GAPS IN ECONOMIC DEVELOPMENT INTER AND INTRA EUROPEAN UNION STATES

Laura Diaconu (Maxim)*
Andrei Maxim†

Abstract: *Economic development is a subject that generates much controversy, mainly because of the widening gaps between poor and rich nations. In the present paper, we intend to identify and explain the differences that exist both between and within the European Union states, from an economic development point of view. In order to reach this objective, we have collected, analysed and interpreted information included in various statistical data bases, reports and year books. The results show that the development differences between EU economies are not so large, compared to the situation of the rest of the world. However, there are significant development gaps inside some EU states, especially from the South-East part of Europe and the Baltic countries.*

Keywords: economic development; Human Development Index; living standard; income distribution
JEL Classification: I31; O15

INTRODUCTION

The economic literature has largely debated the issue of economic growth inside the European Union states, trying to identify the factors, the consequences and also the trend of macroeconomic indicators. However, these indicators, which reflect the quantity of resources available in a society, do not offer any information about the way in which the resources are allocated (if there is an equitable distribution of income among social groups), about the share of funds used to provide free health and education services or about the consequences that production and consumption have on the environment. Therefore, it is explainable why countries with similar average incomes can be very different in terms of people's quality of life (i.e. access to education and health care, employment opportunities, available infrastructure, social cohesion, threat of crime and so on). These differences can be seen not only between nations but also among the regions of the same state, especially in the case of the developing countries.

Compared to the number of studies on the EU economic growth issues, the economic literature reflecting the development aspects of this region is less consistent. Moreover, most of the studies that

* Laura Diaconu (Maxim), Assistant Professor, PhD., Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania, email: dlaura_es@yahoo.com.
† Andrei Maxim, Assistant Professor, PhD., Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania, email: andrei.maxim@feaa.uaic.ro.

have analysed the economic development in the European Union were more focused on the gaps between states than on the differences that occur inside these countries.

Considering all these aspects, the present study focuses on the differences that exist not only between EU states but also inside them, by analysing the main determinants of these gaps. The article is structured into two main parts. In the first one we summarize the major ideas presented over the past years in the specialized literature regarding the concept of economic development. The second part is divided into two sections, in order to illustrate the development gaps between the EU states and their causes, as well as the differences between regions of the same countries.

1. THEORETICAL BACKGROUND REGARDING ECONOMIC DEVELOPMENT

The study of "economic development" is one of the most challenging branches of the economics' disciplines. Although there might be voices claiming that Adam Smith was the first "development economist" with his famous book "Wealth of Nations" (1776), the systematic investigation of the problems related to the process of economic development has begun only five to six decades ago. During this time, the "economic development" concept received many interpretations. Some economists used it to describe the process of increase in the income per capita and the fundamental changes in the economic structure (Meier and Rauch, 2005). However, these elements are primarily determinants of growth than of development. Others used simultaneously the terms of "economic development" and "growth", in order to define a single process, consisting of an increase in the national income, sometimes accompanied by structural changes (Maillet, 1976, p. 18). There are also analysts arguing that economic growth and development reflect an increasing amount of production capacity, production volume or economic potential (Lecaillon, 1972, p. 10).

The modern approach of economic development, which emerged in the 1970's, made a clear distinction between growth and development, arguing that the latter is defined in terms of economic welfare (Jain and Malhotra, 2009, p. 9).

In our opinion, the two concepts – "economic growth" and "economic development" – are fundamentally different. While the economic growth is a quantitative term, defining a rise in national or per capita income, the economic development is a qualitative concept that can be related, according to Fr. Perroux (1969), to all the changes in the mental structures and social behaviours of a population that enable it to increase its real global product. Considering this definition, we may see that development exceeds by far the economic performance, being a complex accumulation which includes not only the economic growth but also the crisis phases (Ignat, Pohoata, Lutac and Pascariu, 2002).

A report published in 1990 by United Nations emphasize the concept of "human development", measured by life expectancy, adult literacy, access to all three levels of education, as well as people's average income, considered to be a necessary condition of their freedom of choice. It is true that economic growth, by increasing a nation's global wealth, creates the proper context for reducing poverty and solving the social problems, but there are still cases when economic growth was not followed by similar progress in human development. A good example for this situation was brought in 2009 by two countries that had comparable income per capita: Hungary and Equatorial Guinea. Despite this similarity, the two countries were completely different from the point of view of human development: the life expectancy in Equatorial Guinea was 50 years while in Hungary was 74 years and the percentage of primary school enrolment was considerable higher in Hungary (approximately 90%) compared to Equatorial Guinea (50%) (Perkins, Radelet, Lindauer and Block, 2013, p. 14).

Considering these aspects, it is clear why economic growth, in order to be sustainable, must be accompanied by human development, which brings improvements in workers' knowledge and skills together with opportunities for their efficient use. Development is also accompanied by important shifts in the structure of the economy, as more people usually shift away from rural agricultural production to better paid urban jobs. According to Perkins, Radelet, Lindauer and Block (2013), economic growth without structural change is often an indicator of the fact that the income is concentrated in the hands of few people. Moreover, slow human development can reduce economic growth. According to *Human Development Report* (United Nations, 1996), during 1960–1992 no country with slow human development and rapid growth has succeeded in becoming a state where economic development and growth are mutually reinforcing.

In 1990, the United Nations established the Human Development Index (HDI), in order to quantify what was considered to be the essential determinants of human development. This index measures three important aspects of economic development: living a long and healthy life (estimated with the help of life expectancy), acquiring knowledge (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having access to the resources needed for a decent standard of living (measured by the income in purchasing power parity). As a response to the critics, the structure of HDI has been changed in time, by including different variables. Moreover, in 1995, in the Human Development Report, there were introduced two new measures of human development, in order to underline the status of women. One of them was the Gender-related Development Index (GDI), which reflects achievements in the same basic capabilities as HDI, but also accounts for the differences between women and men. The second one, the Gender Empowerment Measure (GEM), evaluates the evolution of women's standing in political and economic forums. Consequently, according to the United Nations' Report (1995), "while the GDI focuses on expansion of capabilities, the GEM is concerned with the use of those capabilities that allow taking advantages of the life opportunities".

However, these indicators – HDI, GDI and GEM – have their limitations. First of all, they are national indexes that do not take into consideration the disparity that exist within a nation, between ethnic groups or regions, for example. In order to overcome this drawback, an Inequality-adjusted HDI (IHDI) which takes into account the economic inequality from a society was introduced in the Human Development Report from 2010. Secondly, these indicators do not take into account some important aspects of development as, for example, the level of individual freedom. It is known that the economic and social freedom allows individuals to better cooperate and voluntary change goods, in order to increase their life quality. Moreover, as noted by Heyne, Boettke and Prychitko (2013), the economic development mainly depends on three aspects: people, resources and institutions. The first two elements – people and resources – cannot be directly and exclusively controlled by individuals. However, we can control the institutions that rule the way in which we interact with each other and the way we use the resources. That is why the fundamental institutions should be taken into account when analysing economic development.

In the next part of our study we intend to identify the level of economic development in the EU states and to investigate the causes of the differences that exist, from this point of view, both between and within these countries. The analysis is based on the theory of economic development which, according to Acemoglu (2010), examines the causes of poverty around the world and intends to design policies that could help individuals, regions and countries to achieve greater economic prosperity.

2. ECONOMIC DEVELOPMENT GAPS IN THE EU – TRENDS AND CAUSES

2.1. Economic development gaps between EU states

In order to evaluate the economic development of the European Union states and the differences that exist between them, we have firstly analysed the HDI values of these countries. According to the data offered by the Human Development Report for 2011, from a global perspective, there is little variation in HDI in the EU. Almost all EU member states are included in the category of countries with "very high human development", with the exception of Bulgaria and Romania which are in the group of "high human development" (according to the new methodology adopted in the 2010 Human Development Report). Moreover, due to the fact that literacy, school enrolment and life expectancy have high levels in Europe compared to the rest of the world, the HDI is closely correlated with the GDP per capita.

Table 1 shows the position of the 27 EU countries in 2011, according to their HDI values, and also the differences in ranking by Gross National Income (GNI) per capita and by HDI, which is reflected in the last column: GNI per capita rank minus HDI rank. A negative value of this column indicates that the country is better ranked by GNI than by HDI, which is the case of three EU states: Austria, Luxembourg and the United Kingdom. From the point of view of GNI per capita, the lowest level is attained in Romania, while the highest is in Luxembourg. In Romania, the low level of GNI per capita seems to be correlated to the HDI value, which placed this country on the penultimate position in the EU top.

We note that all the EU member countries have a HDI between 0.91 and 0.771, placing them between the 3rd and 55th position worldwide. The HDI average is 0.855, which allows EU to be considered a developed region.

Table 1 - Human Development Index for European Union states, in 2011

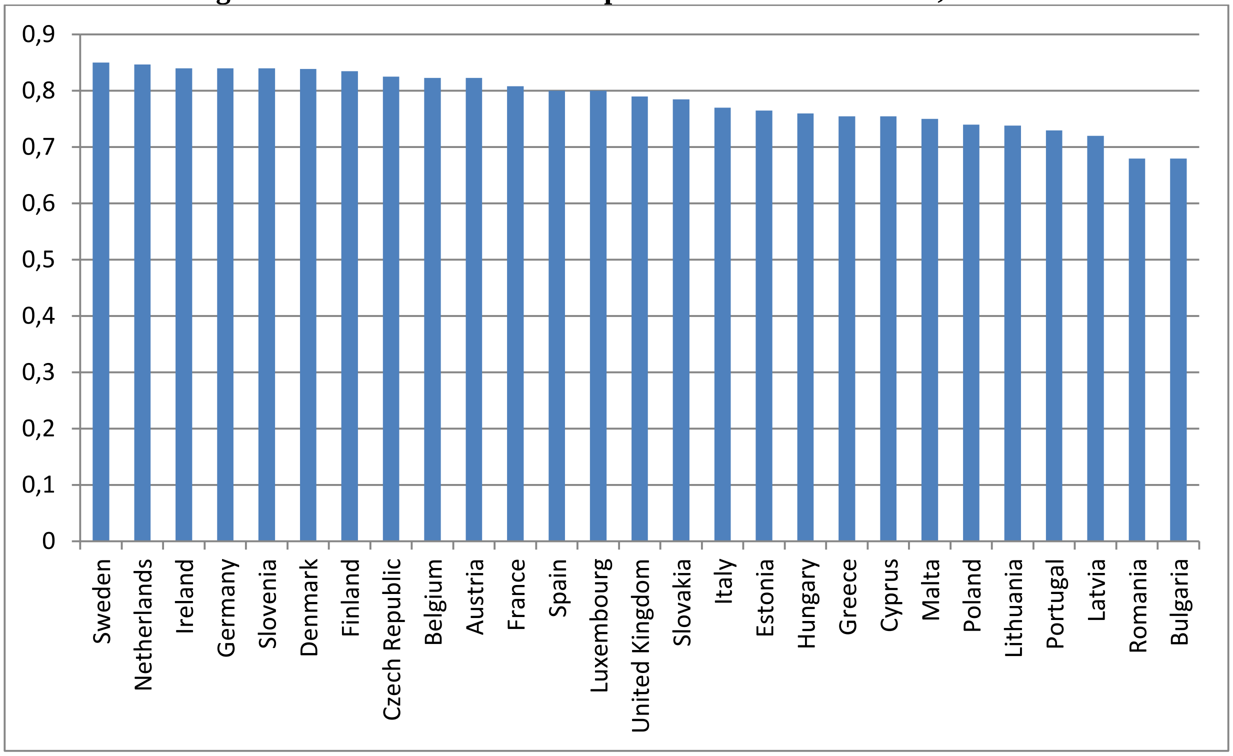
HDI rank	Country	HDI	Life expectancy at birth	Mean years of schooling	Gross National Income (GNI) per capita	GNI per capita rank minus HDI rank
3	Netherlands	0.910	80.7	11.6	36,402	9
7	Ireland	0.908	80.6	11.6	29,322	19
9	Germany	0.905	80.4	12.2	34,854	8
10	Sweden	0.904	81.4	11.7	35,837	4

16	Denmark	0.895	78.8	11.4	34,347	3
18	Belgium	0.886	80.0	10.9	33,357	2
19	Austria	0.885	80.9	10.8	35,719	–4
20	France	0.884	81.5	10.6	30,462	4
21	Slovenia	0.884	79.3	11.6	24,914	11
22	Finland	0.882	80.0	10.3	32,438	0
23	Spain	0.878	81.4	10.4	26,508	6
24	Italy	0.874	81.9	10.1	26,484	6
25	Luxembourg	0.867	80.0	10.1	50,557	–20
27	Czech Republic	0.865	77.7	12.3	21,405	14
28	United Kingdom	0.863	80.2	9.3	33,296	–7
29	Greece	0.861	79.9	10.1	23,747	5
31	Cyprus	0.840	79.6	9.8	24,841	2
34	Estonia	0.835	74.8	12	16,799	13
35	Slovakia	0.834	75.4	11.6	19,998	8
36	Malta	0.832	79.6	9.9	21,46	4
38	Hungary	0.816	74.4	11.1	16,581	11
39	Poland	0.813	76.1	10	17,451	7
40	Lithuania	0.810	72.2	10.9	16,234	10
41	Portugal	0.809	79.5	7.7	20,573	1
43	Latvia	0.805	73.3	11.5	14,293	12
50	Romania	0.781	74.0	10.4	11,046	20
55	Bulgaria	0.771	73.6	10.6	11,474	N/A

Source: Adapted from United Nations, *Human Development Report 2011*, http://hdr.undp.org/en/reports/global/hdr2011/

An analysis of the Gender-related Development Index (GDI) in 2011, shows that there were no remarkable differences between men and women in the 27 EU countries, from a human development point of view (Figure 1). However, we can notice that the highest gaps between men and women are in the two countries with the lowest HDI: Romania and Bulgaria. One possible explanation may be that the economic crisis has augmented these differences, since in 2007 the GDI in Romania and Bulgaria was closer to other EU states (the values being 0.812 and, respectively, 0.823) (United Nations, 2009).

Figure 1 - Gender-related Development Index for EU States, in 2011



Source: Adapted from United Nations, Human Development Report 2011, http://hdr.undp.org/en/reports/global/hdr2011/

By grouping the 27 EU states according to the date of entry into the Union, we can observe a relationship between the entry moment and their level of HDI. Romania and Bulgaria joined the Union in 2007 and they occupy the last positions in the ranking. Moreover, with the exception of Slovenia and the Czech Republic, the HDI for all the states that joined the EU in 2002 is below that of former members (excluding Portugal). The country with the highest HDI – Netherlands – is one of the founding countries of the EU. Starting from this correlation, we may find one possible explanation for the development gaps between the last entrants in EU and the first ones. The two states that joined EU in 2007 and most of the 2004 members remained under economic influence of the communist bloc for a long time. During this period, while the communist bloc was trying to keep countries isolated, the capitalist states were opened to the rest of the world and benefited from their market economies.

Following the collapse of the communist regimes, in many of these countries the catching-up process of Western European economies was very fast (for example in Czech Republic or Slovenia). For others, the geographical proximity to Russia, made it more difficult to completely eliminate the Soviet influence in a short period of time. That is why, in the Eastern societies, the transition process was longer and more difficult than in the other states. These countries are still focused on industry or agriculture, while in the Western societies the tertiary sector occupies a central position.

After the collapse of USSR, the former communist countries had to abandon the “sufficient development standard” that used to be promoted by their governments. As this was a first step towards economic development, these countries were considered to have a development delay.

The fundamental changes in the socio-economic and political environment allowed the former communist countries fulfil the conditions required in order to join the European Union, for some of them sooner than for the others. Therefore, considering that the last entrants have only recently fulfilled the adhesion criteria, it is explainable why they have the lowest HDI of all EU members.

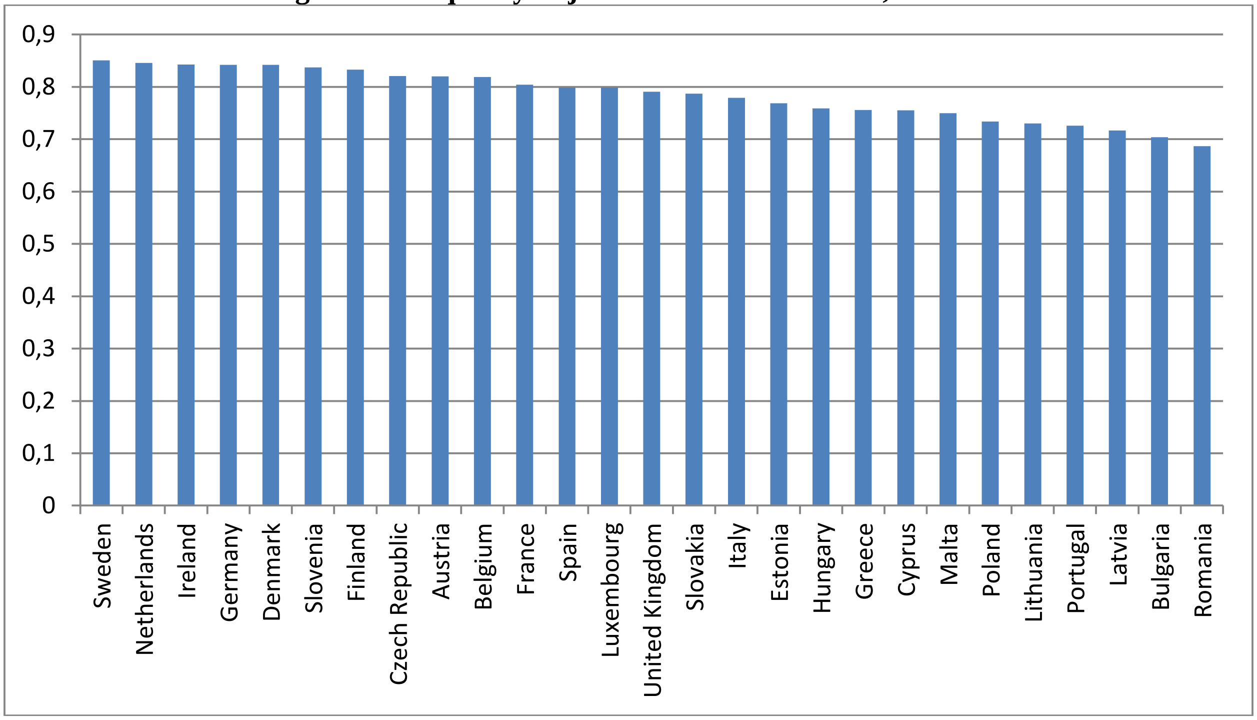
2.2. Economic development gaps inside EU states

Despite the high HDI scores in European Union, there are still significant differences within individual EU countries and regions in terms of human development and poverty. For example, in 2010 low education attainment in European regions ranged from 3.3% to 81.4% (considering the population aged between 25 and 64 years old), while the healthy life expectancy ranged between 52 and 78 years (European Commission, 2010).

In order to analyse the inequalities that exist inside a society from the human development point of view, the 2010 United Nations’ Report introduced the Inequality-adjusted HDI (IHDI). This indicator measures the level of human development of people in a society and takes into account inequalities in terms of distribution of health, education and income. Therefore, while IHDI reflects the actual level of human development, taking into account the inequality, HDI can be regarded as an index of the **potential** human development that can be achieved only *if* there is no inequality inside a society.

According to the data offered by the 2011 Human Development Report, it can be noted that in almost all the 27 EU states there are development inequalities between regions, but the largest ones are, again, in Romania and Bulgaria (see Figure 2).

Figure 2 - Inequality-adjusted HDI for EU States, in 2011



Source: Adapted from United Nations, *Human Development Report 2011*, http://hdr.undp.org/en/reports/global/hdr2011/

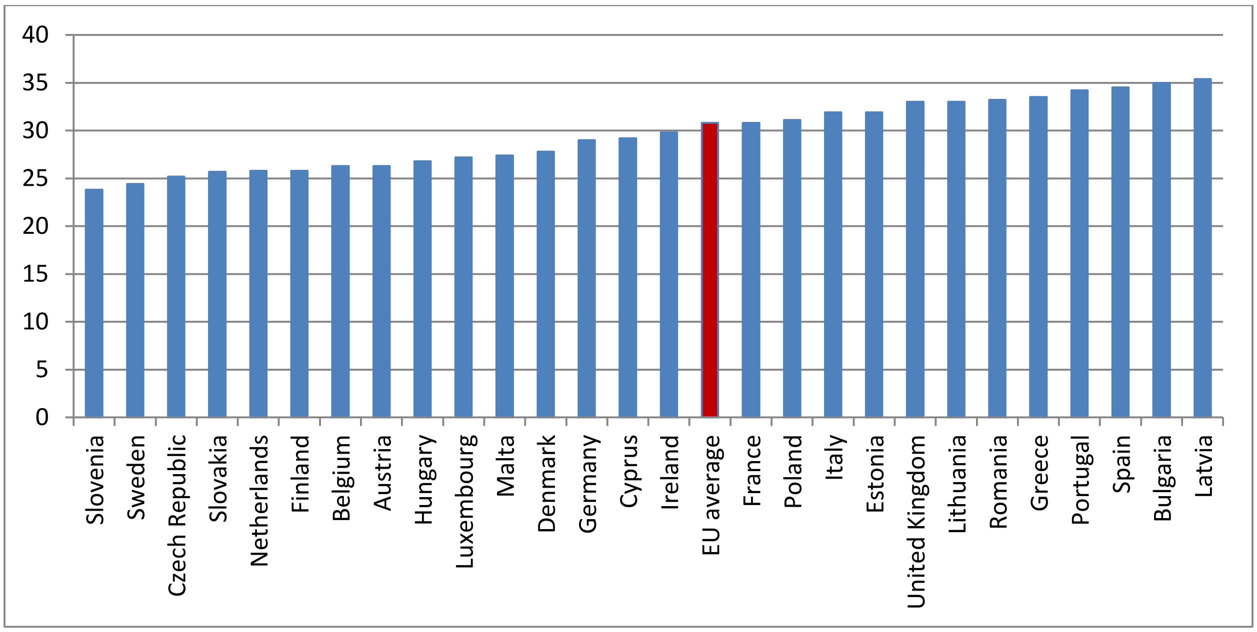
A more detailed map of the economic development gaps inside the EU countries is brought by the European Commission, which analyses the NUTS 2 regions - those national territorial entities with a population between 800,000 and 3 million inhabitants, where the regional development policy is implemented. According to a 2010 Report, the regions with a high HDI are mainly concentrated in the southern parts of England and Germany, in Netherlands, Scotland and in Sweden (European Commission, 2010). The top 10 regions with the highest HDI also include the areas around Paris and Brussels.

With regard to the HDI EU average, almost all French regions, except Picardie and Corse, are above this level. In an opposite situation are Portugal, Greece and Italy, where almost all the regions have an HDI below the EU average, with the exception of Attiki (Greece) and four Italian regions. In Spain, eight regions are below and eight above the EU average, the highest level being in Navarra, Cataluña, Pais Vasco and Madrid area.

All the four countries mentioned above – Portugal, Greece, Italy and Spain – have in common the fact that their northern regions are more developed than their southern ones. The differences between north and south can be seen not only from the HDI values, but also from the point of view of life style and income level.

According to the specialized literature, the HDI should be closely correlated to the level of GDP. However, it was noticed that in European Union, only a few regions register high levels of both GDP per capita and HDI. From the top 10 HDI regions, mentioned above, only three can also be found in the top 10 regions according the GDP per capita. The region of London is situated on the first position in both rankings.

Figure 3 - Values of Gini coefficient for 27 EU states in 2011



Source: Adapted using Eurostat, Gini coefficient of equivalised disposable income, 2013, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tessi190

In order to illustrate the difference in living standard, from the point of view income distribution, we have used the data offered by Eurostat (2013), regarding the Gini coefficient, for 2011.

Figure 3 shows that, in 2011, there were 12 states with the Gini coefficient above the EU average. From these, Bulgaria and Latvia were the countries with the most unequal income distribution (their value of Gini coefficient was superior to 0.35). Looking at the values of Gini coefficient in the 27 EU states, we can see that the unequal distribution of the revenue is not necessarily correlated to the moment of joining European Union or to the communist influence. For example, two of the EU founders – France and Italy – have the Gini coefficient superior to the EU average and these countries, as well as United Kingdom, Greece, Portugal and Spain, have never been under the USSR dominance.

A possible explanation for the unequal distribution of the revenues in the 12 countries with the Gini coefficient superior to the EU average could be given by the fact that the present economic crisis has significantly eroded the economic and social environment especially in Spain, Greece, Portugal and Italy, some people from these states being more affected than the others. Another explanation, in the case of Romania, Bulgaria and Baltic states, is that the duality between the urban area and rural one is still very present in these countries. The rural regions, which are less developed than the urban centers, still account for a large part of these states.

CONCLUSIONS

By analysing the statistics regarding the Human Development Index, we conclude that there is little variation between European Union states, as almost all of them (excepting Bulgaria and Romania) are included in the category of countries with "very high human development". The HDI values, which fluctuate around the average of 0.855, allow the EU members to be placed between the 3rd and 55th position worldwide.

As in the EU the HDI is closely correlated to GDP per capita, it is not surprising that the lowest level of GDP per capita is attained in Romania, while the highest is in Luxembourg.

Analysing the causes that determine the human development differences between the EU states, one explanation could be found in the correlation between the EU adhesion moment and the level of HDI. Another possible argument is given by the political background of these states. The two states that joined EU in 2007 and most of the 2004 members remained under economic influence of the communist bloc for a long period of time.

If the differences in HDI scores in European Union are not so visible, the gaps inside the EU countries and regions in terms of human development and poverty are very significant. In almost all the 27 EU states there are development inequalities between regions, but the largest ones are, again, in Romania and Bulgaria. The opposite situation was noted in five UK areas and in the regions surrounding the capitals of Sweden, France and Belgium, all these being placed in a top 10 HDI regions. However, only three of them can also be found in the top 10 GDP per capita regions.

From the point of view of Gini coefficient, in 2011, there were 12 states above the EU average, with Bulgaria and Latvia registering the highest levels of unequal income distribution (Gini coefficients superior to 0.35). These differences cannot be explained by the moment of joining the European Union or by the communist influence. The causes are related to the effects of the 2007 economic crisis and to the fact that the duality between the urban area and rural one is still very present in some states.

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