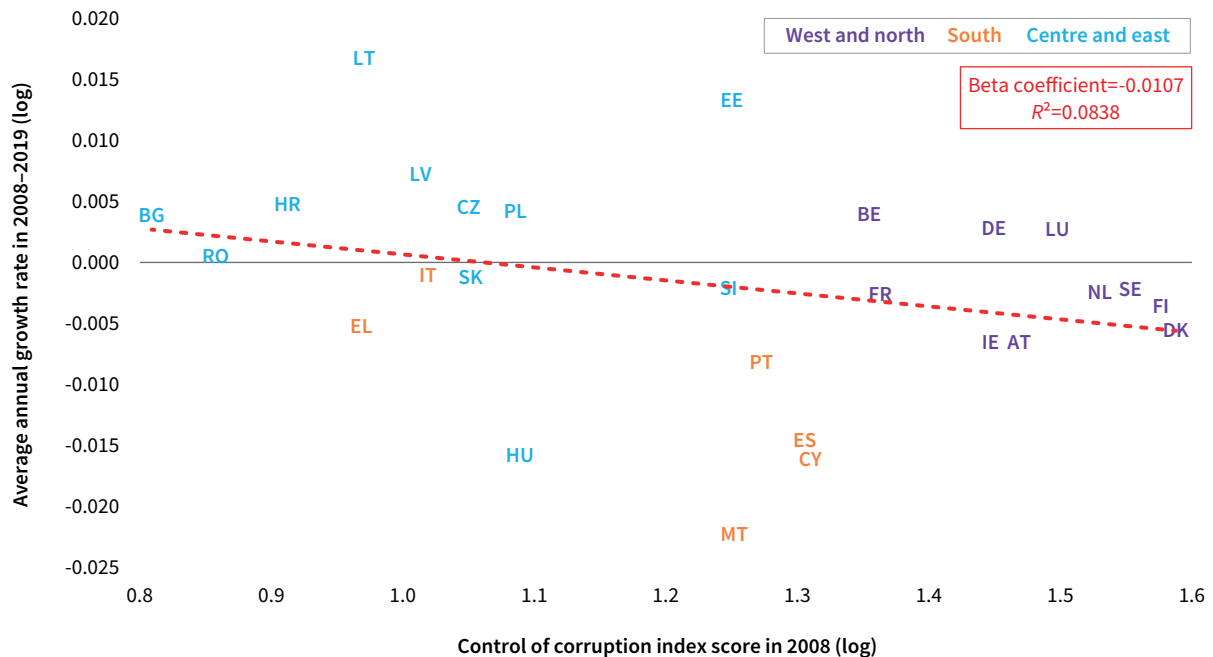


Note: Index scores were rescaled to 0–5.
 Source: Authors’ own calculations, based on the World Bank WGI

Figure 40 shows **slight beta convergence** resulting from a relatively weak catch-up process among those countries with initially higher perceived corruption, albeit this trend was not statistically significant. Nevertheless, the catch-up was fuelled by a slight deterioration in leading countries in northern and western Europe (Denmark, Finland, Sweden, the Netherlands, Austria, Ireland and France). Central and eastern European Member States were generally lagging behind the leading cluster of countries but mostly recorded improvements – especially in the Baltic

states. However, the three countries with the lowest scores in terms of control of corruption – Bulgaria, Romania and Croatia – saw only very slight improvements. Hungary stands out among the countries in central and eastern Europe with a substantial deterioration in the perceived control of corruption, with its annual average decrease surpassed only by even stronger deterioration in Malta and Cyprus. Overall, southern European Member States were placed between the leading nations and those lagging behind, but fell further behind with deterioration over time.

Figure 40: Unconditional beta convergence in the WGI control of corruption, EU27, 2008–2019



Notes: The beta coefficient is statistically not significant; index scores were rescaled to 0–5.

Source: Authors' own calculations, based on the World Bank WGI

Ease of Doing Business Index

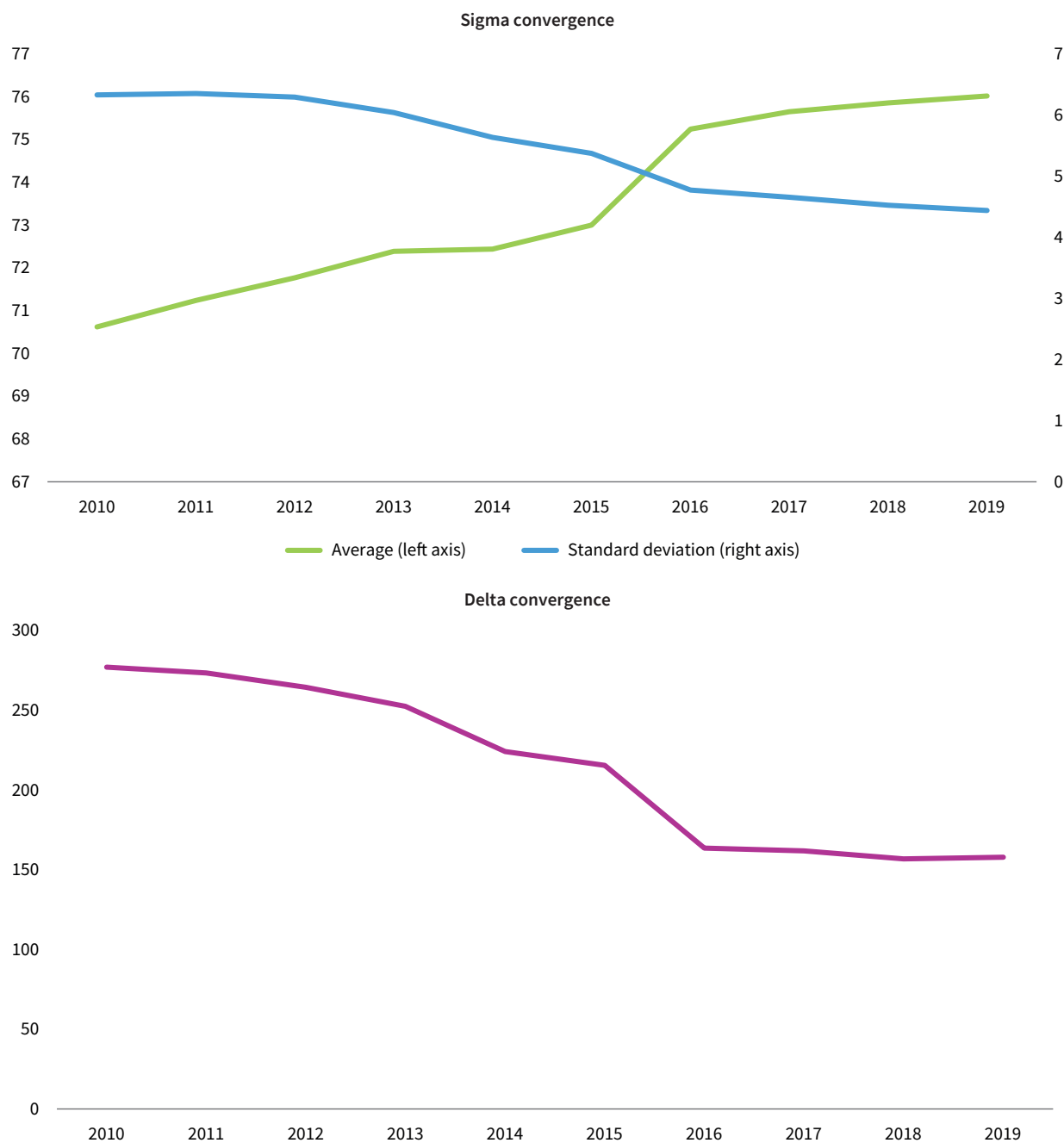
The Ease of Doing Business Index measures an economy's performance using a measure of regulatory best practice derived from 41 indicators across 10 Doing Business topics (such as 'starting a business' and 'enforcing contracts'). An economy's Ease of Doing Business is scored on a scale of 0 to 100, where 0 represents the worst and 100 represents the best performance. Owing to changes in the methodology, the Ease of Doing Business score is only available from 2010 to 2019.

This analysis of institutional quality has so far relied on measures of perceived institutional quality from citizens' perspectives. The World Bank's Ease of Doing Business Index complements these measures by providing a perspective on institutional quality in the economic sphere, since institutional convergence and economic convergence are interlinked, as discussed earlier in this report.

Figure 41 shows a substantial increase in the Ease of Doing Business score in the EU. From 2010 to 2019, the unweighted average score of EU27 Member States increased from 70.6 to 76.0. The best institutional business environment was achieved in the Nordic countries Denmark (85.2), Sweden (82) and Finland (80), but also in Estonia (80.8) and Germany (79.6). The lowest scores were recorded in Malta (65.5) and Greece (67.4). Disparities, as measured by the standard deviation (sigma convergence) and the distance from the five best-performing countries (delta convergence), steadily decreased over time, albeit at a slower rate more recently.

Overall, the EU recorded steady and robust **upward sigma and delta convergence** in the Ease of Doing Business score.

Figure 41: Sigma and delta convergence in the Ease of Doing Business score, EU27, 2010–2019

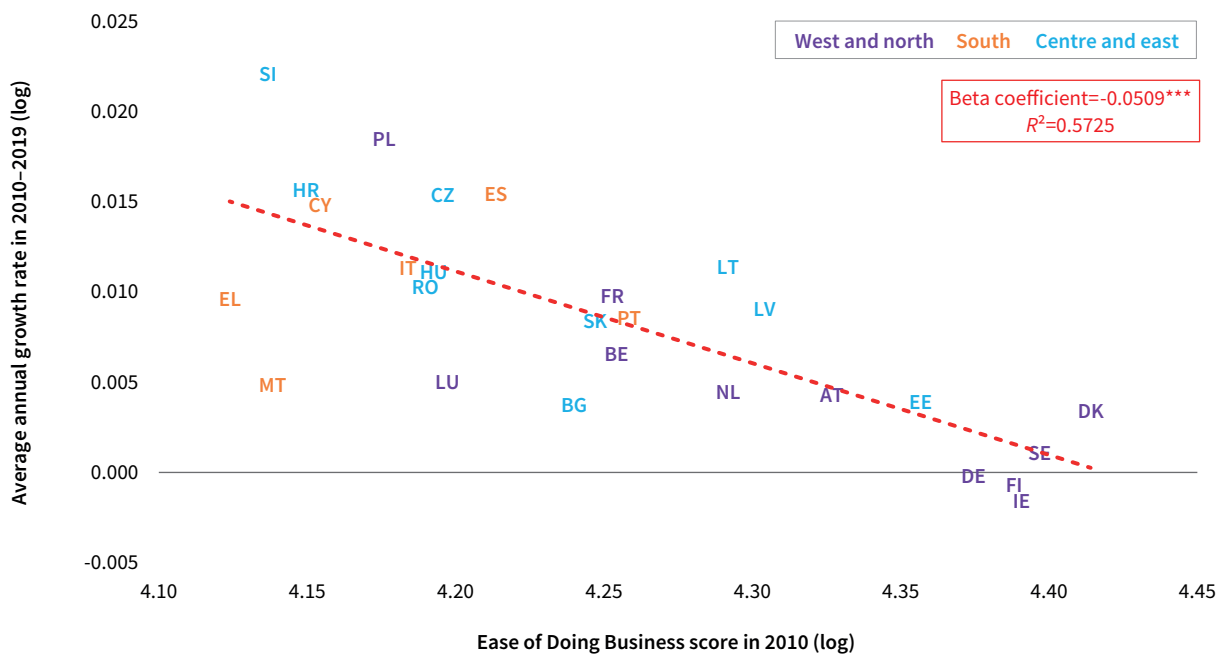


Source: Authors' own calculations, based on the World Bank Ease of Doing Business Index

Figure 42 shows statistically significant **beta convergence resulting from a substantial catch-up** process of countries with initially lower scores with better performing ones. The overall speed of the catch-up process was relatively fast, at 5.1% per year. Countries in central and eastern Europe, in particular, caught up after poorer performances in 2008. Slovenia, Croatia, Poland and Czechia showed the highest annual average growth rates. Strong performers among central

and eastern European Member States, such as the Baltic states, improved at a slower pace, but still made ground towards the overall top performers. Southern European Member States were initially among the poorest performing countries, but they were catching up as well, albeit at different paces. Greece and Malta showed much more moderate average annual growth rates than Spain and Cyprus, which showed substantial improvements. The frontrunning countries were in

Figure 42: Unconditional beta convergence in the Ease of Doing Business score, EU27, 2010–2019



Note: ***The beta coefficient is statistically significant at a 99.9% confidence interval.

Source: Authors' own calculations, based on the World Bank Ease of Doing Business Index

northern and western Europe and recorded only small increases between 2010 and 2019, which favoured the catch-up process of initially poorer performing countries. Nevertheless, some western European countries such as Luxembourg, Belgium and France, but also the Netherlands and Austria, although positioned behind the top-performing cluster, were catching up.

European Quality of Government Index

The European Quality of Government Index is based on a large subnational citizen survey in which respondents are asked about perceptions and experiences of public sector corruption, along with the extent to which citizens believe various public sector services are impartially allocated and of good quality. The data were first gathered and published in 2010 and the process was repeated in 2013, 2017 and 2021. The index score ranges from -3 (poor institutional quality) to 3 (good institutional quality).

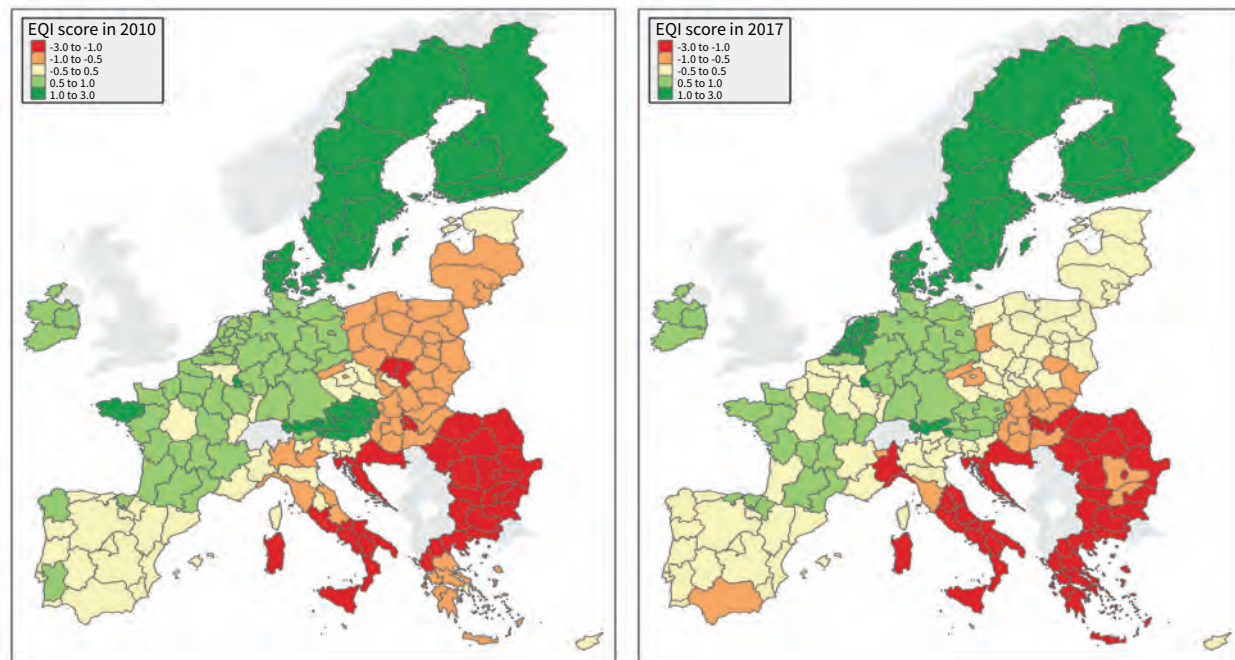
The European Quality of Government Index (see Charron et al, 2019; see also Charron et al, 2014, for details of the methodology) is included in this analysis to provide an overall picture of regional divides and a

notion of the geographical dimension of institutional quality in the EU. The scores for 2010 and 2017 show the existing **north–south and east–west divides** in the EU in institutional quality, which were already evident in most dimensions of the WGIs (Figure 43). Nordic regions are leading the field, with these regions achieving the highest scores in the European Quality of Government Index. Citizens in western European countries (Austria, Belgium, Germany, Ireland, Luxembourg, the Netherlands and parts of France) also perceive government institutions to be of good quality. The poorest European Quality of Government Index scores were recorded in central and eastern European regions and in southern European regions (especially Greece and the south of Italy).

These divides are **relatively stable over time**, with deterioration in some southern European regions and improvement in the Baltic states and Poland; the sustainability of such improvement nevertheless remains to be seen.² Disparities within countries are high in some cases and demonstrate national geographical divides such as the north–south divide in Italy.

² Recent data from the European Quality of Government Index show that perceived institutional quality decreased in most regions in Poland (Charron et al, 2021).

Figure 43: Regional clusters of the European Quality of Government Index score (EQI), EU NUTS 1 and 2, 2010 and 2017



Source: Authors' own calculations, based on the European Quality of Government Index developed by the University of Gothenburg

Summary of upward convergence trends in the institutional dimension

Overall, institutional quality in the EU has remained relatively stable over time with only slight decreases, on average, between 2008 and 2019. Disparities increased between Member States, however, in some indicators (i.e. the WGI dimensions rule of law (only in delta convergence), regulatory quality, and voice and accountability).

The absence of a convergence process meant that disparities between countries in perceived institutional quality remained substantial, with dividing lines between the west and east and between the north and south. Central and eastern European countries tended to record lower levels of institutional quality, while northern and western European countries showed higher levels. At the same time, institutional quality in southern European Member States was ranked in between the countries lagging behind in the east and the leading countries in the north-west in most indicators.

Over time, patterns in unconditional beta convergence have shown almost no substantial catch-up process among the initially poorly performing countries with the

better performing countries for most indicators. Only in the WGI dimension government effectiveness was a modest catch-up process recorded. However, this catch-up process was fuelled as much by a deterioration among the frontrunners as by improvements in those countries lagging behind. A substantial catch-up process in terms of institutional quality was recorded in the institutional environment for business. While the catch-up process in terms of the Ease of Doing Business Index was fuelled by improvements in the central and eastern European countries that were initially lagging behind, the importance of country-specific contexts and developments prevailed in most indicators. Some central and eastern European countries deteriorated, in contrast with their improvements in the social and economic dimensions of convergence. This mixed pattern of catching up leaves the EU with deep divides between the east and the west in terms of institutional quality.

Most improvements in institutional quality in central and eastern European countries occurred in the years prior to EU accession and were then a major driving force of economic growth in the region (Žuk and Savelin, 2018). However, progress in institutional quality has since stalled.

Case study on the drivers of convergence in employment

Describing convergence trends in the EU across its three dimensions is essential for understanding which Member States encounter difficulties in catching up with the rest of the EU (or, by contrast, become the trailblazers that set higher standards). Describing these trends also highlights if and how the business cycle influences the convergence process.

It is important, nonetheless, to understand if other factors are also at play that speed up or slow down the growth rate of the economic, social and institutional indicators, as this directly affects the catch-up process between countries. To illustrate this, a headline indicator of the Social Scoreboard, which is crucial in determining the living conditions of a population and in assessing a nation's economic performance, was selected – the employment rate. The demographic, economic, social and institutional drivers of employment were first identified, and the extent and direction of their impact were then analysed. Subsequently, it was determined if there was beta convergence in the EU in employment (using annual changes) and if the same elements that influenced employment ultimately facilitated or hindered the catch-up process, through their impact on the employment growth rate.

Drivers of employment

A wide range of factors influence employment, from broader factors (such as economic climate and technological change) to very specific individual and household characteristics. The following analysis includes a series of indicators selected based on data availability, covering demographic conditions (population growth), economic aspects (GDP per capita, public debt and labour productivity), social factors (adequacy of guaranteed minimum incomes and expenditures on unemployment benefits) and, finally, institutional determinants (collective bargaining coverage and active labour market policies). Additional indicators were also tested, but were dropped from the model specifications owing to insignificant impact.

The study was carried out across the 27 Member States over a period of almost two decades (2000–2019). The main outcome of the analysis is illustrated in Table 2 and the detailed estimates of the regressions are provided in the annex (Table A1). The results show that employment is positively affected by boosts in population growth and GDP per capita. At the same time, wider collective bargaining coverage and heightened active labour market policy interventions also favour employment. By contrast, an improvement in labour productivity seemingly hinders employment. Mounting public debt also hampers job creation, while high expenditure on unemployment benefits and

sizeable guaranteed minimum incomes can negatively affect labour supply and lead to diminished employment. The following paragraphs delve more into the theoretical underpinnings of these findings.

Table 2: Drivers of employment in the EU (panel analysis)

Drivers	Impact
Population growth	↑
GDP per capita	↑
Active labour market policies	↑
Collective bargaining	↑
Labour productivity	↓
Public debt	↓
Unemployment expenditures	↓
Guaranteed minimum income	↓

Sources: Authors' own calculations, based on data from Eurostat, the Organisation for Economic Co-operation and Development (OECD) and the Amsterdam Institute for Advanced Labour Studies (AIAS)

First, the link between **population growth** and economic progress was highlighted in the 1930s, when Hansen formulated the 'stagnation theory', which stated that a decline in population growth would lead to a large fall in investment and employment (Hansen, 1939). Later, in the 1970s, Sweezy and Owens (1974) addressed more directly the concerns that a society with zero (or a slow) population growth would have trouble maintaining full employment. The results in this report support these theses and show that an increase in population growth would have a strong positive effect on employment.

The relationship between **economic output** and employment is generally framed by economists through the employment intensity of growth (or elasticity of employment with respect to GDP), which captures the ability of an economy to generate job opportunities for its population as a share of its development process. The economic literature includes a large variety of studies that have estimated the elasticities for many nations, either developed or developing (Kapsos, 2005). In the model, an elasticity of 0.4–0.5 for the EU was observed, suggesting that a favourable economic climate is associated with flourishing job opportunities.

Active labour market policies (such as training, direct job creation and start-up incentives) are widely recognised as an important tool in fighting unemployment. Considerable funding is allocated for these measures in advanced economies to increase the probability of finding a job and reduce the welfare dependency of unemployed people. The empirical evidence is in line with the studies that describe a

positive, but limited, impact of these measures on labour market outcomes (a meta-analysis on the effectiveness of these policies is provided by Vooren et al, 2019). The regression estimates are statistically significant, but the magnitude is small – an aspect that is crucial for policymakers when carrying out cost-benefit assessments.

Economic theory is ambiguous about the relationship between **productivity** and employment, which depends largely on the time horizon that is analysed (Landmann, 2004) and on how new technology is embodied in new jobs (Pissarides and Vallanti, 2007). A series of empirical studies (Blanchard et al, 1995; Junankar, 2013; Gallegati et al, 2016) and phenomena such as ‘jobless recovery’ point to a trade-off between employment and productivity in the short run, a temporary effect that transforms into a rise in employment in the long term. A negative relationship between the two indicators on a yearly basis was also found in the model – an increment in productivity is accompanied by a less than proportional decrease in employment.

Although there is wide consensus in the literature that **collective bargaining** and unions raise the wages of their workers (compared with non-union workers), the evidence relating to the employment effects is less clear. Nickell and Layard (1999) found that bargaining coverage can have a negative effect on employment, while Bertola et al (2001) showed that a more inclusive coverage rate has an insignificant impact on job creation. The results in this report point to a positive, albeit marginal, effect of collective bargaining coverage on the employment rate. Studies focusing on collective bargaining systems as a whole (and not on individual features) highlight that wage coordination is particularly relevant in boosting employment (Garnero, 2021).

Public debt plays a critical role in the economic stability of countries. At moderate levels, debt can improve welfare (if incurred for productive investments that create jobs), but, used imprudently or in excess, it increases economic uncertainties that trigger retarded or inefficient investments (Sachs, 1989; Pattillo et al,

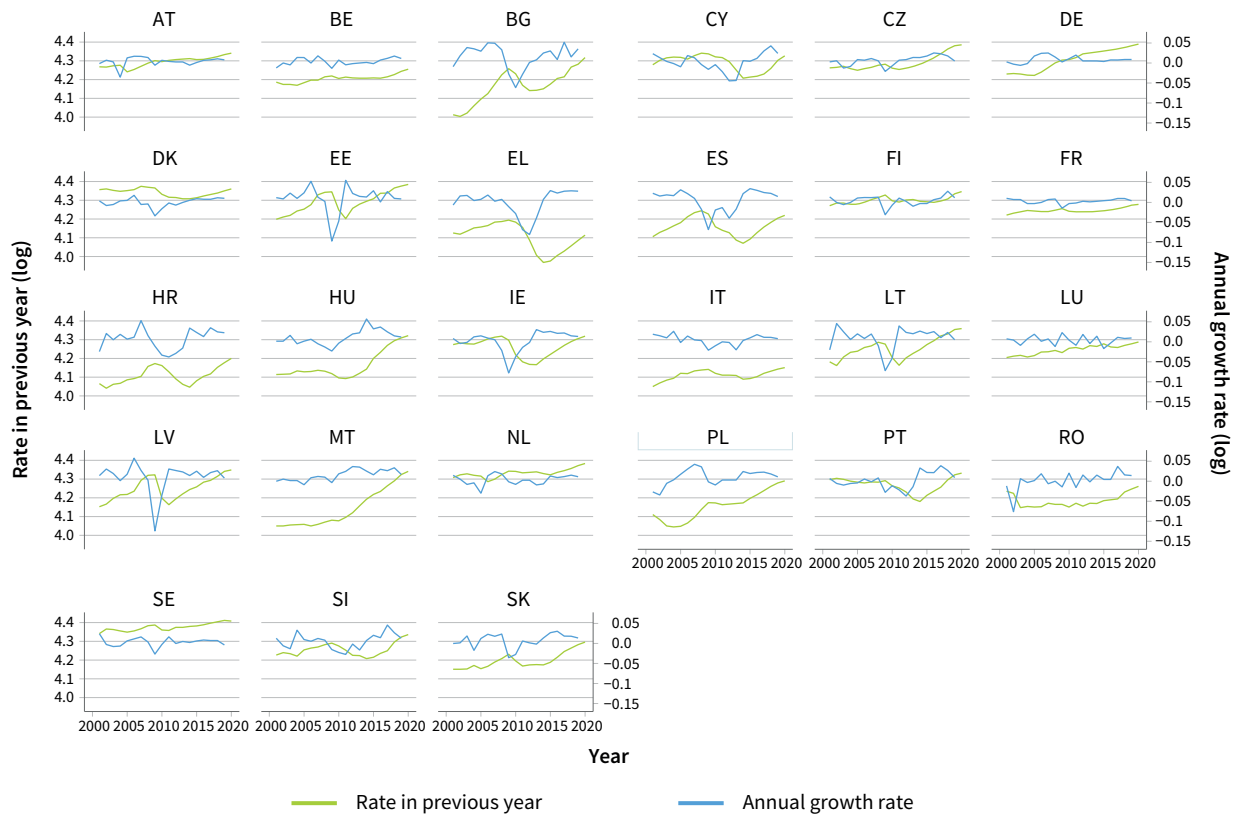
2002), lowering consumption and diminishing employment. In the analysis in this report, debt is negatively associated with employment, pointing to the fact that an increase (for example, through a fiscal Keynesian stimulus) does not alleviate unemployment (see Financial Times, 2010).

Generous **unemployment systems** and **guaranteed minimum incomes** are important poverty reduction tools in many countries’ social welfare systems. However, these programmes can generate distortive incentives in labour markets. Lemieux and Milligan (2008) found strong evidence that more generous social assistance benefits reduce employment, while the academic literature is split on the extent to which unemployment benefits create supply-side distortions (Schmieder and von Wachter, 2016; Hellwig, 2021). According to the results in this report, boosting unemployment expenditures (measured as euro per capita) and the guaranteed minimum income amount (as the percentage of the median disposable income) slightly decrease the employment rate.

Drivers of upward convergence in employment

After identifying the factors that influence employment, together with the direction and magnitude of their effect, it was relevant to see if the same determinants also affected convergence in employment at the EU level, more specifically through the speed at which Member States caught up with each other. Beta convergence depends on the employment rate of each country in the previous year and the growth rate recorded annually. Figure 44 depicts these trends by Member State and shows that large gaps between the two (low employment in the previous year and high annual growth) are particularly prevalent in central and eastern European countries (such as Bulgaria, Croatia, Hungary, Poland and Romania), but also in some southern European countries (Italy and Malta). On the other hand, Member States in western and northern Europe with initially higher employment levels register more contained yearly growth. This hints at a convergence process, which is confirmed in Table 3.

Figure 44: Employment rates in the previous year and annual growth rates by EU Member State, 2000–2019



Source: Authors' own calculations, based on Eurostat data

Table 3 illustrates that, on average, between 2004 and 2019, there was beta convergence in employment in the EU (the detailed models are presented in Table A2 in the

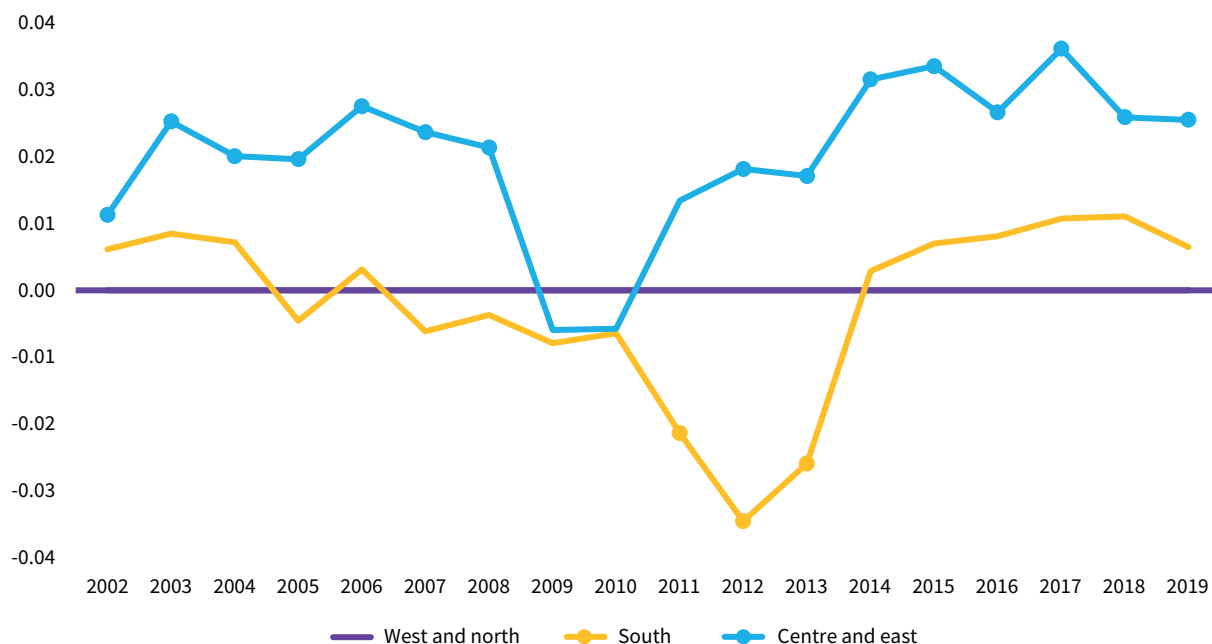
Table 3: Drivers of employment growth in the EU (panel analysis)

	Impact
Employment rate (previous year)	-0.5
Drivers	
Population growth	↑
GDP per capita	↑
Active labour market policies	↑
Collective bargaining	↑
Labour productivity	↓
Public debt	↓
Unemployment expenditures	↓
Guaranteed minimum income	X

Source: Authors' own calculations, based on data from Eurostat, OECD and AIAS

annex). Member States were catching up with each other, as reflected by the negative relationship between the employment rate recorded in the previous year and the extent of the annual growth rate afterwards. The beta coefficient of approximately -0.5 across multiple specifications means that an initial poorer performance by 1% was accompanied by a faster annual growth in employment by 0.5%. As for the factors that have an effect on the employment rate itself, almost all of them exerted an influence on the annual change in employment as well. More precisely, increases in population growth, GDP per capita, collective bargaining coverage and expenditure on active labour market policies sped up the employment growth rate and, consequently, the convergence process. By contrast, higher labour productivity, unemployment expenditures and public debt hindered the catch-up effect between Member States by slowing down the yearly changes in employment. Finally, a more generous guaranteed minimum income seems to have no impact on how fast EU countries are converging in employment.

Figure 45: Employment growth in southern and central and eastern countries relative to western/northern Europe (regression coefficients plot)



Note: The rounded markers indicate statistically significant coefficients.
Source: Authors' own calculations, based on Eurostat data

A final model specification of beta convergence (details provided in Table A2 in the annex) tests how differently EU countries evolved in terms of employment growth based on their geographical area. Figure 45 shows that southern European Member States performed significantly worse than countries in western and northern Europe (particularly during the sovereign debt crisis in 2011–2013), while the central and eastern Member States achieved higher employment growth (relative to the same group) prior to and after the economic crisis (2008–2013).

This analysis illustrates how various demographic, economic, social and institutional factors can influence the process of convergence, by taking the specific example of employment. It proves that the underlying determinants of an indicator can also affect the speed at which countries catch up with each other in that particular area. Identifying the drivers of convergence is thus essential to better understand the underpinning processes that help countries catch up with each other.

Lessons learned from upward convergence analyses of the past

Upward trends restored in economic dimension, but geographical gaps

The analysis of upward convergence reveals heterogeneous patterns among the indicators in the economic and social dimensions (Table 4). Upward trends were restored in most indicators after a brief setback in 2008 and 2009 following the immediate impact of the economic crisis. Only income inequality showed a more cyclical pattern and increased until 2015 due to a delayed impact of the economic crisis.

Beta convergence in almost all economic indicators (except income inequality) suggests the presence of a robust catch-up process of initially poorer European Member States with richer or better performing countries. This catch-up process was fuelled by strong upward convergence trends in many central and eastern Member States.

However, disparities, measured as the standard deviation (sigma convergence) and/or the distance from the frontrunners (delta convergence), increased in several economic indicators at least at some point during the period under investigation. This suggests that, despite the overall robust upward beta convergence process, more work is needed to close the gaps in disparities in the economic dimension.

Table 4: Summary of economic convergence trends in sigma, delta and beta convergence and at the regional level

Indicator	Sigma convergence	Delta convergence	Beta convergence	Regional level
GDP per capita (in PPS)	Steady UD from 2009	Steady UD from 2009	UC (catch-up at 1.8% per year*)	Geographical shift: south divergence, east convergence
Disposable household income	Unstable, overall UC	Unstable, overall UD	UC (catch-up at 3.3% per year***)	Geographical shift less pronounced
Income inequality	Unstable, DD (2011–2015) and UC (2015–2019)	Unstable, DD (2011–2015) and UC (2015–2019)	Poor evidence of UC (catch-up not statistically significant)	–
Minimum wage level	Steady UC	Steady UC	UC (catch-up at 2.3% per year***)	–

Note: DD: downward divergence; UC: upward convergence; UD: upward divergence. Statistically significant at a 95% (*) , 99% (**) or 99.9% (***) confidence interval.

Source: Authors' own calculations, based on Eurostat data

The analysis at the NUTS 2 level indicates that southern European regions in particular were increasingly falling behind, especially in terms of GDP per capita, while central and eastern European regions were catching up. This geographical shift of those countries lagging behind economically from the east to the south was less pronounced in disposable income; however, it is evident that the previous economic crisis left an uneven economic legacy across the EU, with the south increasingly left behind and the east catching up.

Economic crisis caused downward divergence and left uneven legacy in social dimension

The uneven legacy of the previous economic crisis was even more pronounced in the social dimension. The 2008–2013 economic crisis caused downward sigma and delta divergence in many social indicators (Table 5). Employment and poverty indicators revealed trends in line with the business cycle, with downward divergence prevailing in the 2008–2013 crisis period.

More recently, however, during the 2014–2019 recovery period, upward sigma and delta convergence was restored in most social indicators, and Europe was on its way to recovering from the economic crisis.

Table 5: Summary of social convergence trends in sigma, delta and beta convergence and at the regional level

Indicator	Sigma convergence	Delta convergence	Beta convergence	Regional level
Employment rate	Cyclical	Cyclical	Poor evidence of DC (not statistically significant; 2008–2013) UC (catch-up at 5.7% per year***; 2013–2019)	Geographical shift: south divergence, east convergence
Unemployment rate	Cyclical	Cyclical	Poor evidence of convergence (both periods not statistically significant)	Geographical shift: south divergence, east convergence
Gender employment gap	Steady UC from 2009	Steady UC from 2009	Poor evidence of UD (not statistically significant)	Mixed: deterioration in the east
Youth NEET rate	Cyclical	Cyclical	Poor evidence of convergence (both periods not statistically significant)	Mixed: north–south fault line persists
Early school leavers rate	Steady UC	Steady UC	UC (catch-up at 3.4% per year**)	Mixed: deterioration in the core and east
AROPE rate	Cyclical (peak in 2012)	Cyclical (peak in 2012)	Poor evidence of DC (both periods not statistically significant)	–
Unmet medical needs	Steady UC	Steady UC	UC (catch-up at 6.5% per year***)	–

Note: DC: downward convergence; UC: upward convergence; UD: upward divergence. 'Cyclical' refers to downward divergence during the economic crisis and upward convergence during the recovery period (peak in 2013 if not noted otherwise). Statistically significant at a 95% (*), 99% (**) or 99.9% (***) confidence interval.

Source: Authors' own calculations, based on Eurostat data

However, many indicators with cyclical patterns still do not show evidence of a robust beta convergence process (except for the employment rate).

Some indicators in the social dimension, however, were less affected by the economic crisis and instead displayed steady upward convergence trends in all three measures of convergence. In the early school leavers rate and unmet medical needs indicators, the EU Member States were improving towards the policy goal and at the same time reducing disparities between them. Furthermore, there was upward sigma and delta convergence in the gender employment gap, although convergence recently slowed down and there was no robust evidence of a beta convergence process.

The analysis at the regional level shows that the geographical shift of those regions lagging behind from the east to the south of Europe was particularly strong in employment indicators. The economic crisis amplified fault lines between the leading northern regions and the southern regions lagging behind. At the same time, central and eastern regions managed to catch up further with the west in employment indicators. However, there was a more heterogeneous development in central and eastern European countries in the gender employment gap and youth NEET rate, with deterioration in some countries.

Upward convergence and catch-up process absent in institutional quality – except for business environment

The theoretical framework outlined at the beginning of this chapter explained the importance of convergence in institutional quality for supporting sustainable economic convergence and translating economic convergence into social convergence. However,

evidence of convergence in institutional quality in the EU is scarce for the period under investigation (Table 6). Only a few of the indicators investigated in this report showed a sigma and delta convergence pattern or a robust and substantial beta convergence catch-up process and most showed stability or slight downward trends between 2008 and 2019.

This relative stability of unweighted averages and measures of disparities in most indicators means that deep fault lines in the levels of perceived institutional quality persist between the leading northern and western European countries and both the central and eastern European Member States lagging behind and the poorer performing southern European Member States. The absence of an institutional catch-up process could undermine future economic and social convergence in the region. Moreover, some central and eastern European countries display worrisome deterioration in some subdimensions of institutional quality.

However, the institutional environment for business showed a robust and substantial upward convergence pattern, as well as a catch-up process of initially poorer performing countries fuelled by improvements in central and eastern European Member States.

Geographical shift and fault lines: Convergence in the east and divergence in the south

The overall trend of recently restored upward convergence in the economic and social dimensions should not obscure the fact that the 2008–2013 economic crisis left an uneven legacy and exacerbated pre-existing deep fault lines in the EU.

Table 6: Summary of institutional convergence trends in sigma, delta and beta convergence

Indicator	Sigma convergence	Delta convergence	Beta convergence
WGI – rule of law	Slight DC	Slight DD	Poor evidence of convergence (not statistically significant)
WGI – government effectiveness	Slight UC (2008–2013), DC (2013–2019)	Slight UC (2008–2013), DD (2015–2019)	Convergence (catch-up at 1.8% per year**)
WGI – regulatory quality	Slight DD, recent UC	Slight DD, recent UC	Poor evidence of convergence (not statistically significant)
WGI – voice and accountability	Slight DD	Slight DD	Poor evidence of divergence (not statistically significant)
WGI – control of corruption	Slight DC	Slight DD (2008–2012), DC (2012–2019)	Poor evidence of convergence (not statistically significant)
Ease of Doing Business Index	Steady UC	Steady UC	UC (catch-up at 5.1% per year***)

Notes: DC: downward convergence; DD: downward divergence; UC: upward convergence. Statistically significant at a 95% (*) , 99% (**) or 99.9% (***) confidence interval.

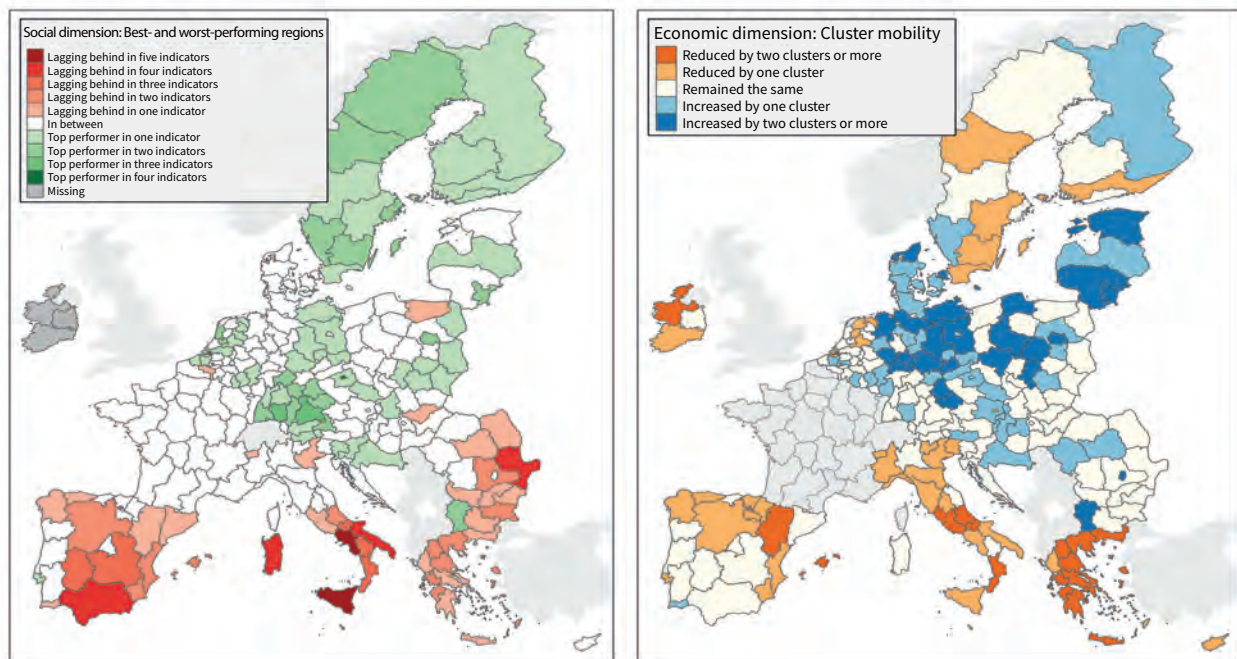
Source: Authors' own calculations, based on the World Bank WGIs and Ease of Doing Business Index

In southern Europe, the economic and social fallout of the 2008–2013 economic crisis was particularly devastating and long-lasting. This, in combination with the austerity measures imposed on those countries struggling with debt, led to hardship and divergence among southern European Member States. Regions in the south of southern Europe were hit particularly hard and continue to struggle. Recent improvements were often not sufficient to regain what was lost during the 2008–2013 economic crisis, and these regions are lagging behind (Figure 46). In contrast, central and eastern Europe continued its remarkable upward convergence pattern and experienced a substantial catch-up process after 2008 – especially in the economic dimension. However, this progress was often driven by strong and dynamic capital regions, with more peripheral regions in central and eastern Europe still requiring substantial efforts to catch up with the frontrunners in 2019. Furthermore, eastern convergence in the social dimension was much more mixed, with deterioration in some central and eastern regions in indicators such as the gender employment gap and youth NEET rate.

The recent recovery period may have restored upward convergence in many indicators, but some parts of the EU were still consistently left behind. The regions lagging behind follow a geographical pattern: southern Europe and more peripheral regions in eastern Europe are more at risk of being left behind. Figure 46 shows how, unfortunately, poor performances occurred across several social indicators in southern European regions and in some central and eastern regions at the periphery of the EU.

In the economic dimension analysed in this report, southern European regions started from a slightly better position than in the social dimension, with many regions already left behind in 2008 in the latter. However, Figure 46 also depicts how the south fell behind and how the east, including eastern Germany, converged towards the better performing west in the economic indicators analysed in this report. Greek and southern Italian regions in particular lost considerable ground towards the rest of the EU in the economic dimension.

Figure 46: Summary of the regional leaders and laggards in the social dimension and cluster mobility in the economic dimension, EU NUTS 2, 2008–2019



Notes: The social dimension is based on regional quintile clusters in the employment rate, unemployment rate, gender employment gap, youth NEET rate and early school leavers rate indicators; the economic dimension is based on mobility between regional quintile clusters between 2008 and 2019 in GDP per capita (in PPS) and disposable household income.

Source: Author's own calculations, based on Eurostat data

Moreover, the analysis shows that similar fault lines between the north and the south, as well as between the east and the west, exist in the institutional dimension. The absence of a convergence process in institutional quality means that these fault lines persist. For southern Member States, catching up with countries with a higher perceived institutional quality may

support economic convergence and provide a way out of being left behind for those regions consistently lagging behind. For central and eastern European countries, institutional convergence may help to transform the economic catch-up process into social convergence.

3 Short-term impact of COVID-19 on convergence

Introduction

The COVID-19 crisis is unprecedented in living memory in terms of its global health and economic effects. The pandemic posed extraordinary challenges to policymakers and will continue to do so. The disruptions to work and life and the non-pharmaceutical interventions necessary to contain the virus were severe and manifold. Many workers lost their jobs following the outbreak, many have been on government furlough schemes and others were barred from entering the labour market or building human capital through education.

Prior to COVID-19, the EU recorded six years of uninterrupted economic growth, the employment participation rate reached its highest level ever recorded in the history of the EU and the number of people living at risk of poverty declined markedly after the previous economic crisis. While the pandemic itself came as an exogenous and symmetrical shock that affected all Member States, the crisis may have asymmetrical effects due to differences between Member States in terms of their levels of resilience, economic structure, size of public debt, institutional quality or legacies from the previous economic crisis, such as structural unemployment or regional disparities.

The 2008–2013 economic crisis demonstrated that there is a strong link between economic downturn and downward divergence in social indicators. Downward divergence during the previous crisis meant that some countries and regions – especially in southern European Member States – were hit harder than others in the economic and social areas. Today, there is an acute risk that history might repeat itself, namely that economic disadvantage and social hardship will rise unevenly among Europeans and disparities across EU countries may widen.

However, during the COVID-19 pandemic, national governments and EU leadership have adopted a different approach from that taken during the 2008–2013 economic crisis, when they reacted with austerity measures, cutting public expenditure to consolidate budgetary balances and improve competitiveness. This led to unintended negative consequences, including loss of businesses, sharp increases in unemployment and poverty – especially among young people and vulnerable groups – as well as expanding inequalities. During the pandemic, the EU, in cooperation with its

Member States, has implemented multiple and timely initiatives over a broad range of policy areas to strengthen the European response to the crisis and mitigate its economic and social fallout. Comparing the relationship between output and unemployment with the first year of the 2008–2013 economic crisis reveals a completely different pattern in 2020 from that in the previous crisis, with countries that have suffered large GDP shocks recording mild unemployment spikes. This potentially suggests that the policy and liquidity interventions that the EU and Member States made to prevent business collapses and mass redundancies have had an immediate effect.

While the pandemic is still evolving and uncertainty persists regarding the true scope of the economic and social fallout, this chapter aims to analyse the early impact of the COVID-19 crisis on convergence in the EU.

Economic growth and unemployment in times of crisis

EU response to the COVID-19 pandemic

Facing a major shock to their economies, Member States have adopted liquidity and policy measures that provided relief to their citizens, in terms of not only protecting their health, but also retaining their jobs. This first line of defence amounted to a staggering €2.4 trillion, which helped many households and businesses stay afloat after exhausting their cash reserves.

However, not all EU countries had the same fiscal leeway for such manoeuvres, given the different pre-existing debt levels and the EU's fiscal rules. In addition, Member States were facing asymmetric impacts of the pandemic, depending on the severity of the health crisis, the stringency of the containment measures, their economic resilience and industrial structure (for example, the share of tourism and leisure activities) and, not least, the country's capacity to respond. These conditions posed a risk of deepening divergences between core and periphery economies, undermining EU solidarity and fuelling anti-European feelings.

To avoid fragmentation in the bloc and enable Member States to support their critical sectors, the EU complemented the national fiscal measures with an economic response that far exceeded the response to the 2008–2013 economic crisis.

In a first set of measures aimed at mitigating the immediate health, economic and social damage during the first months of the pandemic, the EU provided full fiscal flexibility to the Member States by activating, for the first time, the general escape clause of the Stability and Growth Pact. This allowed countries to launch sizeable counter-cyclical policies, which resulted in significant increases in government debt (often from already high levels). In addition, the European Commission adopted a temporary framework that relaxed the state aid rules, so that countries could step in and assist firms or sectors with liquidity support and thus preserve employment (all the while maintaining a level playing field in the single market). Finally, budget-wise, the European Commission set up the EU Coronavirus Response Investment Initiatives (CRII and CRII+), which enable countries to mobilise unused cohesion policy funds to address their most pressing needs, instead of returning those funds to the EU budget.

A second set of measures was tailored to the medium- and long-term recovery goals, with the intent of reshaping EU economies and societies. First, the EU endorsed a €540 billion package of three safety nets supporting the following groups.

- **Workers** – the Support to mitigate Unemployment Risks in an Emergency (SURE) instrument. The initiative provided up to €100 billion in loans to countries that needed support to finance short-time work schemes and similar measures, so that employees were not dismissed and self-employed people received an income replacement.
- **Businesses** – the pan-European guarantee fund for loans to companies. Through this fund, the European Investment Bank mobilised up to €200 billion from the private sector to help businesses (particularly small and medium-sized enterprises) recover from the pandemic, hire employees and grow.
- **Member States** – the pandemic crisis support for euro zone countries. With an envelope of €240 billion, the credit line of the European Stability Mechanism allows Member States from the euro zone to support domestic financing of direct and indirect healthcare, cure and prevention-related costs due to the COVID-19 crisis.

Finally, the recovery is further boosted through the groundbreaking adoption of the NextGenerationEU programme, which shifts European growth into a higher gear – greener, more digital, resilient and inclusive. The instrument empowers the Commission to borrow funds with a value of up to €750 billion from the markets on

behalf of the EU. These funds are then transferred to EU programmes as follows:

- Recovery and Resilience Facility: €672.5 billion (out of which loans in the amount of €360 billion and grants of €312.5 billion are made available)
- Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU): €47.5 billion
- Horizon Europe: €5 billion
- InvestEU: €5.6 billion
- European Agricultural Fund for Rural Development: €7.5 billion
- Just Transition Fund: €10 billion
- RescEU: €1.9 billion

These reforms and investments should address the challenges identified in the context of the European Semester and create a more social and sustainable European economy, through a fair climate and digital transition that safeguards jobs and creates new ones.

Okun's law during the 2008–2013 economic crisis and the lockdown

Given the variety of EU measures used during recessions, particularly those that aim to mitigate unemployment hikes, it is useful to look at how unemployment rates change in times of crisis. It has been empirically observed that slowdowns in growth coincide with rising unemployment. This statistical relationship was uncovered by Arthur Melvin Okun in 1962 (Okun, 1962). Using the case of the United States, he found that, for every 1% increase in the unemployment rate, the country's GDP would be roughly an additional 2% lower (also known as Okun's law). Multiple studies suggest that the relationship varies considerably over time, over the course of the business cycle and across countries. As such, Knotek (2007) proved that this correlation was not always so reliably negative over short time spans (especially in quarterly data), while Furceri et al (2020) argued that the relationship is stronger in countries with higher unemployment, a larger share of public employment, lower informality and smaller agricultural sectors. Nevertheless, taking these shortcomings into consideration, Okun's law is still useful to policymakers and economists, as the unemployment–GDP nexus is, on average, negative and statistically significant.

This inverse relationship was also observed in the first year of the 2008–2013 economic crisis, when the coefficient was -0.95. Figure 47 confirms that the contemporaneous changes in unemployment and output growth followed the expected pattern: Member States that suffered the largest losses in output were also the ones that experienced the highest spikes in unemployment (for example, the Baltic countries), while countries that fared relatively better through the crisis recorded modest increases in the unemployment rate (such as Malta, Belgium and Bulgaria).

Figure 47: Relationship between GDP and unemployment in 2008–2009 (growth rates), EU27

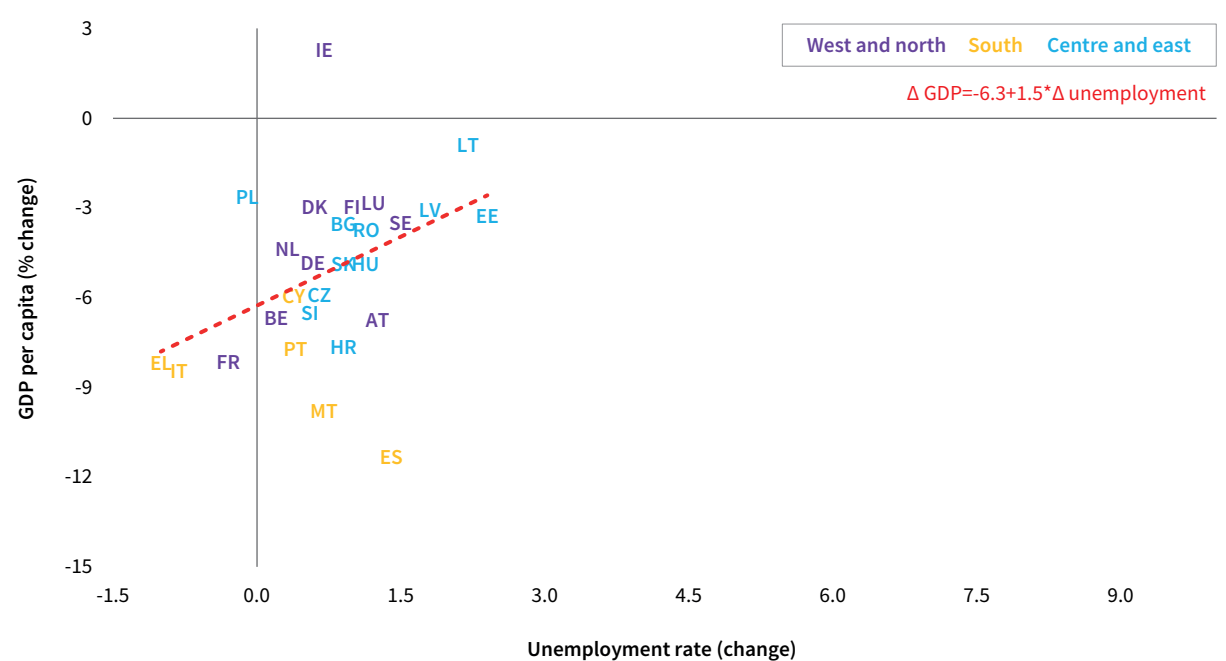


Note: The coefficient is statistically significant at a 99.9% confidence interval.
 Source: Authors' own calculations, based on Eurostat data

However, during the first year of the COVID-19 crisis, this pattern changed dramatically (Figure 48). The negative relationship became a strong positive one, yielding a coefficient of +1.5. In a counterintuitive way, countries that went through the biggest shocks in GDP had limited

growth in unemployment (or even decreases, like in Greece, Italy and France), while Member States that were less affected in terms of output growth recorded the largest rises in unemployment (as was the case for the Baltic states). This trend is most likely due to the

Figure 48: Relationship between GDP and unemployment in 2019–2020 (growth rates), EU27



Note: The coefficient is statistically significant at a 95% confidence interval.
 Source: Authors' own calculations, based on Eurostat data

quick and coordinated mitigating measures implemented at the national and the EU level that helped contain sharp surges in unemployment.

Predicted unemployment growth in 2020

Okun’s law is an approximation, a ‘rule of thumb’, based on empirical observations and not theoretical prediction. This is because other factors affect output, aside from employment (such as the economy’s production capacity, trade openness and labour market rigidities). However, Okun’s law can still be an invaluable tool in forecasting trends in the relationship between unemployment and real GDP. For this reason, and given the various policy interventions adopted during the COVID-19 crisis to prevent job losses, it is relevant to grasp (at least partially) the impact of these measures. The unemployment rate is therefore predicted in 2020 using the GDP shock that each Member State experienced during the pandemic, together with the country-specific growth trends in unemployment and GDP from 2000 until 2019 (the regression coefficients are provided in Table A3 in the annex).

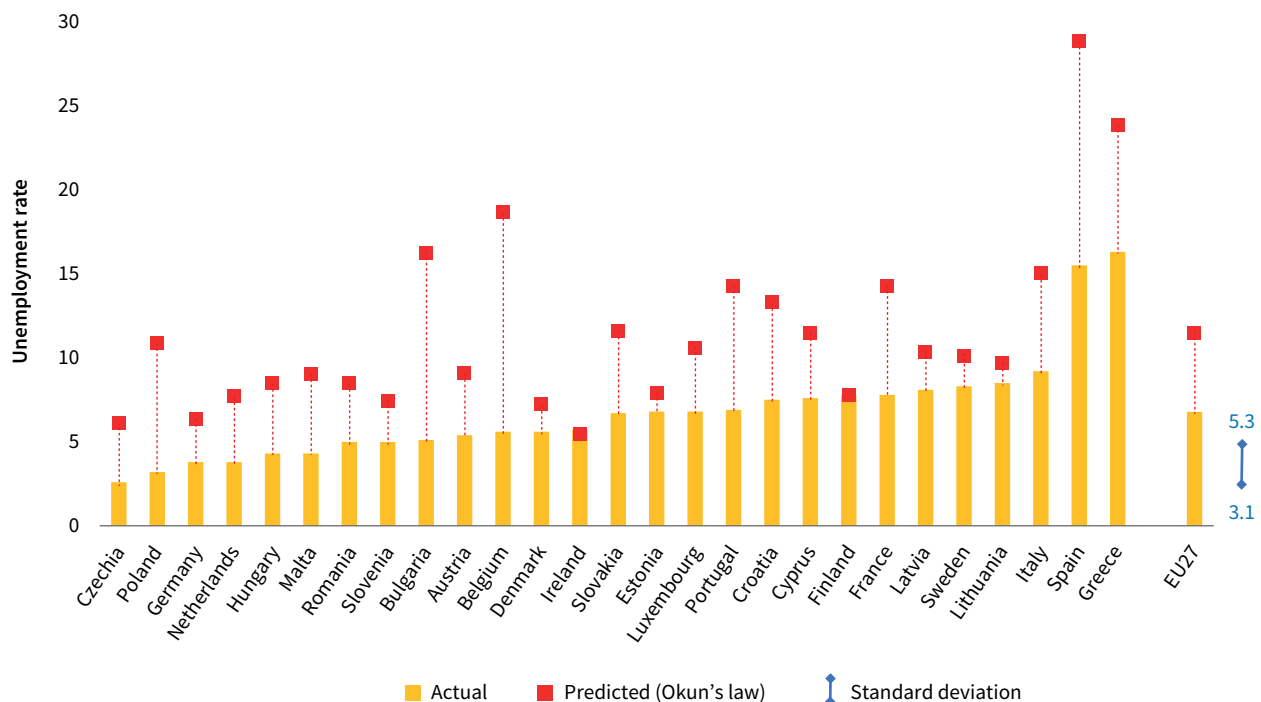
The results show that, if the 2000–2019 trend had applied for each country, the contraction in output caused by the crisis would have resulted in higher unemployment rates (relative to the actual ones) in almost all Member States. The hikes would have been particularly strong in Spain, Belgium and Bulgaria, with a gap exceeding 11 percentage points. By contrast, Ireland and Finland are the only countries that would

have fared better (Figure 49). This is most likely because Ireland was the only Member State with a positive output growth in 2020, while Finland had the most elastic GDP relative to unemployment and had among the smallest declines in output following the outbreak of the pandemic.

Overall, if unemployment growth relative to GDP in 2020 had followed the trend of the previous decades, the unemployment rate at the EU level would have been higher by almost 70% (6.79% (the actual rate) versus 11.49% (the predicted rate)). Disparities between countries would have also widened, from the observed standard deviation of 3.1 percentage points to the forecasted standard deviation of 5.3 percentage points. These results hint at a possible prevention of downward divergence in unemployment across the EU thanks to the immediate liquidity and policy interventions pursued by both EU institutions and national governments.

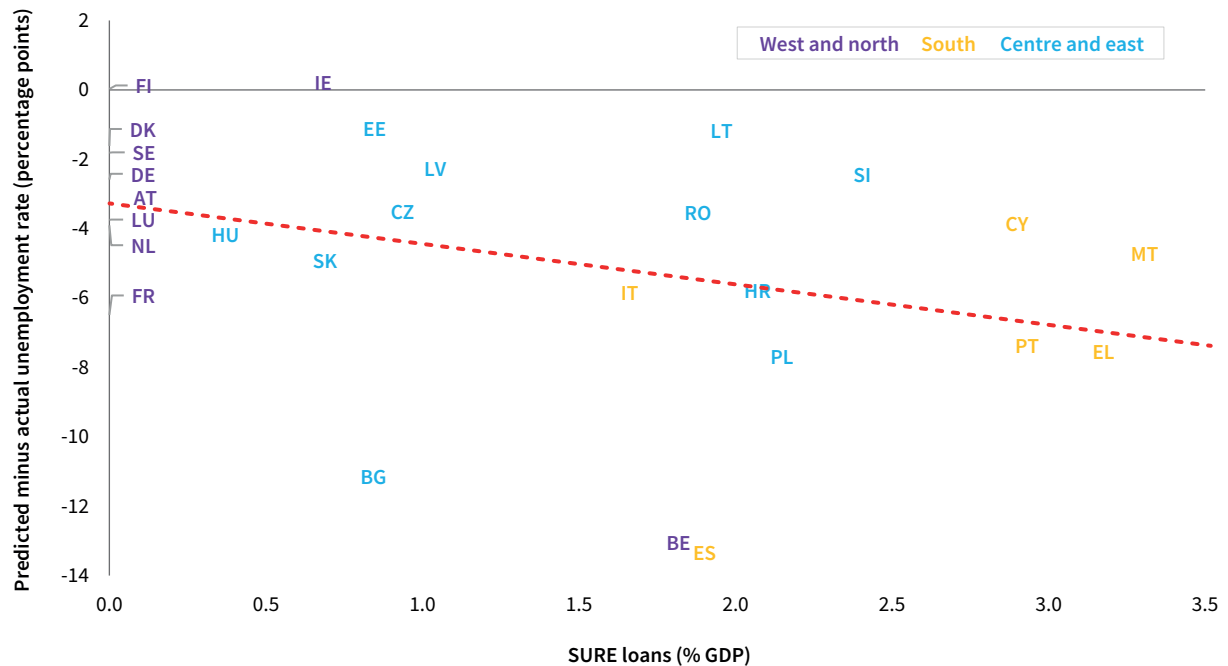
Using these findings, the analysis is taken further by investigating if this gap between actual and predicted unemployment rates was connected to the SURE instrument – one of the key EU measures to support countries’ fight against job losses. Figure 50 shows that the Member States with the widest unemployment gap were also those that took the largest SURE loans (as a percentage of national GDP). More precisely, countries in southern Europe (Malta, Greece, Portugal and Cyprus) submitted requests to benefit from the scheme in an amount that exceeded 2.8% of their 2020 GDP. They are

Figure 49: Actual versus predicted unemployment rate in 2020 (%), EU27



Source: Authors’ own calculations, based on Eurostat data

Figure 50: SURE loans and the unemployment gap in 2020, EU27



Note: The coefficient is statistically significant at a 90% confidence interval.

Source: Authors' own calculations, based on Eurostat data

followed by Member States in central and eastern Europe, while only two countries in the west and north of Europe (Belgium and Ireland) asked to receive financial support under SURE. Figure 50 shows that the estimated gap in unemployment is connected to the amounts requested by countries to prevent redundancies and long-term unemployment, potentially meaning that the strong efforts to boost the liquidity of firms and avoid massive layoffs might have translated into significantly lower unemployment rates.

European Pillar of Social Rights: 2030 targets

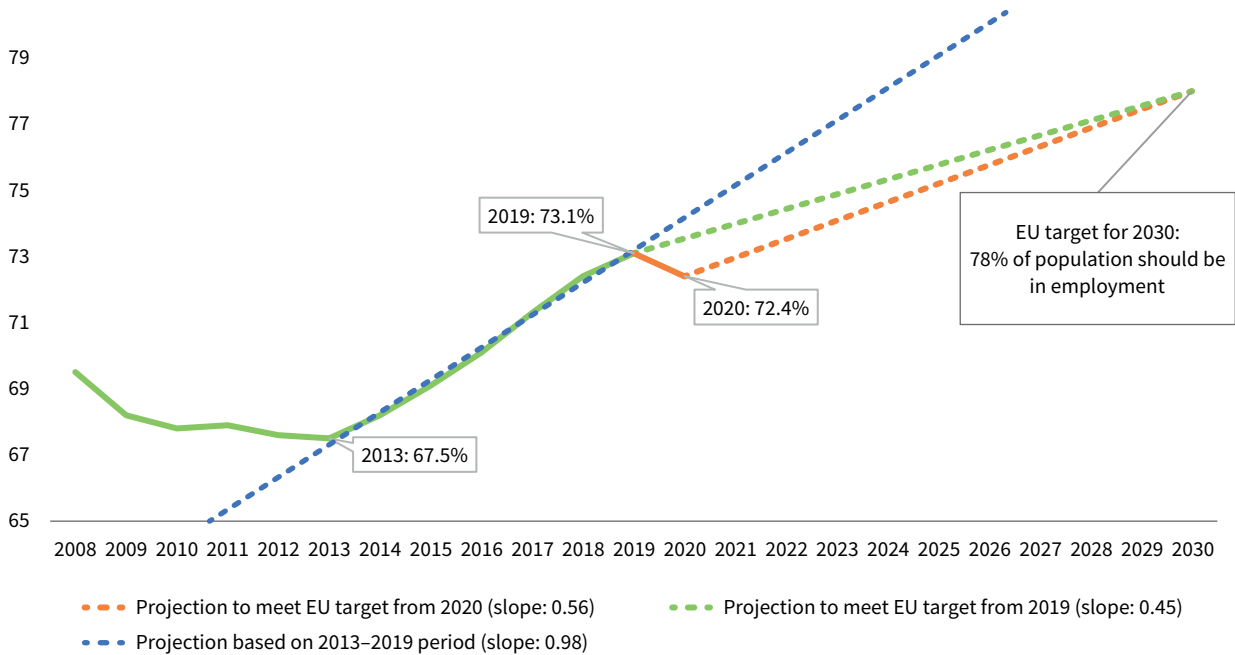
While the devastating impact of the pandemic has dominated recent policy debate, 2021 was also a year of reaffirmation to Social Europe, which culminated in the Porto Social Summit in May 2021. EU leaders, European institutions, social partners and civil society representatives met in Porto to reinforce their commitment to the implementation of the European Pillar of Social Rights. The Pillar is the pivotal initiative through which the EU's economic aspirations can be further imbued with a strong social dimension, with the aim of connecting the economic and social dimensions of convergence.

At the Porto Social Summit, the EU and its social partners committed to the Action Plan, which sets out the ambition of a strong Social Europe for 2030. The Action Plan serves as a 'new rule book' for social policy

in the EU and, in it, the Commission proposes three EU headline targets and several subtargets to be achieved by the end of the decade in the areas of employment, skills and social protection.

The targets are set in the context of the pandemic, as well as the challenges emerging from the green and digital transition, and they highlight the devastating short-term impact that the pandemic has already had. In the area of employment, the Commission's Action Plan pledges that 'at least 78% of the population aged 20 to 64 should be in employment by 2030'. In 2019, the employment rate in the EU reached 73.1%. Based on this 2019 rate, to achieve the 2030 target of 78%, employment in the EU would need a robust, but modest, increase of 0.45 percentage points per year (Figure 51). In comparison, the average growth in employment throughout the recovery period from 2014 to 2019 was 0.98 percentage points per year. However, with the initial short-term impacts of the COVID-19 pandemic, the employment rate decreased to 72.4% in 2020, despite massive government and EU efforts to sustain employment through short-time work and furlough schemes. Based on this 2020 value, the EU would need an increase in employment of 0.56 percentage points per year to achieve the 2030 target. However, the pandemic is still evolving and, despite substantial progress in the vaccination programmes, new variants threaten the short- to medium-term return to normality and dynamic labour market participation growth.

Figure 51: Unweighted average employment rate and projections to meet the European Pillar of Social Rights Action Plan 2030 target (%), EU27

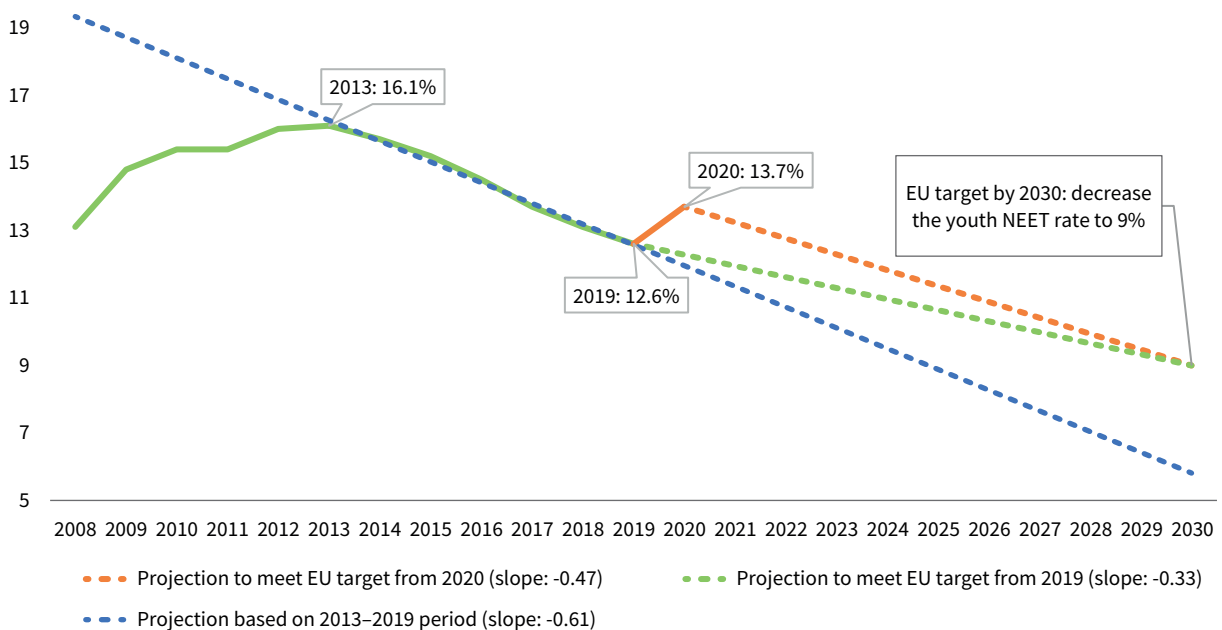


Source: Authors' own calculations, based on Eurostat data

In line with this first headline target in the area of employment, the European Commission pledged to decrease the rate of young people not in employment, education or training aged 15–29 from 12.6% to 9%. During the economic recovery period from 2013 to 2019, the youth NEET rate fell on average by 0.61 percentage

points per year (Figure 52). If this had continued, the EU would have been on track to achieve and exceed the 2030 targets. However, the COVID-19 pandemic hit the employment prospects of young people particularly hard, with many being prevented from entering the labour market. On average, the youth NEET rate

Figure 52: Unweighted average youth NEET rate and projections to meet the European Pillar of Social Rights Action Plan 2030 target (%), EU27



Source: Authors' own calculations, based on Eurostat data

increased from 12.6% in 2019 to 13.7% in 2020. While, from 2019, the reduction in the youth NEET rate required to achieve the 2030 target of 9% was only 0.33 percentage points per year, from 2020 onwards it will now need to be 0.47 percentage points per year.

The impact of the pandemic on other employment indicators, material well-being, poverty, working conditions and quality of life remains to be monitored, with more data being collected and released. However, these developments in employment rate and youth NEET rate demonstrate how the pandemic has reverted progress in the social dimension of the EU already, going against the EU's ambitious aspirations.

The following section will analyse the early short-term impact of the COVID-19 pandemic on upward convergence in a selection of economic and social indicators.

Economic convergence

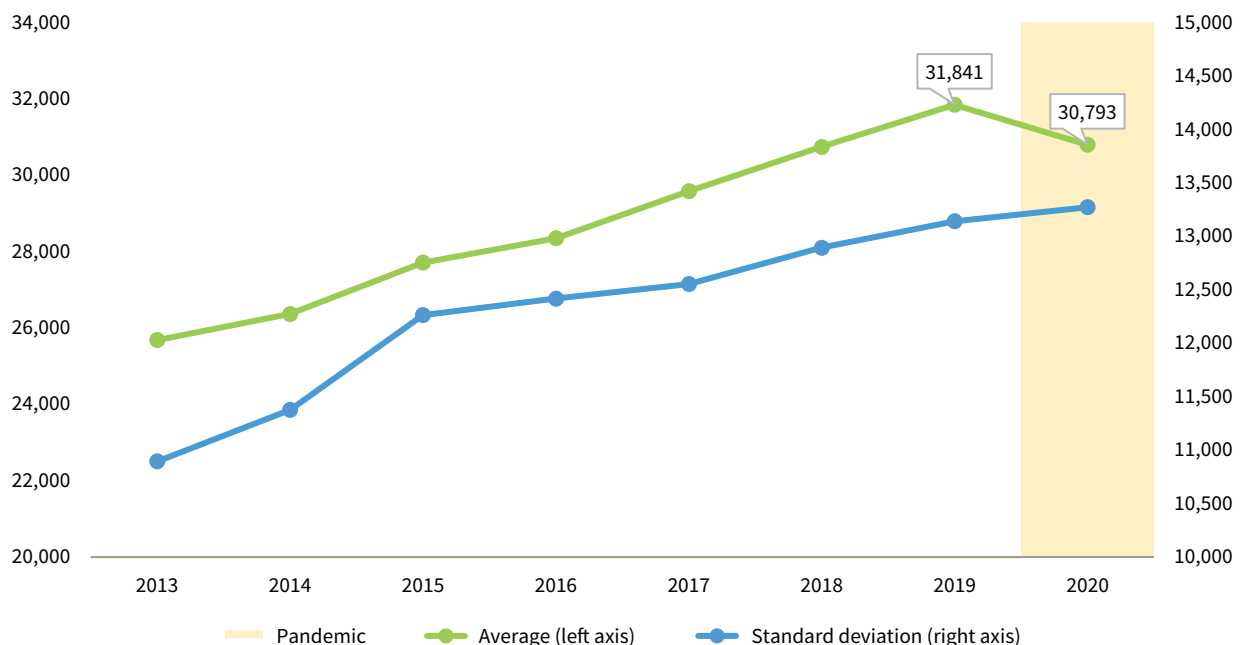
Before the pandemic, GDP per capita (in PPS) had been increasing steadily since the last downturn in 2009 caused by the previous economic crisis in the EU. Disparities between Member States were also increasing, as measured in standard deviation (sigma)

and the distance from the five richest countries (delta). However, unconditional beta convergence revealed a significant and substantial catch-up process – fuelled by dynamic growth in central and eastern European Member States and notwithstanding some deterioration in southern European countries.

During the first year of the pandemic, the positive trend was upended. The unweighted average of GDP per capita (in PPS) decreased for the first time since 2009 (Figure 53). However, disparities between Member States increased only slightly from 2019 to 2020. In fact, increases in disparities were in line with the trend of recent years.

However, reductions in GDP per capita (in PPS) were distributed unevenly among the Member States (Figure 54). The highest decreases were recorded in Spain (-9.9%), Malta (-8.6%), Greece (-8.2%), Cyprus (-7.5%) and Portugal (-7.2%). On the other hand, there was a substantial increase in GDP per capita in PPS in Ireland (+4.2%³) and only marginal decreases in Poland (-0.0%), Denmark (-0.2%), Lithuania (-0.4%), Latvia (-0.5%) and the Netherlands (-0.8%). The average reduction in GDP per capita (in PPS) from 2019 to 2020 in the EU was 3.3%.

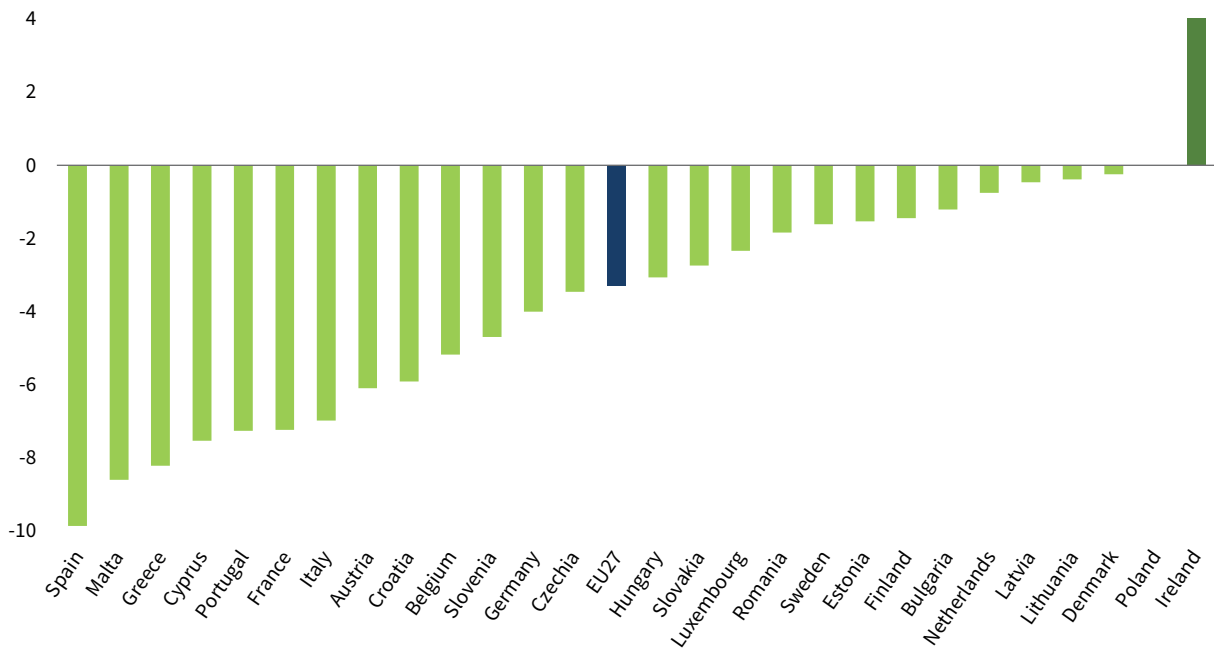
Figure 53: Sigma convergence in GDP per capita (PPS), EU27, 2013–2020



Source: Authors' own calculations, based on Eurostat data

³ Irish GDP reflects the large role of multinational corporations and should hence be treated with care; for instance, the Central Bank of Ireland (2021) estimated a sharp contraction in modified domestic demand (-7.1% economic growth in 2020).

Figure 54: Change in GDP per capita (in PPS) by Member State (%), EU27, 2019–2020

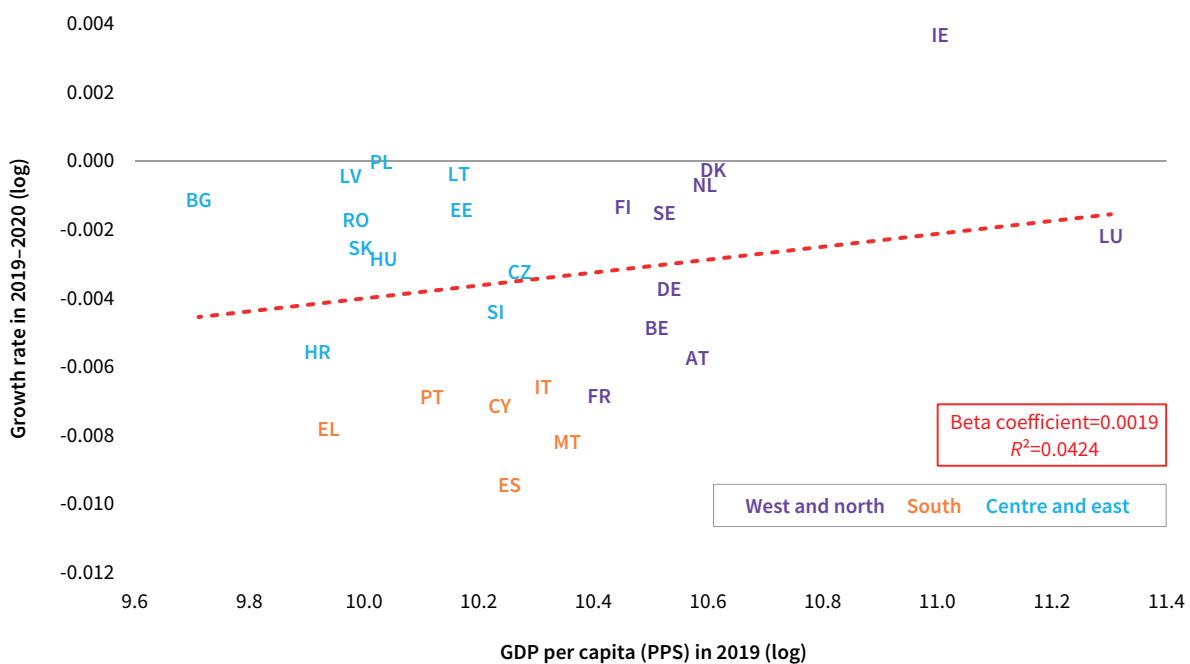


Source: Authors' own calculations, based on Eurostat data

The uneven immediate economic impacts of the COVID-19 pandemic were confirmed by the analysis of unconditional beta convergence (Figure 55). The years preceding the pandemic were dominated by a catch-up process of poorer countries to richer Member States. This convergence pattern, which gave the EU the nickname 'convergence machine', was reverted during the early stages of the COVID-19 pandemic.

Unconditional beta convergence from 2019 to 2020 shows that countries with lower economic activity in 2019 tended to record higher reductions in GDP per capita (in PPS) in 2020. Although not statistically significant, this process of falling behind rather than catching up risks making divergence and deep divides in the EU more permanent, which in turn poses risks to cohesion and solidarity in the EU.

Figure 55: Unconditional beta convergence in GDP per capita (PPS), EU27, 2019–2020

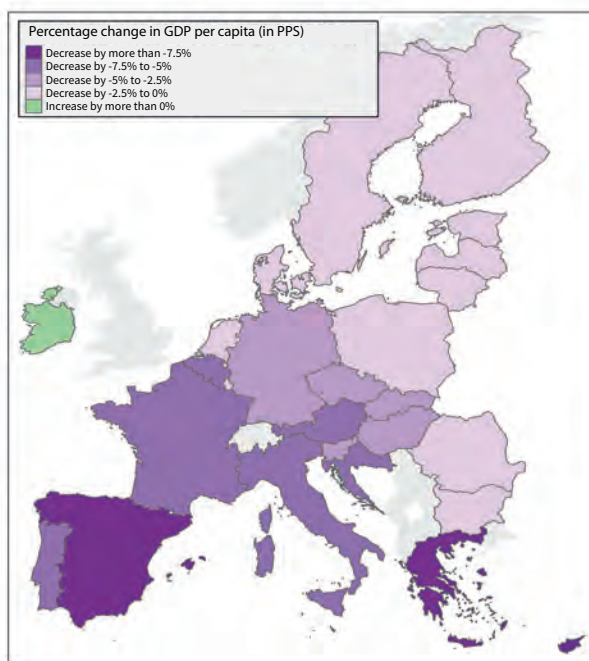


Note: The beta coefficient is statistically not significant.
Source: Authors' own calculations, based on Eurostat data

Unfortunately, the immediate economic impact of the COVID-19 pandemic showed the same geographical pattern as the fallout of the previous economic crisis (Figure 56). Countries in northern and western Europe tended to record smaller reductions in GDP per capita in PPS (the frontrunners Luxembourg and Ireland, but also the Nordic countries Denmark, Finland and Sweden). However, some north-western countries were heavily affected by the economic fallout of the pandemic, such as Austria, Belgium and France. Southern European countries were hit the hardest, recording the highest reductions in GDP per capita (in PPS) in 2020, as they were already falling behind after the 2008–2013 economic crisis and experienced a more modest subsequent economic recovery.

The picture for central and eastern European countries is mixed. They were catching up before COVID-19, but some countries suffered large reductions in GDP per capita in PPS during 2020 (Croatia, Czechia, Hungary and Slovenia). Some other countries in the east were less affected by the early effects of the pandemic (for example, the countries already lagging behind: Bulgaria and Romania, but also the Baltic states and Poland).

Figure 56: Percentage change in GDP per capita (in PPS), EU27, 2019–2020



Source: Authors' own calculations, based on Eurostat data

Several explanations for the uneven immediate economic impacts of the COVID-19 pandemic are being put forward by academics. Sapir (2020) argues that some countries have been hit harder than others economically because of a combination of the intensity of the pandemic in the country (strictness of lockdown measures), the economic structure (for example, the share of tourism in the economy) and the quality of governance. The researchers found that this explained nearly 60% of cross-country differences in the economic shock caused by the pandemic.

Furthermore, the impact of the pandemic may widen regional inequalities. Factors driving a region's resilience, such as the dependency on tourism for economic activity and employment, may differ within countries and give rise to divergence at the regional level. Simulations using the RHOMOLO model⁴ suggest that within-country variation in terms of the impact of the pandemic on GDP is considerable (European Commission, 2021, p. 118).

How the pandemic may affect inequalities is still uncertain. Researchers have found that automatic stabilisers and discretionary policies were successful at mitigating or even reversing increases in inequalities (Clark et al, 2021, using panel survey data from France, Germany, Italy, Spain and Sweden; Gallo and Raitano, 2020, using a microsimulation model for Italy). Researchers from the Joint Research Centre have estimated that the regressive (inequality-enhancing) nature of the COVID-19 pandemic on market incomes was largely offset by the tax-benefit system in most EU Member States (Christl et al, 2021). However, others point to the sectoral impact of the crisis and the fact that vulnerable groups, such as young people and those with low-level qualifications, have suffered more, therefore arguing that inequality might rise (Claéys et al, 2021; Darvas, 2021).

Social convergence

The COVID-19 pandemic is primarily a health crisis. While the need to save lives is indisputable, strict non-pharmaceutical interventions risk having permanent effects on the labour market, such as on employment prospects or the social and human capital of the young generation. The 2008–2013 economic crisis already dealt a severe blow to European labour markets and caused downward divergence, during which southern European Member States in particular fell behind.

4 For more information on this model, see <https://ec.europa.eu/jrc/en/scientific-tool/regional-holistic-model-rhomolo>

Against this backdrop, some fear remains that the pandemic is having a similar or even worse social impact. Eurofound (2021c) research has shown that, in Q2 2020, 5.7 million fewer people were in employment than in Q4 2019. Furthermore, scholars fear an unequal employment impact, amplifying existing disparities between Member States. Some argue that southern European countries tend to have a lower share of jobs that are teleworkable (Palomino et al, 2020), a higher share of forcefully closed sectors and a higher share of workers who have fixed-term contracts or are self-employed (Fana et al, 2020) than other Member States. These scholars therefore expect higher increases in unemployment in southern European Member States and regions (Doerr and Gambacorta, 2020) than in other regions of Europe. In the following sections, the report investigates convergence in a few social indicators to shed light on how uneven the immediate impact of the pandemic was in the social dimension.

Unemployment rate

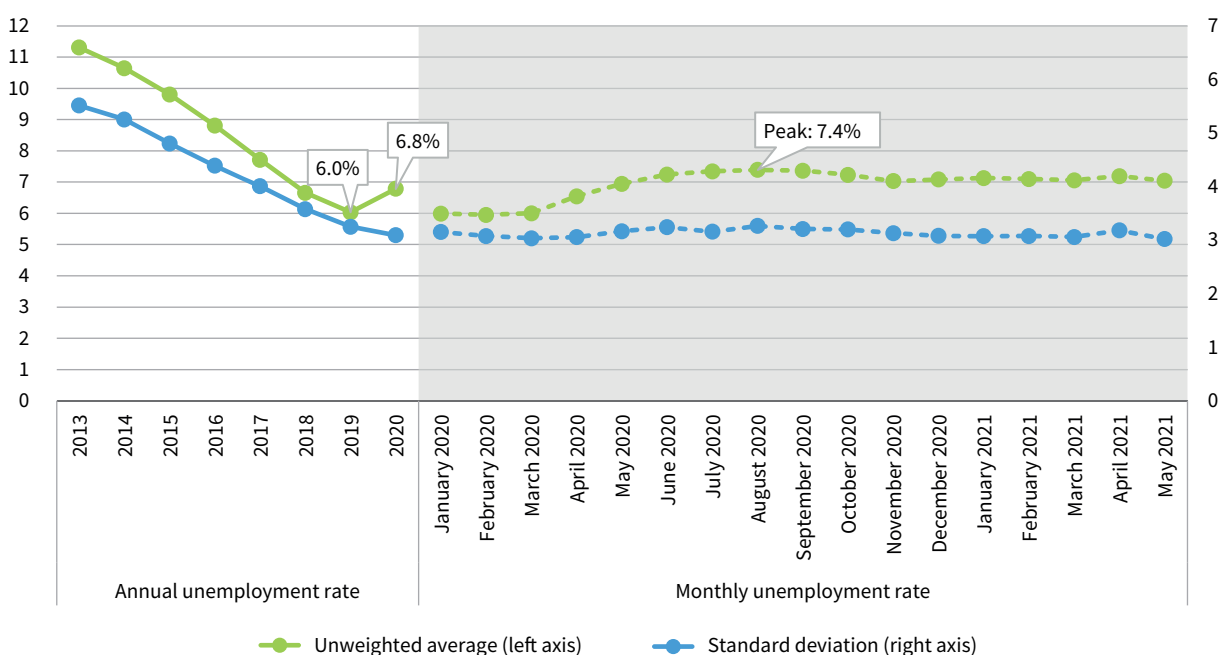
In the aftermath of the previous economic crisis, the unemployment rate in the EU almost halved from 2014 to 2019. Disparities were constantly decreasing after peaking in 2013. This positive trend of **upward convergence was upended by the COVID-19 pandemic** in 2020. However, the increase in unemployment in 2020 was relatively small; the unweighted average unemployment rate in the EU increased from 6% in 2019 to 6.8% in 2020 (all unweighted averages; Figure 57).

In the United States, the unemployment rate increased sharply between the first and second quarters of 2020, from 3.9% to 13.4%. Direct comparisons of the development of unemployment with other countries outside the EU are limited, as temporary layoffs are always counted as unemployment in the US. Nevertheless, this discrepancy indicates how the policy intervention in the EU helped to contain the surge in unemployment in the EU.

Moreover, compared with the increase at the onset of the previous economic crisis, the increase of 0.8 percentage points in unemployment in the EU in 2020 was modest; from 2008 to 2009, the unemployment rate increased by 2.6 percentage points from 6.4% to 9%. The monthly development of the unemployment rate reveals that the labour market impact of the COVID-19 pandemic culminated in the summer months of August and September 2020, when unemployment peaked at 7.4%. In October 2020, it had decreased slightly to just over 7% and has remained stable since.

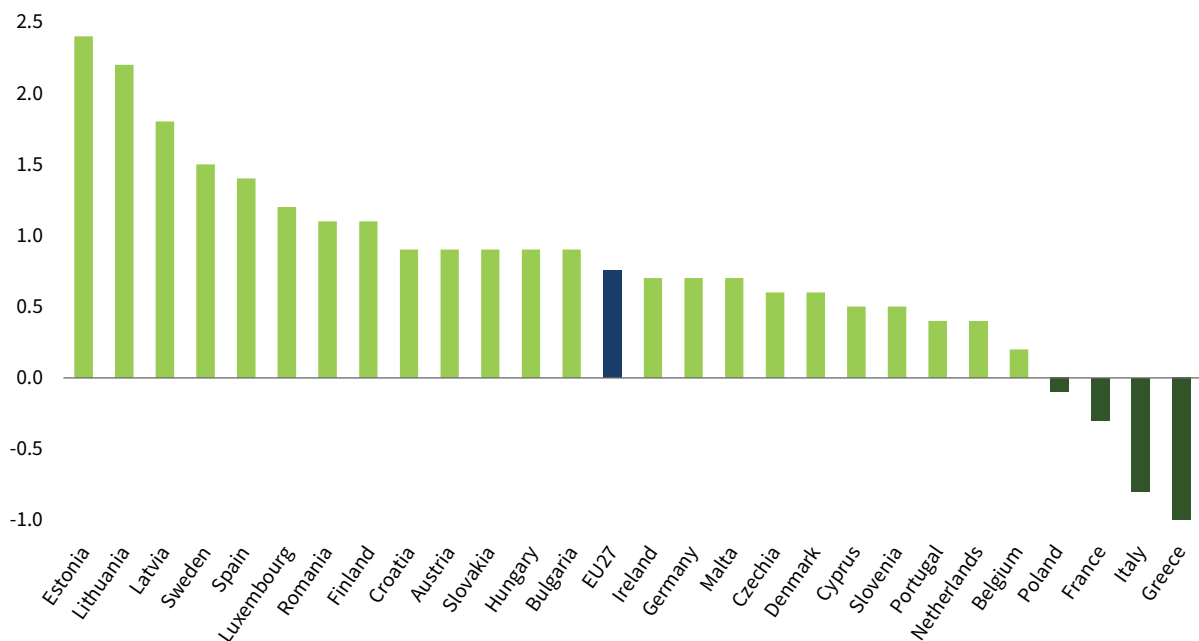
Disparities between Member States decreased from 2019 to 2020, albeit slower than in previous years. Monthly data show that, while there has been a slight increase in the standard deviation from the onset of the pandemic, the measure of sigma convergence has remained stable since August 2020, and recently has begun to decrease again.

Figure 57: Sigma convergence in the unemployment rate (%), EU27, 2013–2021 (monthly data: January 2020–May 2021)



Source: Authors' own calculations, based on Eurostat data

Figure 58: Change in unemployment rate by Member State (percentage points), EU27, 2019–2020



Source: Authors' own calculations, based on Eurostat data

Overall, this indicates downward sigma convergence in unemployment during the first year of the pandemic. Fears that unemployment might increase more strongly or bring back substantial divergence among Member States, as observed during the 2008–2013 economic crisis, have not yet materialised.

However, country-level developments in the unemployment rate are diverse among EU Member States (Figure 58). While the unemployment rate decreased in some countries in 2020 (Greece -1, Italy -0.8, France -0.3 and Poland -0.1 percentage points), other countries recorded substantial surges in unemployment. The Baltic states (Estonia +2.4, Lithuania +2.2 and Latvia +1.8 percentage points) saw particularly large increases in the unemployment rate in 2020.

Nevertheless, the uneven country developments did not upend overall beta convergence resulting from a robust catch-up process in the EU (Figure 59). In fact, the countries with the highest unemployment rates in 2019 (Greece, Spain and Italy) saw decreases or only small increases in unemployment, while better performing countries tended to record higher surges in unemployment. A desirable catch-up process stems from improvements in poorer performing countries, and not deterioration in better performing Member States. However, during the exceptional crisis period, this robust and statistically significant catch-up effect was a sign that detrimental divergence in the labour market as a result of the pandemic was averted, at least in the short term.

Figure 59: Unconditional beta convergence of the unemployment rate (%), EU27, 2019–2020

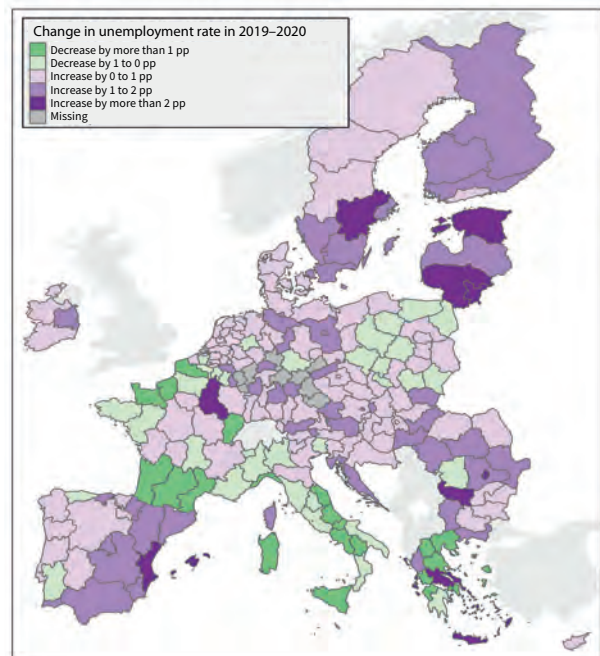


Note: **The beta coefficient is statistically significant at a 99% confidence interval.
 Source: Authors' own calculations, based on Eurostat data

At the regional level, trends in the unemployment rate between 2019 and 2020 showed a heterogeneous picture (Figure 60). However, the increases in the unemployment rate reveal no clear geographical pattern, as was observed during the 2008–2013 economic crisis. Among the regions with the largest increases in unemployment were the Greek regions of the South Aegean, Crete and the Ionian Islands, as well as the Spanish regions of the Balearic Islands and the Canary Islands – all regions with tourism as their main source of employment. The European Commission (2021, p. 119) showed that there was indeed a correlation between the share of jobs in tourism-related sectors and decreases in employment.

However, other regions in the south of Europe have fared comparatively well; for instance, regions in southern Italy and Greece saw decreases in the unemployment rate from 2019 to 2020. At the same time, some regions in Germany (such as Trier and Bremen) and regions in the Nordic countries and Baltic states have suffered larger increases in unemployment. Overall, the absence of a clear geographical pattern of regions hit hard by the immediate impact of the pandemic indicates how employment support measures helped to mitigate the uneven labour market fallout of the pandemic.

Figure 60: Percentage point change in the unemployment rate, EU NUTS 2, 2019–2020



Notes: pp: percentage point(s); data are missing for some German regions.
 Source: Authors' own calculations, based on Eurostat data

Labour market slack and activity rate

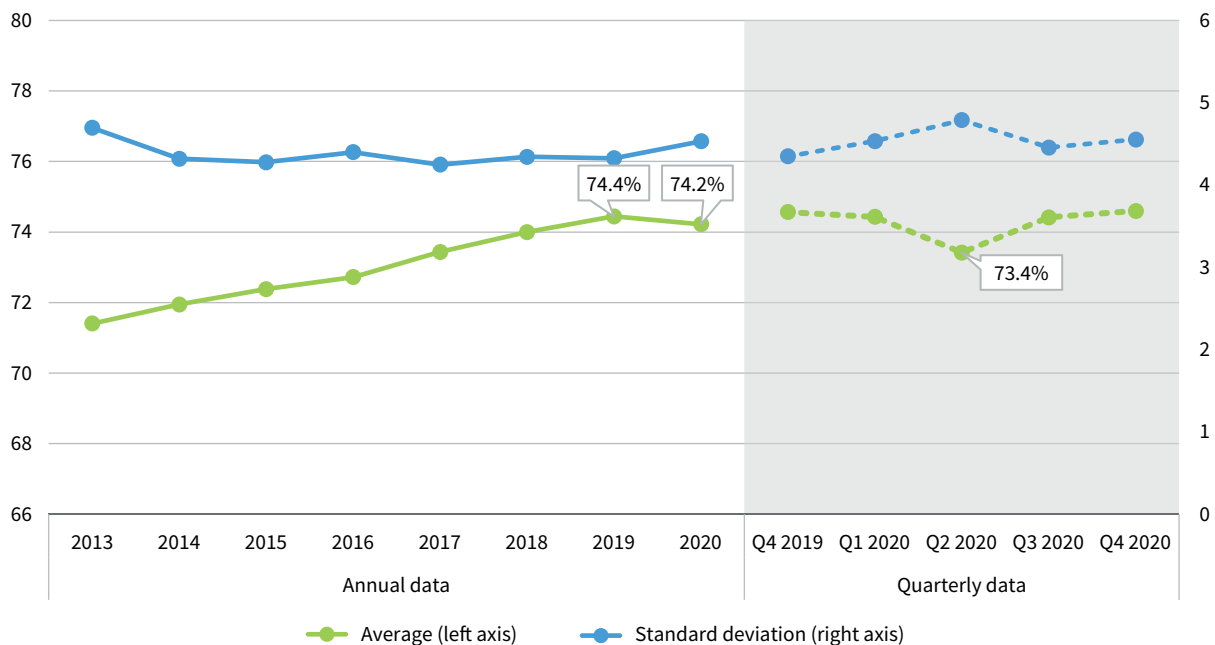
The activity rate is defined as the percentage of the population aged 15–64 years who are economically active. According to the definitions of the International Labour Organization, people are classified as employed, unemployed and economically inactive for the purposes of labour market statistics. The economically active population (also called the labour force) is the sum of employed and unemployed persons. Inactive persons are those who, during the reference week, were neither employed nor unemployed. The indicator is based on the EU-LFS and it is a secondary indicator of the Social Scoreboard.

Labour market slack refers to the total sum of all of the unmet need for employment. It is the sum of unemployed persons, underemployed part-time workers (those part-time workers who wish to work more) and persons either seeking work but not immediately available or available to work but not seeking it. Data are seasonally adjusted and not calendar adjusted. The indicator is based on the EU-LFS.

Labour market indicators only partially capture the full impact of the COVID-19 pandemic so far, as a considerable proportion of the workforce is still protected by public policies, such as government furlough schemes.⁵ As finding work grew more difficult during the pandemic, many ceased their job search and became inactive. In total, the pandemic pushed 1.8 million people into inactivity (European Commission, 2021, p. 30). Inactivity is not accounted for in the unemployment figure. Therefore, convergence trends were analysed in two indicators that go beyond the unemployment rate: the activity rate and labour market slack.

From 2019 to 2020, the activity rate in the EU decreased only slightly, from 74.4% to 74.2% (Figure 61). During the peak of the first lockdown restrictions in Q2 2020, the share of economically active people dropped to 73.4% due to the transition of many workers to inactivity rather than unemployment. Disparities increased, but only slightly. The standard deviation between Member States was still below its 2013 level in 2020. Quarterly data show that there was an increase in disparities after the onset of the pandemic, but from Q2 to Q3 2020, the standard deviation had already decreased again.

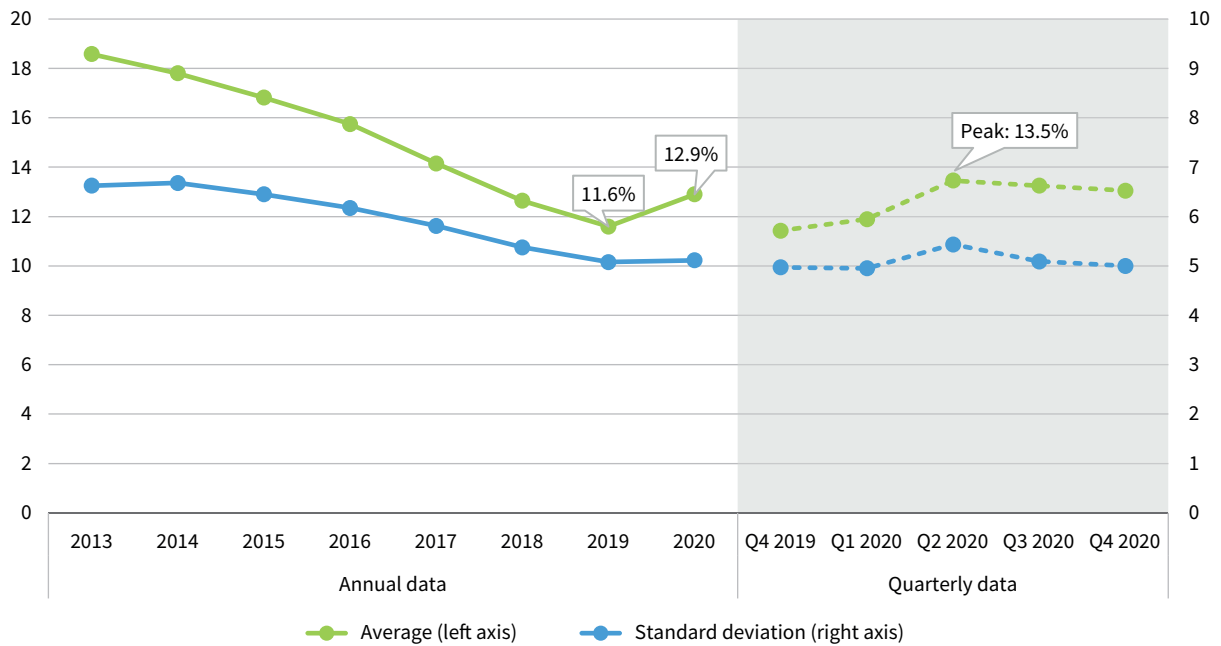
Figure 61: Sigma convergence in the activity rate (%), EU27, 2013–2020 (quarterly data: Q4 2019–Q4 2020)



Source: Authors' own calculations, based on Eurostat data

⁵ In Ireland, for instance, the Central Statistics Office (2020) released a COVID-19-adjusted unemployment rate, which includes the share of the labour force who were not working owing to unemployment or who were out of work owing to COVID-19 and who were receiving the country's pandemic unemployment payment. In April 2020, COVID-19-adjusted unemployment was estimated to be 28.2%, compared with the traditional unemployment rate of 5.4%.

Figure 62: Sigma convergence in labour market slack (%), EU27, 2013–2020 (quarterly data: Q4 2019–Q4 2020)



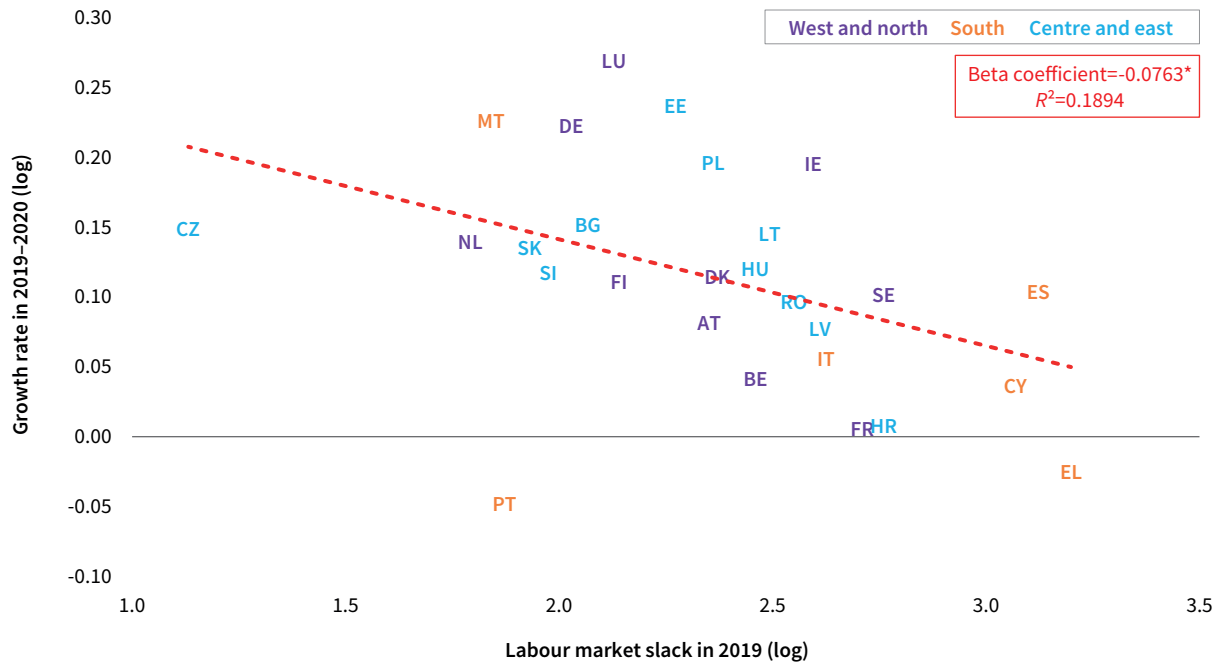
Source: Authors' own calculations, based on Eurostat data

The labour market slack indicator provides a fuller picture of the deterioration of the labour market in 2020 by adding three categories to the unemployed: people available to work but not seeking a job, people looking for a job but not available to work and part-time workers wishing and available to work more.

The labour market slack increased during the pandemic from 11.6% in 2019 to 12.9% in 2020 (Figure 62) and especially from the first to the second quarter of 2020, when it rose from 11.9% to 13.5% of the extended labour force. Disparities between Member States as measured by the standard deviation (sigma convergence) increased from 2019 to 2020. Although this was a reversal of the recent positive trend (decreasing disparities from 2014 onwards), the increase was only small. Quarterly data show that disparities decreased after a spike in Q2 2020 and, by the final quarter of 2020, were only slightly above the level before the pandemic.

However, despite slight increases in sigma convergence, the analysis of unconditional beta convergence reveals how the catch-up process in labour market slack prevailed during the immediate impact of the pandemic (Figure 63). Countries with a higher share of labour market slack saw smaller increases in 2020 than those countries initially performing better. Southern European Member States, which were initially among those lagging behind, saw only small increases (except for Malta, which was already performing better by 2019). The catch-up process from 2019 to 2020 occurred at a rate of 7.6% (statistically significant).

Figure 63: Unconditional beta convergence in labour market slack (%), EU27, 2019–2020



Note: *The beta coefficient is statistically significant at a 95% confidence interval.

Source: Authors' own calculations, based on Eurostat data

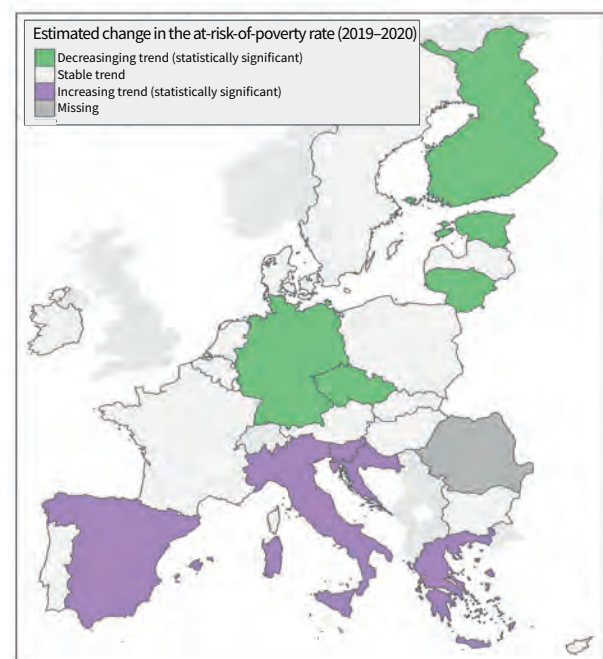
At-risk-of-poverty rate (Eurostat flash estimates)

The at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income after social transfers.

Confronted with the pandemic and the need to provide timely data for policymakers, Eurostat expanded existing experimental statistics – used, for instance, to nowcast GDP or the inflation rate – to the dimensions of income inequality and poverty. The experimental nature of these flash estimates relies on their methodology based on microsimulations and macroeconomic models (Eurostat, 2021). Flash estimates can be used in preliminary discussions and serve as an early indication of the direction of change. However, as with any other estimate, flash estimates should be interpreted with caution – their accuracy depends on several factors.

Using this approach, Eurostat estimated the change in the at-risk-of-poverty rate from 2019 to 2020. At the aggregate level, the at-risk-of-poverty rate was estimated to remain stable in 2020, despite the pandemic. At the country level, however, a statistically significant increase was estimated for some Member States, while, for other Member States, decreases in income poverty were expected. Figure 64 maps the estimated trends in the EU Member States. Although preliminary, the estimates show statistically significant increases in southern European countries, such as

Figure 64: Estimated change in the at-risk-of-poverty rate, EU, 2019–2020



Note: Data for Romania are missing.

Source: Eurostat flash estimates

Croatia, Greece, Italy, Slovenia and Spain. This geographical distribution is reminiscent of the downward divergence pattern in the previous economic crisis, which hit southern European Member States

disproportionally in the economic dimension and especially in the social one, which resulted in southern European countries and regions falling behind.

Further research will show the full impact of the pandemic on poverty; however, the flash estimates give a first indication of possible divergence exacerbating pre-existing fault lines between European Member States along the north-south divide.

Rate of young people not in employment, education or training

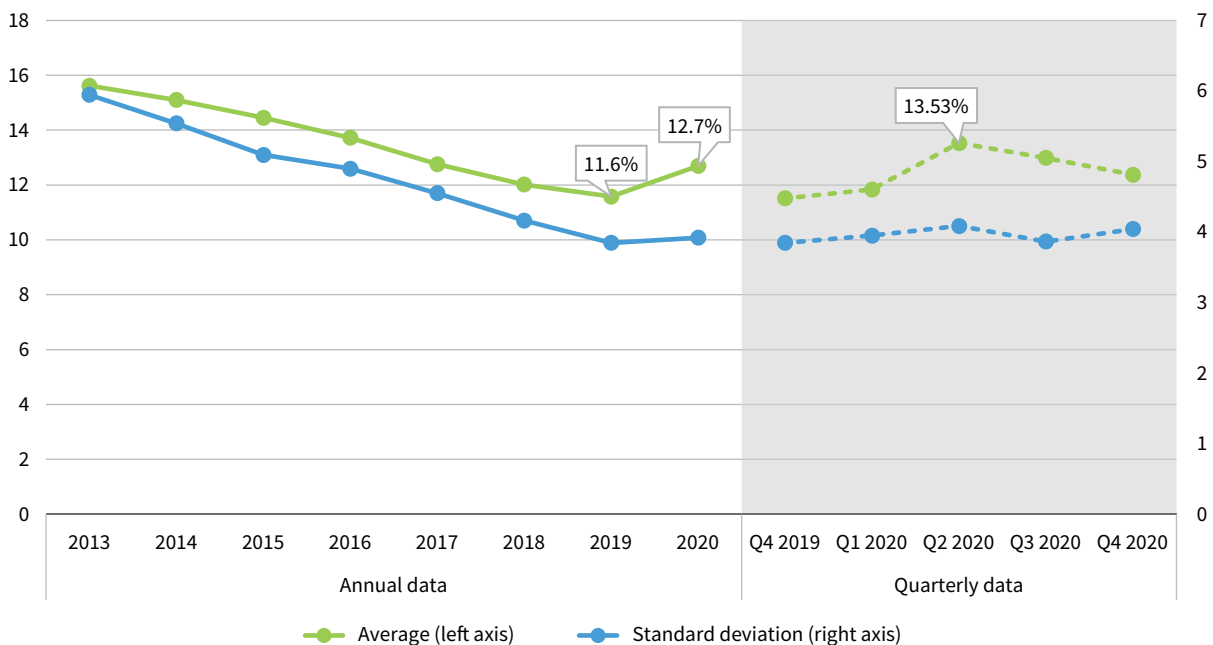
Those at the margins of the labour market were most at risk of falling into inactivity during the pandemic, such as young people at the beginning of their career. For many young people, the pandemic is the second recession in their lifetime after the 2008–2013 economic crisis. While there were improvements during the subsequent recovery period, employment perspectives for many young Europeans were still grim in 2019, with the youth NEET rate at more than 15% in some countries (Bulgaria, Greece, Italy and Romania).

In a situation that was sadly similar to the 2008–2013 economic crisis, young people were hit particularly hard by the COVID-19 pandemic – in both their mental well-being and their labour market position. Evidence

from Italy shows that young people (aged 25–34 years) were the age group most at risk of being excluded from the labour market during the pandemic (Aina et al, 2021). Eurofound’s research confirms the vulnerability of young people’s labour market position. The *Living, working and COVID-19 e-survey* shows that young people aged 18–29 years were the age group most likely to have lost their job by spring 2021 (Eurofound, 2021d). Furthermore, the evidence points to an enormous mental health impact of the pandemic on young people; the youngest age group (aged 18–34 years) contained the highest portion of people at risk of depression and the steepest increase of this portion during the latest lockdown period in spring 2021 (Eurofound, 2021d).

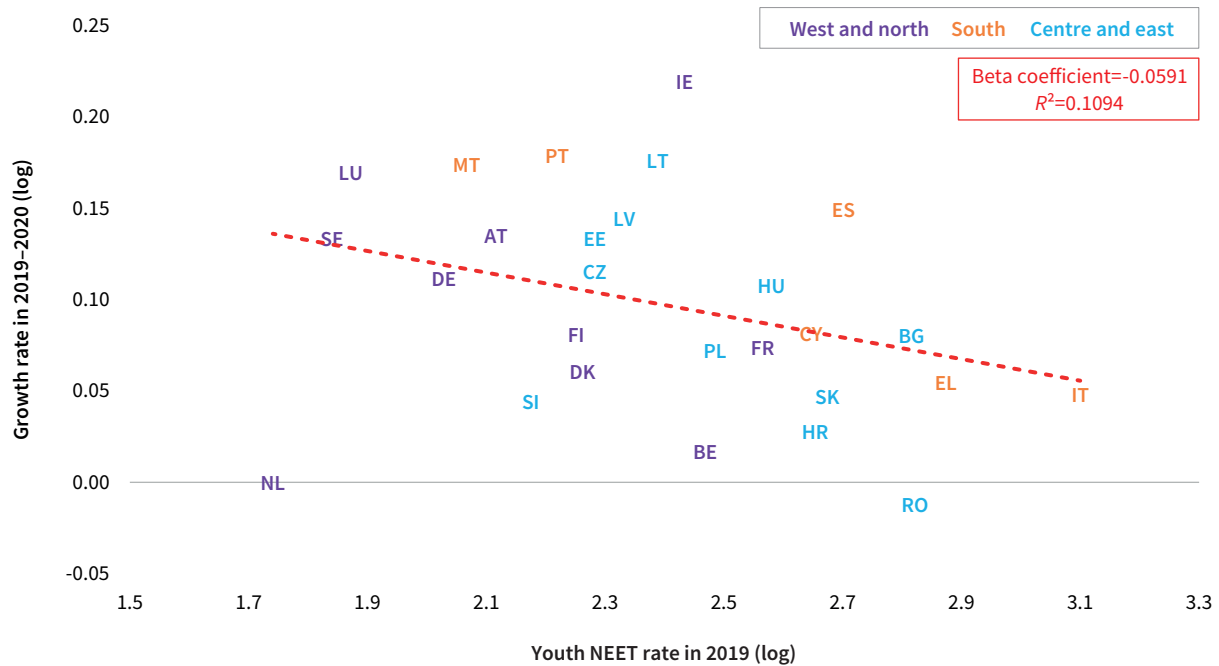
Indeed, the youth NEET rate increased from 11.6% in 2019 to 12.7% in 2020 (Figure 65). This increase was, however, lower than that during the previous economic crisis (the youth NEET rate increased from 12% in 2008 to 14.1% in 2009 and continued to climb to 15.6% in 2013). Quarterly data reveal that the peak of the youth NEET rate occurred in Q2 2020 at 13.5%. Disparities between Member States increased slightly in 2020, upending the convergence pattern of previous years. Overall, there was downward divergence in the youth NEET rate from 2019 to 2020.

Figure 65: Sigma convergence in the youth NEET rate (%), EU27, 2013–2020 (quarterly data: Q4 2019–Q4 2020)



Source: Authors’ own calculations, based on Eurostat data

Figure 66: Unconditional beta convergence in the youth NEET rate (%), EU27, 2019–2020



Note: The beta coefficient is statistically not significant.

Source: Authors' own calculations, based on Eurostat data

The unconditional beta convergence analysis shows that divergence in the youth NEET rate following the immediate impact of the pandemic was avoided (Figure 66). From 2019 to 2020, EU Member States showed a pattern of catching up rather than falling behind. Increases in the youth NEET rate among those countries with the most precarious situation for young people were only small (in Bulgaria, Greece and Italy) or the youth NEET rate even decreased (in Romania).

Lessons learned from the upward convergence analysis of the short-term impact of COVID-19

Disrupting a period of economic growth, recovering labour markets and improving living conditions in the EU, the COVID-19 crisis broke out in early 2020. The pandemic is first and foremost an extraordinary health crisis that affects all Member States simultaneously and that requires governments to take extensive interventions to contain the spread of the virus and protect their citizens. However, the disruptions that the lockdowns, travel restrictions and other non-pharmaceutical interventions create for the economy, the labour market and living conditions are severe. Differences between Member States, such as their level of resilience, economic structure, institutional quality and strictness of lockdown measures, risk creating an uneven economic and social fallout among EU Member States.

Some fear the economic and social fallouts of the COVID-19 crisis may exacerbate existing fault lines in the EU. Devastating impacts could pile up for some countries and regions, especially in the south of Europe, which were hit harder by the previous economic crisis of 2008–2013. History may repeat itself, as Member States and regions in the south exhibit characteristics that make them more prone to a more significant economic and social fallout, such as a higher share of employment in tourism, more people in self-employment and lower levels of institutional quality.

Against this background, the policy reaction of the EU and its Member States during the first year of the pandemic was markedly different from the approach taken during the previous crisis. This time, the EU and its Member States coordinated unprecedented policy interventions (such as SURE and NextGenerationEU) to mitigate the economic and social fallout of the COVID-19 pandemic and prevent substantial downward divergence.

This report has shown that, while the economic fallout of the crisis was indeed drastic and uneven, causing downward divergence of GDP per capita in the EU, the impact on the labour market was much less devastating and uneven – especially in comparison with the previous economic crisis. In fact, the long-standing inverse relationship between GDP and unemployment (known as Okun's law) was reverted in 2020.

Counterintuitively, Member States with higher losses in economic activity recorded lower increases in unemployment (and some even recorded decreases) during the first year of the pandemic. Moreover, the analysis in this report has shown how the policy measures taken potentially prevented a much larger and more uneven employment shock in 2020. Without the policy instruments put in place by the EU and its Member States to shield employment, many more people in the EU would have lost their jobs during the pandemic, and social hardship would have been more uneven. In fact, this report shows that, in 2020, there was only a small amount of deterioration in employment- and poverty-related measures, and that convergence largely prevailed.

However, the EU has not yet weathered the storm and the mid- to long-term impact of the pandemic is still uncertain. The analysis in this report highlights how the EU has already lost ground towards its 2030 targets. Moreover, it will be a delicate challenge for policymakers to avoid hardship and divergence when the support measures are eventually withdrawn and discussions regarding a return to fiscal consolidation emerge.

The following chapter will explore the future challenges of upward convergence in the EU and the long-term implications of the pandemic.

4 Long-term impact of COVID-19 on economic and social convergence

Implications for economic and social convergence in the EU

Challenges arising from COVID-19

The COVID-19 crisis is unique. It is an unquestionably extraordinary and global crisis; it does not have an economic origin and is largely driven by non-economic factors, as it came as a consequence of unprecedented lockdown measures that halted entire sectors of the European and global economies.

Owing to the extent of the economic impact and the potential pervasiveness of the consequences of the COVID-19 crisis in the social domain, there are strong concerns about the possible implications for economic and social divergence within the EU. The possible short- and long-term effects may be several and structural, including massive closures of small businesses and a huge loss of human capital (due to unemployment and online-only instruction), a change of the concept of work, more permanent telecommuting and related social and economic implications, an acceleration of the digital transformation and increased concentration and decreased competition in those sectors that have been more affected by the lockdowns, such as retail, hospitality and travel. As a result of these effects, country differences may increase in both the economic and the social dimensions.

The fallout of the COVID-19 pandemic threatens to pose an existential challenge to the EU's cohesion and legitimacy. For this reason, and while the level of uncertainty is still very high, it is of utmost importance to try to understand what shape the recovery will take and what the implications for economic and social convergence will be in the EU.

Lessons from the past: Pandemics as drivers of divergence

The study of the consequences of previous pandemics offers important insights into governments' reactions to the coronavirus outbreak and what can be expected in the medium-term future. COVID-19 is not the first pandemic to hit Europe. Over the centuries, European countries have suffered outbreaks of infectious diseases. Pandemics such as the Black Death and Spanish flu not only claimed millions of lives but had far-reaching consequences. They have helped drive scientific and social progress and have contributed to reshaping economic development and the global

geopolitical balance of power for centuries, as countries that have better handled the crisis gained an advantage over others.

Although the COVID-19 pandemic is still unfolding, and a comparison with past pandemics should be made with caution, the history of plagues offers an opportunity to reflect upon the nature of these shocks and to understand the restrictive measures taken today (Alfani, 2020).

The pandemics that had the largest number of victims were the plague and the Spanish flu. Justinian's Plague of 540–541 AD is estimated to have killed 25–50 million people in Europe and the Mediterranean region. The Black Death of 1347–1352, which had up to 50 million victims in the same areas, killed between 35% and 60% of the European population. In terms of magnitude, the Black Death was worse than the Spanish flu of 1918–1920, which had more than 2.5 million victims in Europe, corresponding to the deaths of around 1% of the population in Europe (Ansart et al, 2009).

The implementation of restrictive measures, such as the confinements and lockdowns during the COVID-19 crisis, are not new and trace back to those pandemics. The Black Death, caused by the bacterium *Yersinia pestis*, originated in Central Asia and found its way to Messina, Sicily, in 1347. While it spread to other parts of Europe, Italy remained the area most affected by the Black Death (Alfani, 2010). In an attempt to control the plague, Italian cities gave health authorities emergency powers. They established 40-day confinement periods and built barricades to limit the movement of people and goods. The plague justified top-down measures to mitigate the negative impact on the population and the economy, and shaped the relationship between states and citizens for centuries. Given the strong responses provided, it is perceived that the COVID-19 pandemic has the potential to be a similar catalyst for new relations between governments and individuals (Credit Suisse Research Institute, 2020).

While the short-term consequences of the Black Death were undoubtedly negative, with the devastation of human life and the end of trade activities, many narratives also underline the positive effects emerging in the long run. These include, for example, the reorganisation of agrarian production with greater efficiency and a significant increase in real wages. Recent research has also established a considerable reduction in economic and wealth inequalities among various population groups following the Black Death.

Despite these positive effects, the Black Death is also considered to be the cause of long-run divergence between western Europe and East Asia, as well as within Europe and the Mediterranean region. In this regard, the economic shock caused by the pandemic proved to be asymmetric because of different pre-existing conditions. In particular, in areas that were relatively underpopulated, such as Ireland, Spain and eastern Europe, the Black Death set economies on a lower path of development, destroying the equilibrium between scarce populations and abundant resources upon which a prosperous trade-oriented 'frontier economy' had been built. As a consequence, the pre-plague levels in per capita income were not recovered before the late 16th century (Alfani, 2020).

Furthermore, the asymmetric effect of large-scale pandemics and the potential for strong economic divergence patterns is further confirmed when looking at the 17th century, when Europe was affected by the worst plague epidemic since Justinian's Plague and the Black Death. In that case, Italy was severely struck, while north-western Europe continued to develop, shaping the subsequent path of economic development. Italy was hit hard at the worst possible moment in economic terms, as the Italian economies were facing intense competition from the north of Europe. As a consequence, the plague of the 17th century placed some of the most advanced European economies, such as Italy, on a lower development path and hence caused the 'Little Divergence' between northern and southern Europe (Alfani, 2013).

In recent history, the most devastating disease outbreak was the worldwide Spanish flu outbreak in 1918 and 1919, which claimed at least 2.5 million lives in Europe, corresponding to 1% of the European population. To combat it, governments implemented unprecedented measures, such as the closure of places of entertainment, schools and public transport. Moreover, masks were distributed and people were ordered to stay at home. Although it was primarily World War I that ended the first era of globalisation in the industrialised world, historians argue that the Spanish flu may well have loosened the increasing economic ties among nations and hence caused economic divergence.

Similar considerations have been suggested with regard to COVID-19 – even if it does not reverse globalisation, it may come to be seen as having changed the nature of globalisation and as a catalyst of a new concept of work.

In conclusion, while disease outbreaks have preoccupied communities for centuries, they have also shaped the balance of power, across the world and in Europe, for centuries to come. Similarly, it is felt that the COVID-19 crisis could redefine the geopolitical balance of power, as countries that have better handled the

crisis gain an advantage over others. Understanding these dynamics is very important in the EU among Member States that are willing to stay together as part of a single project in which divergence is seen as a possible centrifugal force that may undermine the stability of the Union (Credit Suisse Research Institute, 2020).

Against this background, this chapter will discuss what the future may hold for European economies and labour markets, and if the pandemic could result in further divergence, as happened after the 2008 crisis. The evidence collected in this chapter is part of a forward-looking exercise that involved Eurofound stakeholders and academic experts and that was carried out in May 2021.

Potential impact of COVID-19 on divergence

Given the lessons from the past, the fallout of the COVID-19 pandemic threatens to pose an existential challenge to the EU's cohesion and legitimacy. Future economic and social developments in the EU are highly uncertain while the pandemic is still ongoing, and predicting the future is an impossible exercise.

Even before the COVID-19 crisis, rapid technological change, growing economic interdependence and mounting political instability made forecasting the future increasingly difficult. With the pandemic still developing, uncertainty about the future increased exponentially. When situations lack past analogies, it is hard to envisage the future and, with health developments that have been changing almost daily, 'retro-foresight' (predicting the future using data from the past) became impossible. Furthermore, the lack of statistical data made data-based predictions unreliable, especially with regard to the lack of robust information about economic or labour market developments.

The current situation has been described as follows: 'the tyranny of the present is supreme' (Scobolic, 2020). However, when decisions taken now may have ramifications for years to come, strategic and scenario foresight may be seen as a way to link current decisions to future outcomes.

According to the economist Michel Godet, strategic foresight is the art of 'shedding light on current action in view of possible and desirable futures' (Godet, 2011). The use of the plural form – desirable futures – clearly indicates that foresight is not intended to issue any predictions whatsoever, but rather is intended to explore changes, if not disruptions, that might transform economies and other parts of society. Therefore, while forecasting the future is impossible, scenario thinking and foresight can help in understanding these economic and social developments and their implications for convergence in the EU.

Along these lines, and in order to explore possible futures and assess their level of plausibility, in May 2021, Eurofound designed the forward-looking exercise entitled ‘The world after COVID-19: Implications for economic and social convergence in the EU’. This exercise was addressed to Eurofound stakeholders, namely the European Commission, governments, employers and trade union representatives from the 27 Member States, as well as academic experts.

The aim of the exercise was to envisage the future of the EU in terms of health conditions and economic recovery (more broadly) and in terms of employment and living conditions (more specifically), to understand how these future trends can affect economic and social convergence. The exercise was organised through online data collection and the questionnaire was composed of a mix of 44 open-ended and numerical questions. The questionnaire was organised in four main sections. First, the respondents were asked to express expectations in terms of *health* scenarios that might be plausible in November 2021. Then, bearing these scenarios in mind, the participants were invited to describe their views on *economic, employment* and *social implications* for the EU in the next three years.

A total of 36 Eurofound stakeholders participated in the exercise. Results were weighted to ensure that the four groups were equally represented. Finally, a qualitative version of the questionnaire was distributed to eight academic experts for a more in-depth interview.

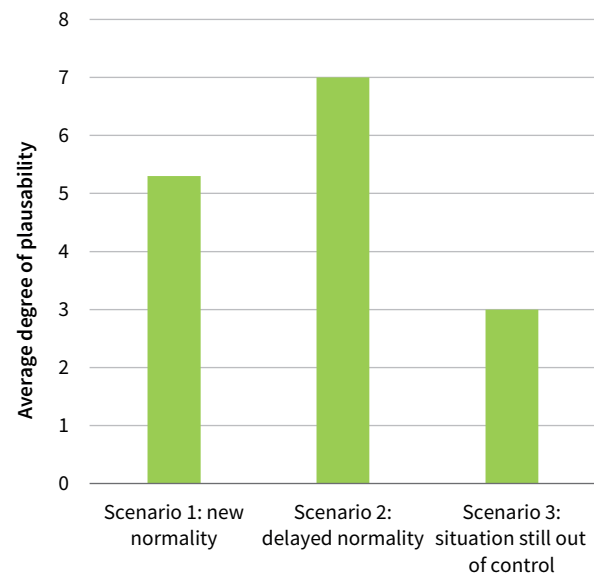
Health recovery scenario

There is unanimous agreement among these experts that the shape that the economic recovery will take in Europe depends strictly on how the health crisis is contained.

In May 2021, when this exercise was fielded, vaccination campaigns had successfully begun in the EU; however, there was great uncertainty regarding their outcomes. At that time, the EU was experiencing a delay in administering vaccines in comparison with the United Kingdom, Israel, the United States and some East Asian countries. Furthermore, the safety of the vaccines was under discussion, with rare side-effects of the inoculations emerging and vaccination hesitancy increasing among Europeans. Finally, there were doubts regarding the efficacy of the vaccines against new variants of the virus, raising further concerns on the ever-changing health environment. On this basis, it remained uncertain if COVID-19 would be fully controlled in the EU by autumn 2021.

Given these circumstances, and assigning a mark from 0 to 10 for the degree of plausibility, the experts were asked to imagine three possible health recovery

Figure 67: Degree of plausibility (on a scale of 1–10) of the health recovery scenarios as assessed by Eurofound experts



Source: Eurofound, 2021e

scenarios that could be observed at the end of 2021. The results are shown in Figure 67.

- New normality:** The COVID-19 health crisis has shaken EU societies, but it is met with increasingly effective health systems and policy responses. After a slow start, vaccinations are rolled out efficiently and the incidence of COVID-19 is massively reduced, allowing EU societies to fully reopen by November 2021.
- Delayed normality:** Despite efforts and some successes, the delays accumulated in rolling out the vaccines do not allow the EU to catch up with other developed countries. The safety of the vaccines is sometimes questioned, and this is eroding the trust that certain people have in institutions and science. Furthermore, the emergence of new variants is limiting efforts to eradicate the virus. Booster inoculations are necessary, as are localised containment measures. The virus is not fully eradicated by November 2021, leading to a delayed but controlled return to normality in the first months of 2022.
- Situation still out of control:** Owing to the surge of new variants against which vaccines are not effective, the COVID-19 pandemic becomes a very prolonged crisis. By November 2021, waves of the disease affect the EU and the world generally more than anyone was prepared for. Restrictions become the norm and, given the mounting deaths, social unrest and economic freefall take hold.

The experts agreed to a certain extent in terms of their expectations of the future health recovery scenario. Most of them felt that a delayed return to normality was the most likely scenario, with this scenario having an average degree of plausibility of 7 out of 10. A full return to a new normality in autumn 2021 had an average score of 5.3 out of 10 in terms of plausibility, and the situation being still out of control had an average score of only 3 out of 10.

This expectation of the future health recovery scenario is the result of steady progress in the vaccination rollout and the efficacy of the available vaccines against virus variants. Progress in the vaccination programmes indicates that herd immunity may be possible by Q4 2021. New vaccines becoming available in Q3 2021 and current research into combining different vaccine types may provide more reason for optimism.

However, the experts agreed that any delays in the vaccination campaign could jeopardise this progress. For this reason, booster jabs may also be required, given the view that the virus will continue to occur in some form or other on an ongoing basis. The surge of the delta variant has created concerns and therefore the continued practice of hygiene measures, such as wearing masks in public spaces, could assist with a return to work.

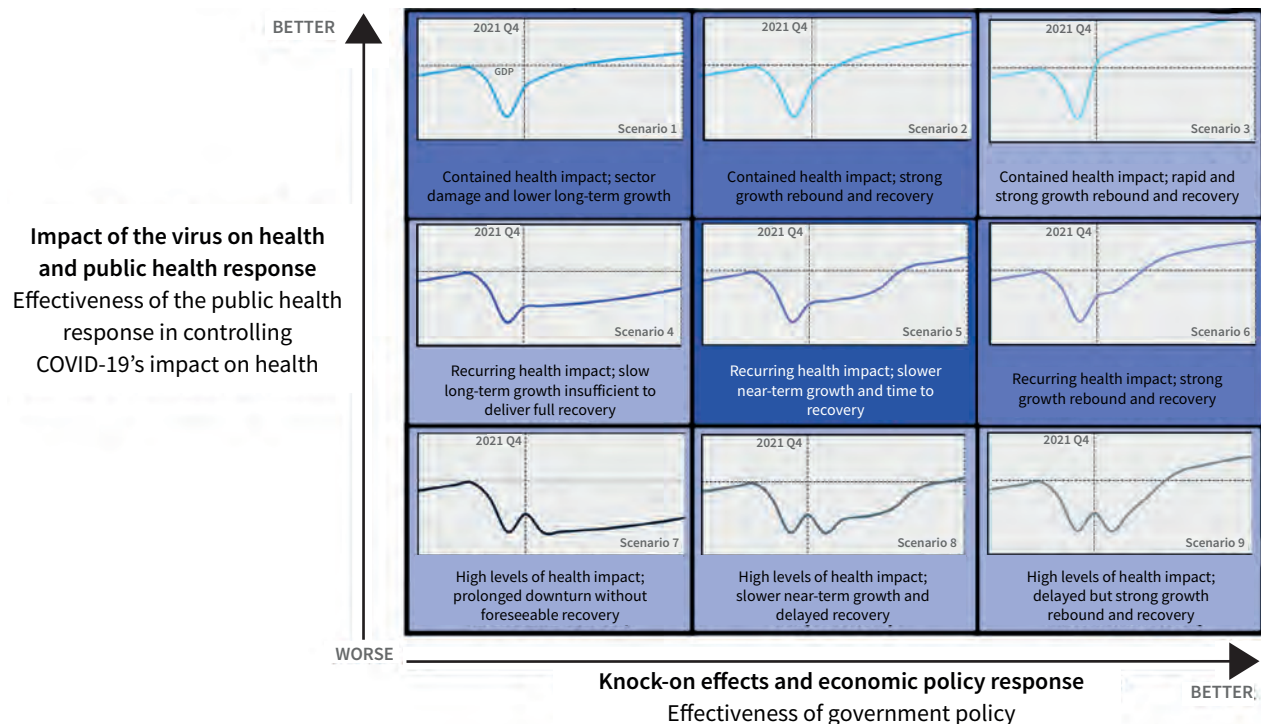
Furthermore, while health systems have been reinforced almost everywhere and European societies are now more prepared to react to further health crises, the surge of vaccine hesitancy is an issue that is likely to persist and may undermine efforts to reach herd immunity. The first signs of this have been seen in the United States (The Guardian, 2021). Although most EU citizens trust the vaccines, differing proportions of vaccine hesitancy across countries will impede the coordination of the reopening of societies, with knock-on effects on economic recovery across the EU.

Likely shape of economic recovery

Economic recovery is linked to the health impact of COVID-19 and the economy risks being affected for a long time by the pandemic. The possible economic recovery scenarios are illustrated in Figure 68.

Owing to the developments in the health scenario and the related uncertainty, the experts felt that the most likely scenario (30 out of 100) for the future economic recovery would be a recurring health impact accompanied by slower near-term growth and slower recovery. Growth is expected to accelerate in the first half of 2022, with GDP returning to pre-crisis levels (Q4 2019) in Q4 2022. The experts also expect that recurrences of the virus’s adverse health impacts will be

Figure 68: Possible economic recovery scenarios



Note: The shades of blue indicate the likelihood of the scenarios – the darker the shade, the more likely the scenario.

Source: Adapted from McKinsey & Company, 2021; Eurofound, 2021e

largely controlled by the end of 2021 owing to vaccinations and the effective public health response, and that this will allow economic growth as consumers and businesses revert to pre-pandemic levels of activity.

However, the experts were also somewhat optimistic that two more positive scenarios accompanied by a contained health impact and a quicker recovery might be possible (scenarios 1 and 2, which scored 19 and 17 out of 100, respectively).

As Kristalina Georgieva, the Managing Director of the International Monetary Fund (IMF), said, ‘vaccine policy is economic policy’ (IMF, 2021). Therefore, to fully contain the health impact and thus achieve a quicker recovery, swift progress on the vaccine rollout is key. For this reason, it is considered vital that vaccination be incentivised to overcome vaccine hesitancy.

However, in economic terms, the impact of the pandemic is so profound that many of the experts believe that supportive fiscal and monetary policies are likely to be required for some time. Recovery and resilience plans being implemented in the Member States may not have an immediate effect, and governments will need to continue to support vulnerable workers and businesses. The discontinuation of short-term state support may mean that some companies cannot continue trading, with a consequent increase in unemployment. However, strategically sound investment could boost growth; the phasing out of support will therefore need to be carefully planned to minimise the likelihood of business failures. While fiscal consolidation measures may be required from 2023, strong public and private spending will help to ensure that GDP levels return close to pre-pandemic levels relatively soon.

Economic convergence in the aftermath of COVID-19

While all countries have been heavily affected by the pandemic, different strategies for controlling the virus and different lengths of the various lockdowns have been implemented by governments in an attempt to control COVID-19. According to the experts, economic convergence in the EU will depend on when economies will fully reopen. As, in the future, local and targeted measures could be put in place, special attention should be given to regional and within-country convergence, going beyond the national level. The economic impact of the crisis will differ between countries, but also within countries and between regions.

Furthermore, the COVID-19 pandemic is a sectoral crisis. Although some signs of recovery are already visible, the ongoing impact on sectors such as tourism and aviation could result in long-term structural changes. Furthermore, the need for structural changes in some Member States to successfully implement the

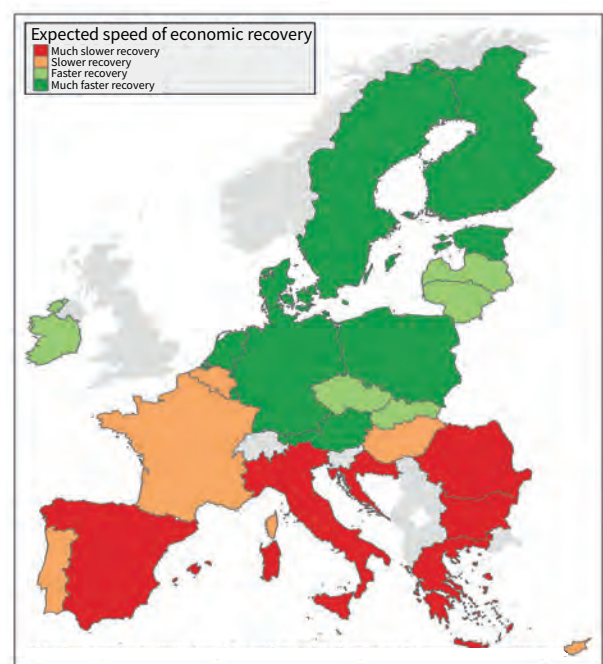
transition to digitalisation and to a new type of green economy may affect their capacity to implement recovery plans and redistribute resources within society, therefore possibly creating disparities among Member States and individuals.

As a result of these concerns, the experts indicated that it may take two to three years for the EU to return to the same GDP levels as in 2019; however, a marked north-south divide in this economic recovery can be expected.

Overall, the experts believe that eastern and northern European Member States will be less affected by the crisis and are likely to recover quicker than southern Member States, given the slower recovery following the 2008–2013 economic crisis and the higher reliance on the tourism sector in the latter countries. Countries where services represent a higher proportion of GDP and those with more industrial economies may experience a faster recovery; this could also be the case in countries where progress has been made on the digital transition or countries that have a high level of resources, and those with higher pre-COVID-19 rates of telework.

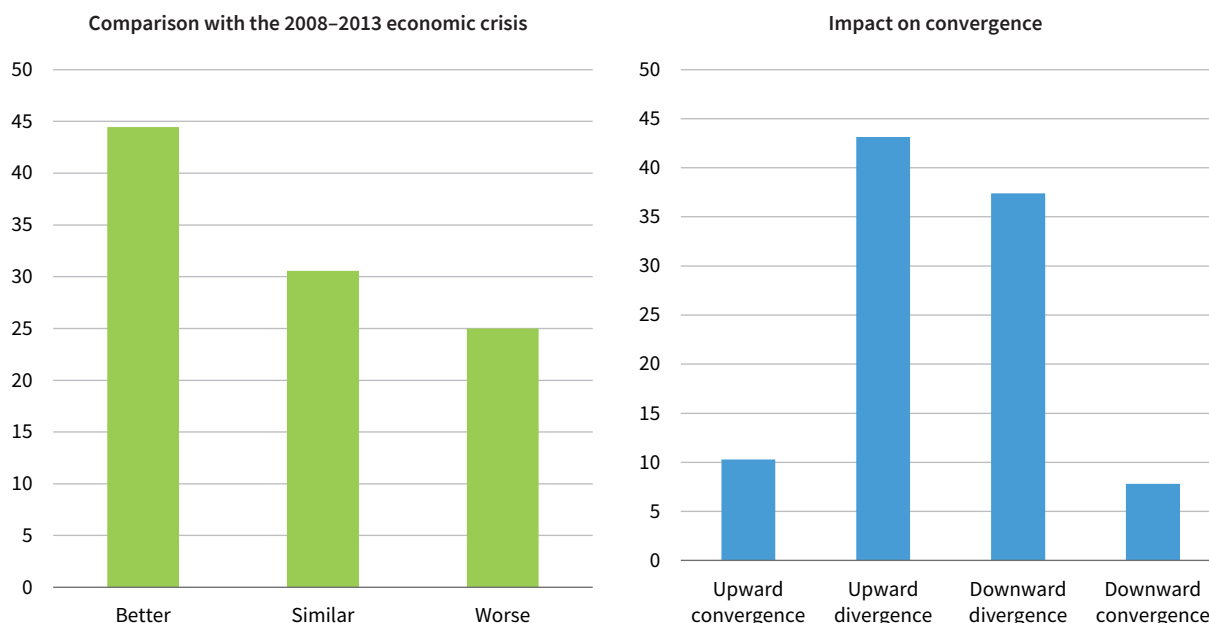
Furthermore, not all Member States will have the same capacity to transition to the new model digital economy. The expected speed of economic recovery in each of the Member States is illustrated in Figure 69. The Nordic countries are more advanced in terms of digital transition and innovation, so a quicker return to 2019 levels of growth is likely in those countries. On the other hand, among the southern European countries,

Figure 69: Expected speed of economic recovery, EU27



Source: Eurofound, 2021e

Figure 70: Experts' opinions on the expected economic crisis triggered by the COVID-19 pandemic (on a scale of 0–100)



Source: Eurofound, 2021e

although some are already making the transition to a digital and green economy, others are not so advanced. A return to 2019 levels of growth is therefore likely to take longer in those countries – potentially in 2023 or later. The economic model in the continental cluster of countries (defined on p. 103 of this report) is more traditional and based on production, which may bring challenges in adapting to a new digital economy. Finally, the growth potential of most eastern and central European Member States remains strong, with growth rates expected to remain above the EU average in the near future.

Finally, the level of public debt relative to GDP is above the EU average in southern European Member States and more fiscal consolidation will be needed, which will restrict growth prospects in the future. According to the experts, the premature tightening of fiscal and monetary policy in the euro zone would push back the recovery in such countries. The optimal timing for tightening any such measures should depend on analysis of macroeconomic developments and core–periphery dynamics in 2023–2024.

Owing to these concerns and the expected asymmetric impact of the crisis, upward economic divergence is the scenario that is most likely to be seen in three years from now (Figure 70). However, owing to the strong

policy response, this divergence trend is expected to be less pronounced than that recorded during the 2008–2013 economic crisis and only a quarter of the experts believe that the situation will be worse than in that crisis.

For this reason, the experts suggest that the EU should consider implementing measures to avoid excessive divergence. In this regard, the NextGenerationEU and other EU recovery funds, although somewhat limited, have the potential to prevent divergence, especially given the possible availability of lower cost financing.

However, the measures may not be equally effective in all Member States. Among the experts, there is a perceived lack of willingness to implement growth-enhancing reforms, coupled with a concern that an overly short-term perspective will be taken, which may not address the full consequences of the pandemic. However, the impact of the COVID-19 crisis on some sectors may not be as extensive as during the 2008–2013 economic crisis, resulting in less need for extensive restructuring to return to pre-COVID-19 activity levels. The impact will depend on ongoing adequate EU responses to economic and social problems. Financial policies should be aligned with economic and social priorities, maintaining the general escape clause of the EU fiscal framework for as long as necessary.

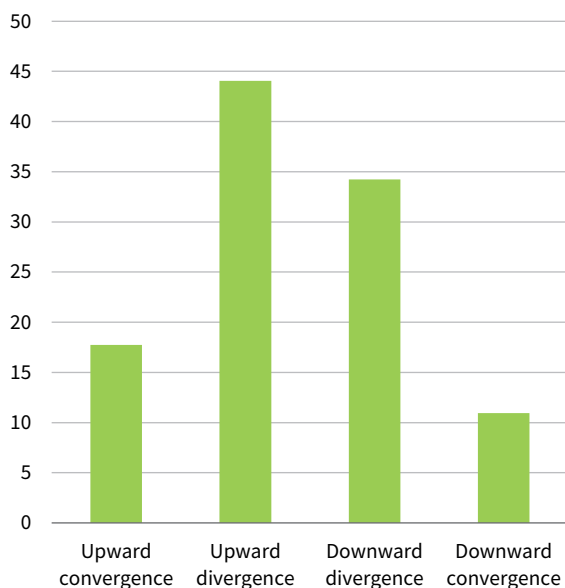
Impact on employment and the labour market

As discussed previously in this report, it is well known that transforming economic convergence into social convergence is not easy. One of the lessons of the 2008 crisis was that short periods of economic divergence may cause persistent patterns of social divergence across EU Member States and regions.

According to the experts, a possible decrease in employment participation might be recorded in 2021, with employment growth consolidated in the years to follow and with working hours that will quickly revert to the 2019 level.

However, this recovery might not be the same for all Member States and the most likely scenario in the next three years is one of upward divergence in the employment rate with different levels of growth in the various Member States (Figure 71).

Figure 71: Experts’ opinions on the expected impact of the COVID-19 pandemic on convergence in employment (on a scale of 0–100)



Source: Eurofound, 2021e

Employment growth is driven primarily by economic growth and thus the cross-country differences in economic growth during the recovery are likely to translate into similar cross-country differences in employment growth. It will take time to overcome the disruption caused by the COVID-19 pandemic and the resulting fragmentation of the European labour market and, therefore, a post-COVID-19 job-rich recovery is unlikely. However, in contrast to the 2008 crisis, the

prompt action taken by the EU to mitigate the employment consequences of the pandemic may indicate that a jobless recovery will not be as great a concern as during the previous crisis.

The experts believe that the main drivers of the expected divergence in employment are the strong sectoral nature of the COVID-19 crisis on the labour market, as well as the digital and green transition. For this reason, countries experiencing a quicker economic recovery may see a quicker surge in employment.

With this possible geographical divergence, inequalities among various population groups may also increase. The growth in temporary/part-time contracts could create greater flexibility for employers but more insecurity among some groups of workers, especially young people and women. Not all low-skilled jobs will survive, creating difficulties for less well-educated people and deepening unemployment among lower skilled workers owing to the skills mismatch. A post-pandemic change in migration and intra-EU flows may be expected, which would also have significant implications for the workforce. Conversely, growth in new sectors will result in demand for new knowledge and qualifications. Some Member States are better equipped to deal with new forms of work in terms of digital infrastructure or investment in high value-adding education. Problems experienced by young people entering the labour market in finding (often precarious) employment are likely to maintain youth unemployment at a high level in the near future.

Telework will have a lasting impact on the labour market and on the structure of the economy. In this regard, the experts believe that more regulation may be needed to protect workers, especially in an era of hybrid forms of work.

Furthermore, geopolitical challenges may create difficulties in maintaining employment in the global post-COVID-19 landscape, and developments in Europe will also depend on the situation outside the EU. This global dimension is even more important as the recovery is expected to lead to a transition to a more green and sustainable economy, using the opportunities offered by digitalisation and robotisation, whose developments have been accelerated during the pandemic.

Finally, while the impact of automation on the number of jobs is uncertain, the possible surge in jobs linked to digitalisation merits close examination in terms of job quality. The push towards the digitalisation and platformisation of employment in some sectors may not lead to long-term job satisfaction and the normalisation of working conditions within the platform economy should be a priority, as should the creation of better quality jobs outside this sector.

Sectoral dimension of the crisis and implications for convergence

As previously mentioned, there is widespread agreement that different sectors will recover at different rates and longer lasting structural problems are more likely in the sectors hardest hit by the COVID-19 crisis. As sectoral distribution differs across economies, employment outcomes will also be different between EU Member States, thereby creating possible divergence in the coming years. Convergence prospects are likely to remain limited in the southern European Member States owing to their reliance on the tourism and entertainment sectors. Weaker economic growth in these countries will reduce the likelihood of upward employment convergence.

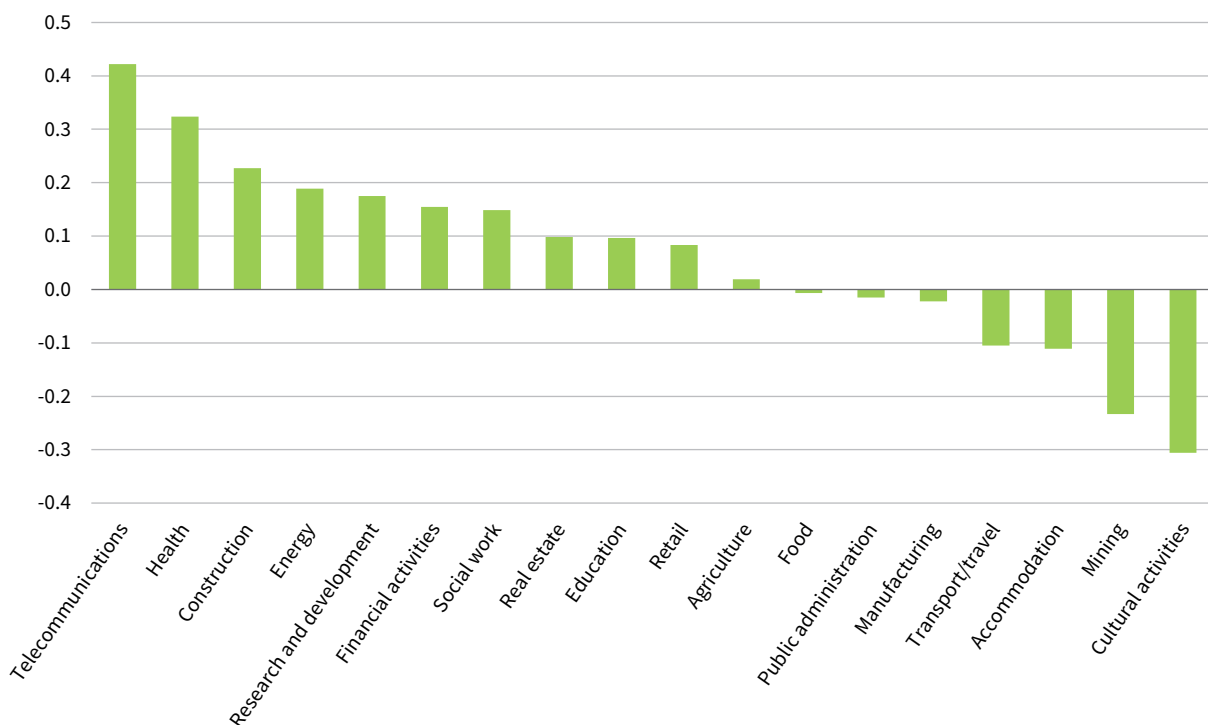
In 2020, the information and communications technology (ICT) sector experienced a boom, owing to increased digitalisation and teleworking. Real estate activities, agriculture, financial and insurance activities, and most public sector activities hardly suffered. In contrast, deeper contraction characterised construction, manufacturing and professional, scientific, technical and administrative activities, but these sectors also quickly rebounded by the end of 2020, even if they have not yet reached pre-pandemic levels of activity. The hardest hit sectors, which were still suffering from major losses at the end of 2020, were arts, entertainment, recreation, trade, travel, accommodation and related businesses.

The experts believe that ICT and those sectors linked to digitalisation will remain the clear winners in the aftermath of the pandemic (Figure 72). The sectors providing essential services have benefited most from the pandemic, followed by those that maintained activity through a move to online sales and those at the forefront of the pandemic, such as healthcare and pharmaceuticals, in which higher investment can be seen. There will be increased activity in the healthcare sector, as medical and healthcare services that were postponed during the crisis will soon restart. The sectors that were affected by closures or restrictions (hospitality, recreation and travel) suffered the most, but, although they will recover, as the lifting of restrictions allows increased mobility, it is unlikely they will perform better than the ICT or manufacturing sectors, nor will they fully recover, given their reliance on close contact and the possibility of further restrictions due to occasional or localised outbreaks of infection. These sectors are likely to require support and restructuring following the pandemic.

According to some experts, the rail and health sectors, which have suffered from a lack of investment in recent decades, may experience a benefit from the shift towards resilience in economic models. Developing rail and health infrastructures may require more EU-level coordination and investment than in the past.

Recovery in the tourism and aviation sectors may be slow in the medium term, with strong competition in

Figure 72: Experts’ opinions on the speed of recovery in different economic sectors (on a scale from -1 to 1)



Source: Eurofound, 2021e

the aviation industry likely to keep profitability at low levels. Consumer confidence may remain low, even when vaccination passports are in place. Furthermore, the business travel sector may be permanently affected owing to the success of online meetings. For these reasons, the aviation sector is likely to take longer to return to pre-pandemic levels and this will have repercussions for employment in the travel and related sectors in the years to come.

Potential structural changes in the labour market as drivers of divergence

According to the experts, the pandemic has accelerated structural changes in the labour market. The surge in teleworking is likely to continue, albeit at a lower level than during the pandemic. Although remote working has benefits (more flexible working hours and more opportunities for gender convergence in access to managerial jobs), there are also disadvantages (the increased sense of isolation and more digital control of workers). Some of the experts are concerned that in countries with weaker trade unions and social dialogue structures, increased digitalisation could contribute to controlling workers rather than helping them.

A rise in telework could lead to increased employment, insofar as geography would not be a barrier to employment and more people could take up part-time jobs. It could also lead to a restructuring of working time distribution and the possibility of general working time reductions. However, among the experts interviewed, there was overall agreement that the flexibilisation associated with telework could lead to a blurring of the boundary between work and personal time, which could become a major issue that would need to be addressed. A hybrid model combining both remote and present work could be a solution, but is likely to require new legislation to regulate this model as well as the right to disconnect.

In occupations where telework was not an option (agricultural workers, craft and related occupations, plant and machine operators and assembly workers) and where recovery might be slower, unemployed workers will need to reskill to seek employment in other sectors.

Regarding platform work, comparative studies reveal that it is increasing everywhere, albeit in different forms. This type of self-employment is highly insecure, as demand is unpredictable and workers in this type of occupation are often not covered by traditional social protection systems. According to some of the experts, the effect on social cohesion and convergence will depend on how Member States develop additional social protection systems to respond to the needs of new platform workers or on how existing systems can deal with the decline in job quality.

Efficiency gains in workflows and processes due to accelerated adoption and improvement of digital technologies in many sectors could lead to improved labour productivity but could increase cross-EU divergence due to differences in sectoral composition in EU economies. The pandemic could also accelerate the mechanisation process in service industries involving routine tasks. The higher risks of infection in the hospitality sector could provide a rationale for the replacement of workers with mechanised systems to limit human contact. Countries more reliant on tourism and hospitality sectors are likely to experience more job losses.

Some experts believe that small firms that lack liquidity and access to credit markets may not survive the long period of inactivity. This will accelerate the trend of concentration towards larger firms across industries, which will have a negative impact on workers, as such firms tend to pay more to owners and investors than to workers.

On a more positive note, some experts suggest that, owing to this structural change, the pandemic could push Europe towards a more uniform European labour model. The European Commission's spring 2021 targets for employment envisage a 78% employment rate by 2030, supported by increased lifelong learning opportunities and a modest reduction in poverty and social exclusion.

Possible increase in unemployment and implications for public employment services

As shown in the previous chapter, the implementation of employment protection mechanisms has meant that the unemployment rate in the EU was not as high as expected and should return to normal in tandem with the economy. However, when COVID-19-related financial support ends, the participants in this forward-looking exercise consider that it is quite likely that there will be a surge in unemployment. According to them, this surge may start in 2022 and may take around three years to be fully reabsorbed.

Most of the experts agree that it is likely that unemployment will hit different population groups in different ways. In particular, migrants, young people, women, casual and platform workers, single parents and those with lower education levels or who are already unemployed are more at risk of unemployment following the pandemic. This could also include self-employed people who have lost their businesses. Those who work in sectors that have been hit hardest by the pandemic may also find it more difficult to maintain or regain employment. With the move towards the twin green and digital transition, lower skilled or older workers may not have the skills needed. Furthermore, jobs that can easily be automated may be at risk and so those workers would need to be reskilled as well.

According to the experts, it is likely that public employment services will be faced with serious challenges following the COVID-19 crisis, in terms of both the number of jobseekers and the need for a reskilling strategy to ensure employability in a significantly changed labour market landscape. While there was already evidence of job polarisation before the crisis, the pandemic has exacerbated the gaps and created a need to upskill and reskill lower and medium-earning workers.

The acceleration of the digitalisation process and the changes in working habits and conditions call for a strategy that prioritises the acquisition of digital skills and the transferability of these skills across sectors. This will require a long-term plan for access to education and training for workers while still maintaining sufficient financial support to allow them time to acquire these skills.

According to the experts, priority should be given to preparing workers:

- for the digital transition, in particular task delivery and e-commerce
- for the green revolution and shift to sustainable production
- in the education sector, for e-learning/blended teaching methods
- in the public sector, for the transition to digital public administration

The experts noted that training needs and opportunities will differ greatly between Member States, as well as between different population groups. Increasing the coverage of lifelong learning to 60% of the workforce, as the European Commission envisages in the European Pillar of Social Rights Action Plan headline targets for 2030, will require more investment in institutional capacity. Public employment services should be linked with vocational training and lifelong learning institutions to increase the effectiveness of their actions. Peer learning and the transfer of well-functioning models should continue to be facilitated.

Some experts suggest that making continued financial support conditional on completing skills training could be a policy option. The EU and Member States could liaise with business associations to assess the demand for different occupations and provide training opportunities and apprenticeships, while putting in place high-level agreements with universities and online course providers to ensure affordable or free access for unemployed workers to these resources, linked to financial support. Special emphasis could be placed on qualifications for occupations that contribute to tackling climate change.

Apart from the sectoral dimension, public employment service institutions should also develop an age-focused approach, in cooperation with regional social partners, to create employment strategies for people over the age of 50, while still considering the integration of young people and other vulnerable groups. Public employment services play a pivotal role in well-functioning labour markets. Reinforcing these networks can prevent unnecessary damage to the economy and employees and can facilitate the transition to a more uniform European labour model.

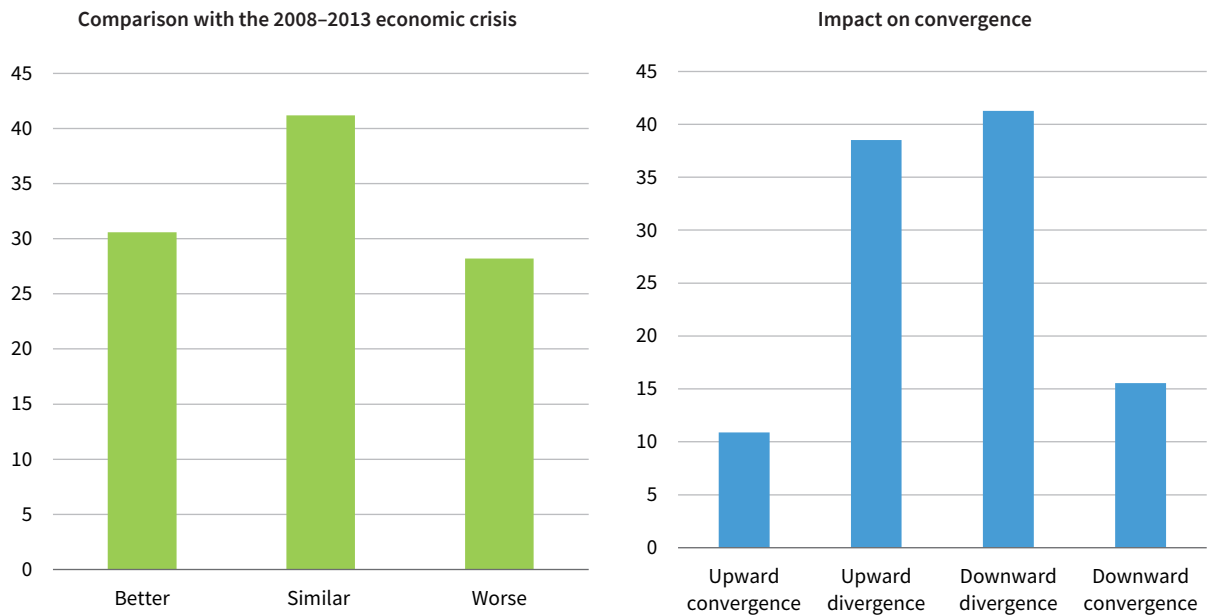
Implications of the COVID-19 crisis for convergence in living conditions

The political orientation of national governments in Europe in tackling the economic crisis and its implications for the labour market will greatly affect trends in poverty and social exclusion. Some governments have already implemented effective policies during the crisis to protect jobs and incomes, and to address the gender dimension in the labour market. Other governments have provided sectoral support, but have not strengthened social support, which will have repercussions on exclusion and deprivation, especially for poorer social groups.

There is widespread agreement among the experts that the structural changes caused by the COVID-19 pandemic may have long-term effects on living conditions, and new policies will need to be designed to assist with deteriorating living conditions and increases in relative poverty that cannot be corrected in the short term. Research indicates that downward divergence in poverty rates is likely to affect relatively poorer countries more. Recovery may be more difficult for countries more reliant on cross-border trade and tourism and remittances from the migrant workforce. This differing impact across countries and regions will need to be taken into account for the distribution of EU funding.

According to the experts, the effect on divergence in living conditions will be similar to that recorded during the 2008–2013 economic crisis (Figure 73). A spike in poverty is likely to be observed during the immediate aftermath of the COVID-19 crisis. As expected, the experts believe that not all countries will be affected in the same way, but the same pattern already seen for economic and employment convergence will also be seen for convergence in living conditions. However, with a more pessimistic view than that of economic and employment convergence, the experts believe that, in the next three years, downward divergence will be observed in living conditions (Figure 73).

Figure 73: Experts’ opinions on the expected impact of the COVID-19 pandemic on living conditions (on a scale of 0–100)



Source: Eurofound, 2021e

The negative impacts on living conditions have been unevenly distributed across EU countries and regions. The greater impact on some countries owing to their sectoral composition means that supranational policies will need to combine the acquisition of flexible skills with investment in productive and resilient sectors, which may be underrepresented in these countries. On the positive side, from 2021 onwards, the positive growth outlook in central and eastern European countries could contribute to a reduction in overall EU poverty, with a return to the pre-pandemic trend towards poverty reduction in the coming years.

Expected surge in multidimensional inequalities

According to the participants, inequalities are expected to rise in several areas.

As a result of the sectoral nature of the crisis, income inequality is likely to increase both within and across EU Member States. According to the experts, the proportion of workers experiencing income loss and exclusion from employment is likely to increase over the coming years owing to the possible surge in unemployment. This could imply significant costs for European Member States in terms of public finance sustainability and lost productivity, although economies with lower levels of public debt will be better able to minimise the negative effects of exclusion from employment.

Telework is a factor, with fewer teleworkable occupations for lower educated workers in factories and in the tourism, catering and entertainment sectors. Income inequality is likely to increase for workers in these occupations, especially if financial support is removed before a return to pre-pandemic employment levels.

The gap between the top earners and the lower and middle-income earners is widening, with the concentration of wealth and capital increasing. According to the experts, the number of jobs for workers with third-level education increased during the pandemic, while those for lower educated workers decreased. Lower paid workers are more likely to experience unemployment and decreased savings than higher paid workers. Higher educated workers have a greater earning capacity, which also increases inequalities, especially if unemployment is increasing for those with a lower educational level.

There is wide agreement among the experts that gender equality remains a major concern in Europe. This issue has been brought to the forefront by the pandemic, with differing impacts on women and men. School closures have resulted in increased childcare responsibilities and increased unpaid hours for women, who have also been affected by the care burden and higher levels of unemployment.

There is evidence of educational and digital divides in terms of access to online educational tools and benefits in terms of family support, which is more difficult for poorer families. Educational inequalities will have the greatest impact on children from poorer households,

who have spent less time on schoolwork during school closures. Disadvantages resulting from these inequalities will persist for some time, with important consequences for children's future prospects.

Age-related inequality may also become an issue, particularly for younger people who have had difficulties accessing the labour market over the past year and have been more affected by job loss than older people. Income and wealth also correlate strongly with age.

The pandemic has also highlighted existing health inequalities between richer and poorer segments of society, with the living conditions of poorer households leading to worse health outcomes. Healthcare cuts, already evident in southern and continental European countries, risk creating further inequalities in the medium to long term.

Unfortunately, there are concerns among the experts that the increased inequalities over the past year are unlikely to be reversed soon. Countries with better economic growth outlooks and smaller increases in inequalities may see faster reductions in inequalities in the coming years. Redistributive fiscal policy will be key to tackling inequality and a strong focus needs to be placed on the progressivity of European fiscal systems.

Finally, the pandemic has highlighted the issue of digital inequality. Public innovation and investment are vital for digital equality standards, but the current emphasis on private actors in driving the digital revolution risks increasing inequality, rather than addressing it.

European initiatives for preventing uneven economic and social impacts

There is widespread agreement among the experts that the EU initiatives that have been put in place are a good policy response to the challenges ahead.

The Recovery and Resilience Facility is a core component of targeting poverty and inequality in the EU. Focusing on investments and reforms seems like the right approach to take when tackling structural disparities within and between Member States. However, short-term support for those workers and households most affected will be necessary to prevent poverty and enable them to move into activities not affected in the post-pandemic world. This is not explicitly mentioned in the recovery programme and the EU should coordinate and oversee support policies that are part of a comprehensive approach to economic recovery.

To improve post-pandemic convergence, as part of the allocation of funding between and within countries, the sectoral composition should be considered, given the greater impact on some sectors and regions.

According to the experts, the EU4Health programme is a strong and timely EU policy initiative. Universal access to quality public healthcare should be a key feature in the EU, and standards of quality (such as medical staff/facilities per capita and waiting lists) should be established and adequately funded. This would be a driver of convergence in the medium and long term. A more global view of how to tackle the pandemic and the establishment of explicit goals for aid and medical supplies, particularly vaccines, was missing during the early phase of the pandemic, and this may have had economic implications.

NextGenerationEU

There is widespread consensus among the experts that the key objectives in the NextGenerationEU package are in line with the goal of addressing the divergence patterns caused by the economic and social impacts of the pandemic. Convergence between EU Member States will depend on the degree of alignment of national recovery plans with the EU-level vision. The prioritisation of policies with a European perspective could help to reverse the inequalities created by the crisis.

NextGenerationEU provides capital to Member States for expenditure in traditional EU policy areas such as education and training, with a specific focus on the digital transition and innovation. However, given its focus on supporting the private sector, there is concern among the experts that it will not automatically have a strongly positive effect on social convergence. The tool does not make explicit use of the European Pillar of Social Rights and its application within the European Semester is not clear. The specific EU instruments to limit social divergence are not clear; one solution could be a relaunched European Social Fund for structural reforms.

According to the experts, the proper implementation of NextGenerationEU spending is crucial for relaunching Europe and limiting divergence. Some Member States will have to spend larger amounts of EU funding than in previous years, although absorbing such funding has been a problem in the past. Another important aspect is additionality.⁶ For investments planned before the pandemic, NextGenerationEU only changes the source of finance, from national taxes to EU-borrowed money, which might not boost growth and jobs. However, if NextGenerationEU investment is additional to existing plans, there is the potential to boost growth and jobs.

⁶ Additionality is one of the principles governing the European Structural and Investment Funds. It stipulates that the financial allocations from the Structural and Investment Funds may not result in a reduction of national structural expenditure, but should be in addition to national public spending.

Instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)

SURE is potentially useful, as it is the first instrument of its kind to offer social policy support directly at EU level. However, some of the experts felt that, although it offers cheaper borrowing and thereby saves interest costs, the fact that it is offered through loans could risk increasing debt dependency in target countries in the eastern and southern periphery and possibly risk reinforcing divergence, similar to what happened during the 2008–2013 economic crisis.

While SURE was extremely important in the first part of the COVID-19 crisis, the instrument could also go some way towards dealing with unemployment in the short term, for example through unemployment reinsurance that could help workers who are unemployed for a considerable time. This could initially be an extension to SURE, which would make it an automatic stabiliser at EU level.

Role of Member State initiatives

According to the experts, significant and country-specific reforms will be required in many countries. The effect of reforms is likely to vary from country to country because of differences in education and other welfare services, as well as the strength of public finances. A true and effective social dimension in the EU will prove decisive, primarily (but not only) through the implementation of the European Pillar of Social Rights.

Among the suggested reforms and policy initiatives were:

- the maintenance of income and employment support measures, including for self-employed people and micro, small and medium-sized enterprises
- increased social protection, including additional funding for health services
- improved social benefits, including targeted measures for vulnerable groups
- minimum income/wage policies, short-time work schemes and effective active labour market policies
- access to high-quality jobs through education and training, including vocational training and apprenticeships and upskilling/reskilling for workers vulnerable to the digital divide
- the implementation of a European right to lifelong training
- access to digital technology for all
- the adaptation of labour law and occupational health and safety measures to changes in the post-COVID-19 world of work, and the implementation of measures to improve conditions for essential workers (many of whom are female)
- direct support and well-targeted employment measures
- public employment schemes
- social economy initiatives
- tax reform with lower taxation on labour and higher taxation on capital (business and private) and climate change-related taxes

Member States' initiatives and the national Recovery and Resilience Facility implementation plans will play a key role in shaping the aftermath of the crisis. The EU institutions can play an advisory role for Member States to help limit within-country social inequalities by fostering progress in line with the European Pillar of Social Rights and including more social recommendations in the European Semester process.

5 Conclusions and future research

Eurofound's strategic objective for the programming period 2017–2020 was 'to provide scientifically sound, unbiased, timely and policy-relevant knowledge that contributes to better informed policies for upward convergence of living and working conditions in Europe'. To achieve this strategic objective and to support policymakers in addressing possible diverging trends, Eurofound designed a new area of intervention entitled 'Monitoring convergence in the European Union'.

In this multiannual activity designed for the period 2017–2020, Eurofound produced several analyses and methodological works. For the first time, it mathematically defined the concept of upward convergence (Eurofound, 2018a), developed a methodological toolkit to measure upward convergence (Eurofound, 2020d) and monitored upward convergence among EU countries and regions in a wide range of policy areas linked to the European Pillar of Social Rights (Eurofound 2018a, 2018b, 2019a, 2019c, 2019d, 2020c, 2020d, 2021f, 2021g; Eurofound and EIGE, 2021).

While Eurofound will also continue to monitor trends and investigate the drivers of upward convergence in its current work programme entitled 'Towards recovery and resilience', this report builds on and extends previous work by analysing economic and social convergence from the 2008–2013 economic crisis to the COVID-19 crisis. It investigates the first impacts of the pandemic on economic and social convergence and discusses the future implications for convergence in the EU.

Importance of upward convergence

Upward convergence is a very technical concept that can be difficult to explain to a general audience. However, the concept of upward convergence epitomises the purpose of the EU. Member States and their citizens sign up to be part of the Union, as they expect their membership will lead to balanced economic prosperity and social progress across countries. If upward convergence does not happen and economic growth and social progress are uneven across Member States, EU membership will cease to be seen as a win-win scenario and support for the EU will deteriorate, allowing for disintegration trends to set in.

Given the importance of the concept of upward convergence for the stability and sustainability of the EU, the EU and its Member States should always embrace the logic of economic and social upward convergence at the very core of their policy action.

This is even more important in times of crisis. In the context of the COVID-19 pandemic and in view of the digital and green transition, it is of utmost importance that the mistakes of 2008 are not repeated, and convergence, especially in the social component, is placed at the centre of European initiatives.

2008–2013 economic crisis: Downward divergence and uneven legacy

While the World Bank defined the EU as the modern world's 'convergence machine' – given its capacity to propel poorer and newer Member States towards becoming high-income economies – the 2008–2013 economic crisis put this 'machine' on hold by exerting an asymmetric impact on Member States. Economic convergence slowed down and divergence patterns in the social dimension emerged across countries and regions.

While economic indicators returned to upward convergence fairly quickly after the initial impact of the crisis, the effect on social indicators was more long-lasting and unequal. Employment- and poverty-related indicators, in particular, exhibited a pattern of downward divergence, mostly in 2008–2013 (in line with the business cycle), and returned to upward convergence only during the subsequent recovery phase, in 2014–2019. By 2019, pre-crisis levels were restored (or even exceeded) in most indicators and Europe was on the path to upward convergence again.

However, the recent positive trends in upward convergence in the EU should not overshadow the geographical divergence that occurred during the crisis and that exacerbated deep fault lines between countries and regions: southern European regions fell further behind in many economic and social indicators, while regions in central and eastern Europe managed to catch up with the best performers in the west. This shift from the east to the south left some regions consistently behind on all dimensions of convergence.

These trends in economic, social and institutional convergence depend on multiple underpinning factors that ultimately favour or hinder the catch-up process between EU countries. Taking the specific example of employment, convergence is speeded up when there are boosts in population growth, when countries have higher outputs or higher collective bargaining coverage, and when they spend more on active labour market policies. Conversely, Member States converge at a slower pace in cases of hikes in labour productivity, mounting public debt and more generous expenditures

on unemployment benefits. Identifying the drivers of convergence in a specific area is thus crucial for understanding the process in depth, as this sheds light on the underlying determinants that help countries to catch up with each other or, alternatively, that hamper the process.

Links between economic and social upward convergence and the role of institutional quality

One of the main insights gained from the 2008–2013 economic crisis was a broader understanding of the deep interlinkages between economic and social convergence. While the founding fathers of the European project were convinced that social convergence would arise spontaneously through economic convergence (Vandenbroucke, 2017a), the 2008–2013 economic crisis revealed the fundamental limitations of this belief. Following the crisis, and this valuable and strong paradigm shift, it was broadly accepted by policymakers that economic and social convergence should go hand in hand. Important policy initiatives, such as the European Pillar of Social Rights, were therefore launched. The aim of the Pillar, the most significant EU social initiative in decades, is to act as a compass for economic and social convergence.

This paradigm shift and the resulting initiatives, such as the European Pillar of Social Rights and its Action Plan, are of utmost importance for ensuring that upward convergence is at the centre of European and Member States' actions. However, the question of how divergence could be prevented and how economic convergence could be successfully translated into social convergence remains complex and unclear.

More recently, it was suggested that the ability to successfully translate economic into social convergence probably lies in a good institutional dimension. In this regard, Landesmann and Székely (2021) showed the importance of convergence in institutional quality for strengthening economic and social convergence. According to their framework, institutional convergence provides the way to achieve economic convergence (the 'means') and, moreover, to transform it into social convergence, which ultimately constitutes the 'ends' of policymaking.

The links between these three dimensions are of course complex and difficult to establish and the strengths of these links can change over time and may also be affected by other factors. For example, there may be periods when a lack of institutional convergence has only a mild (if any) impact on economic convergence, while in other periods it could have a rapid and strongly negative impact on both the economic and social dimensions. Conversely, there may also be times when improvements in institutional quality do not lead to

similar improvements in the economic and social spheres.

Following this framework and looking at the period 2008–2019, the significant absence of upward convergence in institutional quality among EU Member States should be a major cause for concern. There are deep fault lines between the countries where citizens report high institutional quality and those that are lagging behind. In the east, potential improvements in institutional quality could support the transformation of the impressive economic catch-up process into sustainable social convergence. In the south, convergence towards the best performers in institutional quality could help to kickstart a renewed convergence process in those countries falling behind in the economic and social dimensions following the uneven impact of the 2008–2013 economic crisis.

Short-term impact of COVID-19

The period 2008–2019 left behind a mixed picture of recently restored upward convergence trends in the economic and social dimensions. Not all countries were affected in the same way by the economic crisis and the strength of the recovery was not the same among countries and regions or among different population groups.

In the absence of a substantial catch-up process in institutional quality and with the geographically uneven legacy of the economic crisis, the EU sailed into the next storm at the beginning of 2020. The COVID-19 pandemic came as an extraordinary health crisis, but it caused an unprecedented economic downturn in a time of peace and brought the risk of triggering a devastating and uneven social fallout, with substantial divergence trends among Member States and regions.

This report has shown that the pandemic has indeed caused a setback for the EU after six years of uninterrupted growth and substantial recovery in the labour market and living conditions. The pandemic put the EU behind in achieving the 2030 targets set out in the Action Plan of the European Pillar of Social Rights. It had a strong but uneven impact on economic convergence between Member States. Southern European Member States, in particular, which were already struggling after the previous economic crisis, suffered the largest reductions in GDP per capita in 2020. However, the policy reaction of the EU and national governments to the pandemic was different from that to the 2008–2013 economic crisis. Governments used policy tools (such as short-time work and furlough schemes) to preserve as much employment as possible and to mitigate the social impact that was so devastating and uneven in the previous economic crisis. This report's preliminary analysis of the immediate impact of the pandemic

shows that surges in unemployment were indeed lower and less unequal than in the previous crisis (in some cases, unemployment even declined). Although the pandemic has upended upward convergence trends in poverty, the analysis suggests that a larger divergence in unemployment was avoided, particularly thanks to key measures such as SURE, which was used particularly by countries in southern, central and eastern Europe to protect employees' jobs and to help those who were self-employed and faced income losses.

However, the EU has not yet weathered this storm and the risk remains that the downward divergence in the economic dimension will translate into substantial downward divergence in the social dimension – especially as government support mechanisms are phased out and given the potential for an unequal recovery from the pandemic in the future.

Aftermath of the pandemic and the future

While a direct comparison with the COVID-19 pandemic is difficult, previous plagues, such as the Black Death and the 17th century plague, triggered economic and social divergence among European countries and contributed to a reshaping of the geopolitical balance of power at the global level. A similar effect was also seen following the Spanish flu of 1918–1920. Although it occurred in the aftermath of World War I, historians agree that it contributed to the loosening of economic ties among nations and hence caused economic divergence.

Although the implications of the COVID-19 crisis at the European and global levels are hard to predict at this stage while the pandemic is still unfolding and some countries are struggling to complete their vaccination programmes, it is of utmost importance that convergence, or preventing divergence, is at the very core of the policy action of the EU and its Member States.

The pattern of economic and social recovery and of the associated convergence will depend strongly on when economies and societies fully reopen. In this regard, as was stated by the IMF Chief Kristalina Georgieva, 'vaccine policy is economic policy' (IMF, 2021). In other words, there is not a single more important recovery policy in Europe than ensuring the even rollout of vaccination in all countries and regions, irrespective of income level.

Given the sectoral nature of the crisis, once the vaccination programmes are successfully rolled out, the recovery will largely depend on the capacity of Member States to support adjustment and new jobs, as well as the quick and successful implementation of national recovery and resilience plans. A crucial element that will

also affect the speed of the recovery, and hence convergence, is how ready countries are for the digital and green transition.

On this basis, the speed of the recovery might be uneven across different Member States; countries are likely to be split across a north-east/south-west axis, and this will have inevitable implications for possible divergence in employment and poverty. In particular, several clusters of countries that have similar dynamics in terms of recovery can be identified.

- **Nordic cluster:** Sweden in particular, but also other Nordic countries, kept businesses open when elsewhere they were closed. Except for periods of lockdown, these countries did not experience the same economic effects as other Member States. Furthermore, they are at the forefront of the digital transition and innovation and are thus likely to return to 2019 levels of growth earlier than other countries.
- **Southern European cluster:** These countries have been particularly affected by the pandemic and the related closure of businesses. Moreover, their economies are strongly dependent on tourism and their recovery plans seem very ambitious. Some of these countries were already making a transition to a digital economy (Portugal and Spain), while others (Greece and Italy) will have to undergo a more profound transition. These Member States are likely to return to 2019 levels much later than the Nordic countries.
- **Eastern European/Baltic cluster:** These countries were particularly affected by the second wave of the pandemic. They are potentially equipped to make the economic transition required for recovery, but they also face internal issues in the implementation of public spending plans owing to possible institutional quality issues. The capacity of these countries to return to 2019 levels will strongly depend on the successful implementation of their public investment plans.
- **Continental cluster:** These countries were also significantly affected by the pandemic, although not as strongly as southern European countries. Their economic model is more traditional and based on production, so they might face more challenges than other countries in adapting to a new digital economy. The vaccine rollout in some of these countries has not always been efficient and quick. These Member States might face a slower return to 2019 levels, given their difficulties in transitioning to new economic models, although their high-quality institutions may act as accelerators of recovery.

Role of EU and Member State initiatives to ensure convergence

Since the beginning of the COVID-19 pandemic, the response of the EU and its Member States has been extraordinary. The European Central Bank's pandemic emergency purchase programme, the activation of the escape clause and the support provided through the stability and support programme, as well as the funds available through the Recovery and Resilience Facility, represented an unprecedented effort to lessen the economic and social impacts of the crisis across Member States.

This strong policy response implemented by the EU and its Member States has limited the surge of economic and social divergence among Member States during the pandemic. Nevertheless, there are questions and concerns regarding what may happen in the near and long-term future when this support is withdrawn.

The activation of the general escape clause in the Stability and Growth Pact has relieved pressure on countries already subject to public spending cuts and its deactivation should be carefully considered to limit divergence. A state-dependent, rather than a time-dependent, approach to its deactivation would help to avoid the same consequences as those of the 2008–2013 economic crisis and a surge of new and deeper social divergence patterns.

The NextGenerationEU programme, centred around the Recovery and Resilience Facility, is a landmark instrument in the history of the EU. The initiative provides capital to Member States for expenditure in traditional EU policy areas such as education and training, with a specific focus on the digital transition, greening and innovation. The key objectives in the NextGenerationEU package align with the goal of addressing the divergence patterns caused by the economic and social impacts of the pandemic. While its focus on supporting the private sector means that it will play an important role in preventing or limiting divergence, it might be insufficient for generating sustainable social convergence.

For this reason, the correct implementation of the NextGenerationEU plans is crucial. Convergence between EU Member States will depend on the degree of alignment of national recovery plans with the EU-level vision, and the willingness of governments to focus on supranational priorities. An inward-looking focus would jeopardise upward convergence dynamics in the EU. The prioritisation of policies with a European perspective could help to reverse the inequalities created by the COVID-19 crisis and, in this regard, overall EU-level coordination will be essential.

The Recovery and Resilience Facility is a core component of targeting poverty and inequality. Focusing on investments and reforms seems like the right approach to take when tackling structural disparities within and between Member States in the long run. However, short-term support for those workers and households most affected will be necessary to prevent poverty and to enable them to move into activities not affected in the post-pandemic world.

To extend and strengthen the European policy response in the aftermath of the COVID-19 crisis, an unemployment reinsurance scheme was also indicated as a possible objective by the von der Leyen Commission. Although SURE will go some way towards dealing with unemployment in the short term, by saving jobs and hence protecting workers and their employment, unemployment reinsurance helps workers who are unemployed for a considerable time.

Finally, additional policy innovations that could support social convergence include introducing instruments to address issues of pay, precarity and in-work poverty, which affect a large number of workers; offering expanded instruments of structural reform (such as a renewed European Social Fund for public innovation); and refocusing the concentration of economic resources from the top segment of capital earners to the general workforce, as spreading the creation of wealth could be an important factor in tackling the surge in inequalities.

All of Eurofound's ongoing and future work on convergence can be found on the Eurofound website at www.eurofound.europa.eu.

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All Eurofound publications are available at www.eurofound.europa.eu

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Annex: Regression tables

Table A1: Drivers of employment in the EU (panel analysis)

Employment rate drivers	Model 1	Model 2	Model 3	Model 4
Population growth	1.731***	1.641***	1.855***	1.931***
GDP per capita	0.536***	0.559***	0.551***	0.497***
Collective bargaining	0.020***	0.020***	0.032***	0.017**
Public debt	-0.025***	-0.023***	-0.013***	-0.008*
Labour productivity	-0.298***	-0.311***	-0.298***	-0.314***
Active labour market policies		0.006**	0.010***	0.011***
Unemployment expenditures			-0.020***	-0.020***
Guaranteed minimum income				-0.037***
Constant	0.285**	0.115	0.156	0.935***
Number of countries	27	27	27	26
Observations	405	378	351	327
R-squared between	0.234	0.222	0.229	0.311
R-squared within	0.836	0.847	0.844	0.855
Country fixed effects	Yes	Yes	Yes	Yes

Note: Statistical significance is indicated at a 99% (***), 95% (**) and 90% (*) confidence interval.
Source: Eurostat, OECD, AIAS and authors' calculations

Table A2: Drivers of employment growth in the EU (panel analysis)

Employment growth rate drivers	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Employment rate (year $t-1$)	-0.258***	-0.512***	-0.542***	-0.507***	-0.515***	-0.102***
Population growth	0.545***	0.545**	0.513**	0.587***	0.646***	
GDP per capita	0.096***	0.328***	0.362***	0.345***	0.337***	
Collective bargaining	-0.004	0.006	0.006*	0.020***	0.023***	
Public debt	-0.012***	-0.015***	-0.014***	0.002	0.005	
Labour productivity		-0.191***	-0.207***	-0.184***	-0.185***	
Active labour market policies			0.004	0.010***	0.010***	
Unemployment expenditures				-0.030***	-0.032***	
Guaranteed minimum income					-0.004	
Constant	0.208**	-0.178*	-0.325***	-0.360***	-0.235	0.432***

Base: west and north

South – 2002						0.006
South – 2003						0.008
South – 2004						0.007
South – 2005						-0.005
South – 2006						0.003
South – 2007						-0.006
South – 2008						-0.004
South – 2009						-0.008
South – 2010						-0.006

Employment growth rate drivers	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>Base: west and north</i>						
South – 2011						-0.021*
South – 2012						-0.035***
South – 2013						-0.026**
South – 2014						0.003
South – 2015						0.007
South – 2016						0.008
South – 2017						0.011
South – 2018						0.011
South – 2019						0.006
Centre and east – 2002						0.011
Centre and east – 2003						0.025**
Centre and east – 2004						0.020**
Centre and east – 2005						0.020**
Centre and east – 2006						0.028***
Centre and east – 2007						0.024**
Centre and east – 2008						0.021**
Centre and east – 2009						-0.006
Centre and east – 2010						-0.006
Centre and east – 2011						0.013
Centre and east – 2012						0.018*
Centre and east – 2013						0.017*
Centre and east – 2014						0.032***
Centre and east – 2015						0.034***
Centre and east – 2016						0.027***
Centre and east – 2017						0.036***
Centre and east – 2018						0.026***
Centre and east – 2019						0.025**
Number of countries	27	27	27	27	26	27
Observations	513	405	378	351	327	513
R-squared between	0.225	0.309	0.287	0.233	0.095	0.298
R-squared within	0.219	0.489	0.541	0.663	0.689	0.488
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects						Yes

Note: Statistical significance is indicated at a 99% (***), 95% (**) and 90% (*) confidence interval.

Source: Eurostat, OECD, AIAS and authors' calculations

Table A3: Impact of unemployment changes on GDP per capita (regression coefficients), EU27, 2000–2019

Country	Constant	Unemployment change
Austria	1.083	-1.708***
Belgium	0.936	-0.573
Bulgaria	4.034	-0.626*
Croatia	1.624	-1.385***
Cyprus	1.298	-1.690***
Czechia	1.963	-1.915***
Denmark	0.922	-1.747***
Estonia	3.122	-1.809***
Finland	0.563	-3.255***
France	0.684	-1.422***
Germany	0.732	-1.691***
Greece	0.600	-1.339***
Hungary	2.572	-1.444**
Ireland	3.396	-2.214***
Italy	-0.082	-1.661***
Latvia	4.150	-1.768***
Lithuania	4.602	-1.628***
Luxembourg	1.074	-0.786
Malta	2.182	-2.207
Netherlands	1.000	-1.238***
Poland	3.255	-0.772***
Portugal	0.887	-1.104***
Romania	3.876	-1.622
Slovakia	2.951	-1.345***
Slovenia	1.813	-2.713***
Spain	0.881	-0.827***
Sweden	1.523	-1.511**

Note: Statistical significance is indicated at a 99.9% (***) , 95% (**) and 90% (*) confidence interval.

Source: Eurostat and authors' calculations

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Upward convergence lies at the heart of the EU project. Member States and their citizens sign up to be part of the Union, as they expect their membership will lead to balanced economic prosperity and social progress across countries. Increasing disparities between Member States, as happened during the 2008–2013 economic crisis, could be seen as a betrayal of the EU’s promise, and potentially lay the seeds for discontent and disintegration. This flagship report is the culmination of Eurofound’s research into monitoring convergence in the EU, which was initiated in 2017. It describes the shifting dynamics of upward convergence over the period 2008–2019, explores the short-term impact of COVID-19 on European economies and societies, together with its implications for convergence, and discusses the long-term effects of the pandemic and the future of upward economic and social convergence in Europe.

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