



Growing United

**Upgrading Europe's
Convergence
Machine**

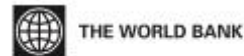
 #EUGrowingUnited



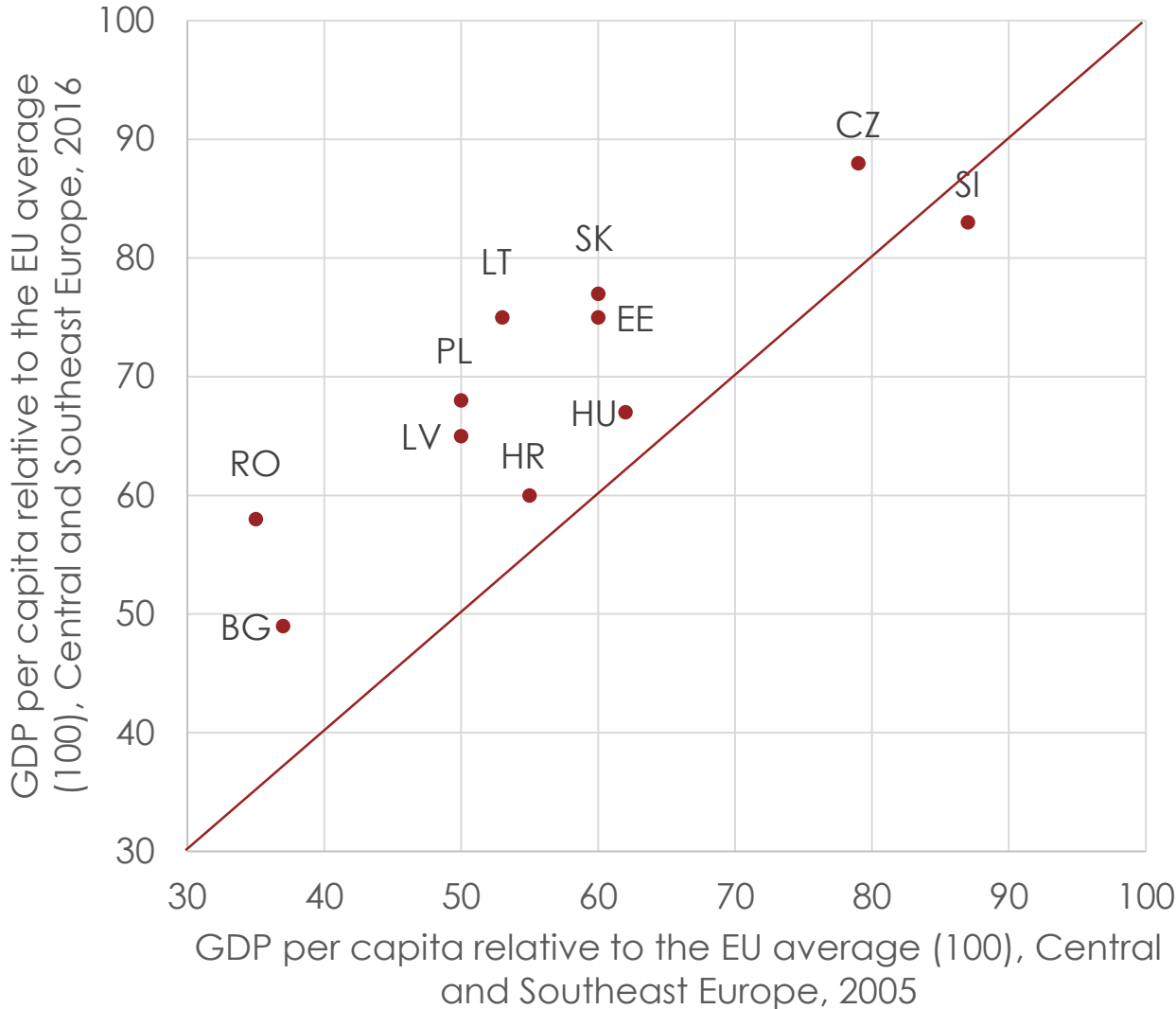
Europe: the Convergence Machine

Golden Growth

Restoring the Lustre of the
European Economic Model



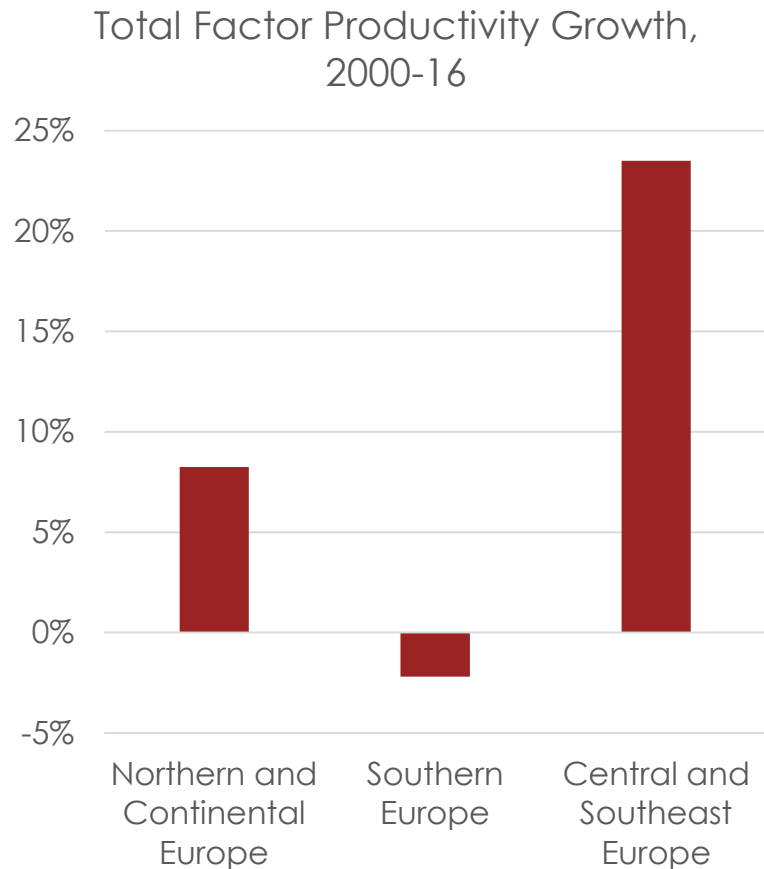
The EU: A globally unrivalled convergence machine



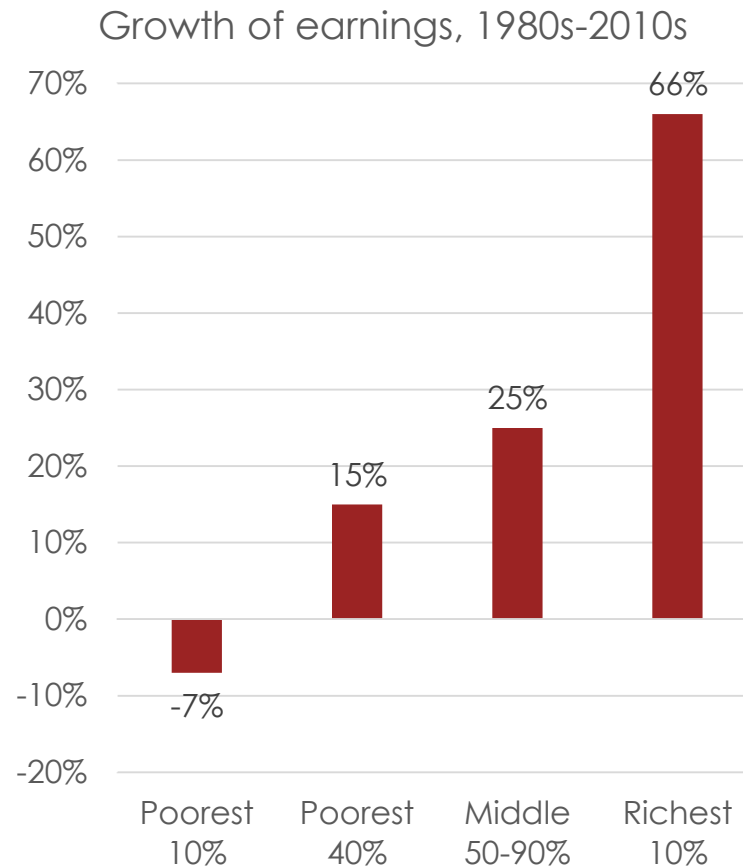
35% to 58%:
Change in Romania's
GDP per capita relative
to the EU average
between 2005 and 2016

3 signs of growing divides

Productivity growth has stalled in Southern Europe



Low-income Europeans are being left behind



Growing regional divides

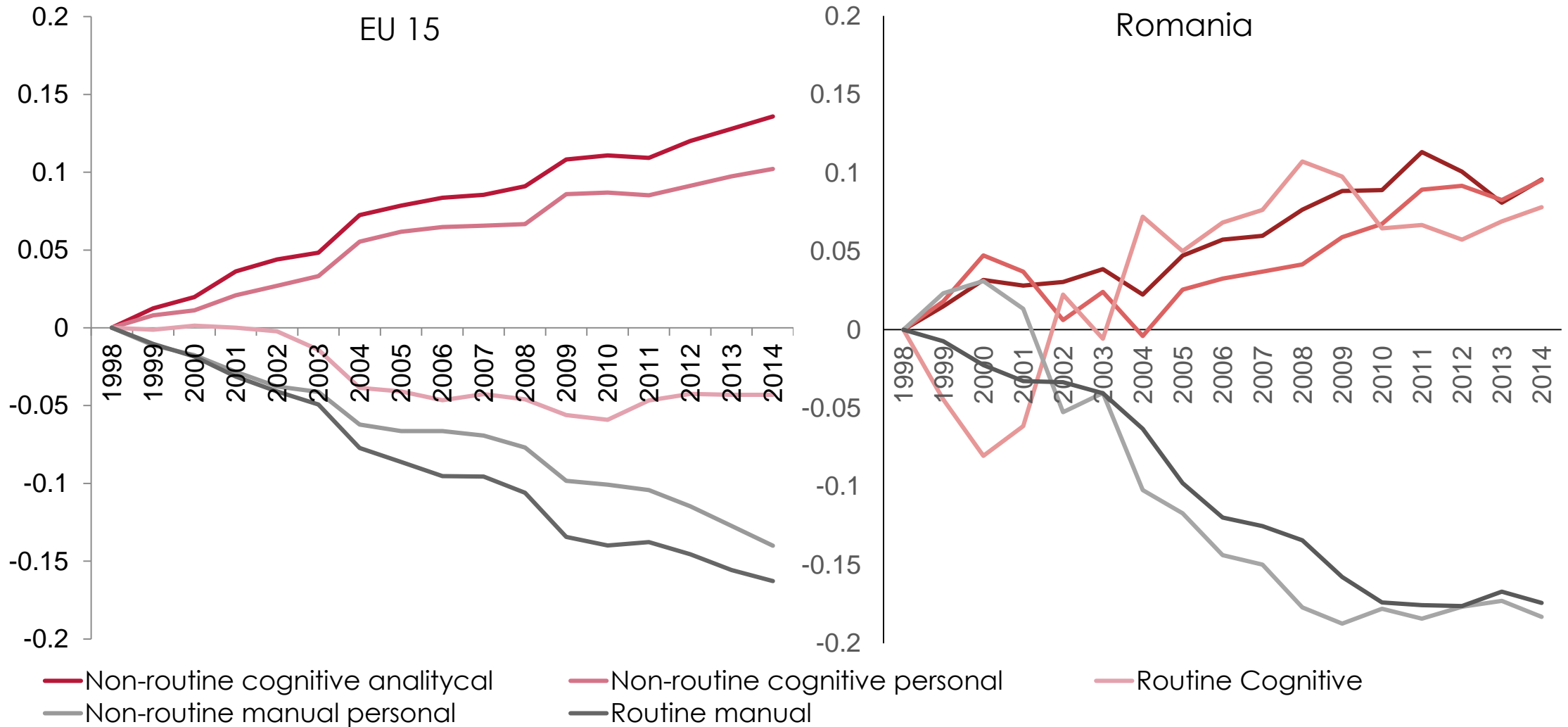
0 growth in GDP per capita among lagging regions in Southern Europe, 2000-15

28% increase in regional inequality in GDP per capita within Central and Southern Europe

Accelerating technological
change is generating
growing divergence

Technological change is making jobs more intensive in non-routine cognitive tasks

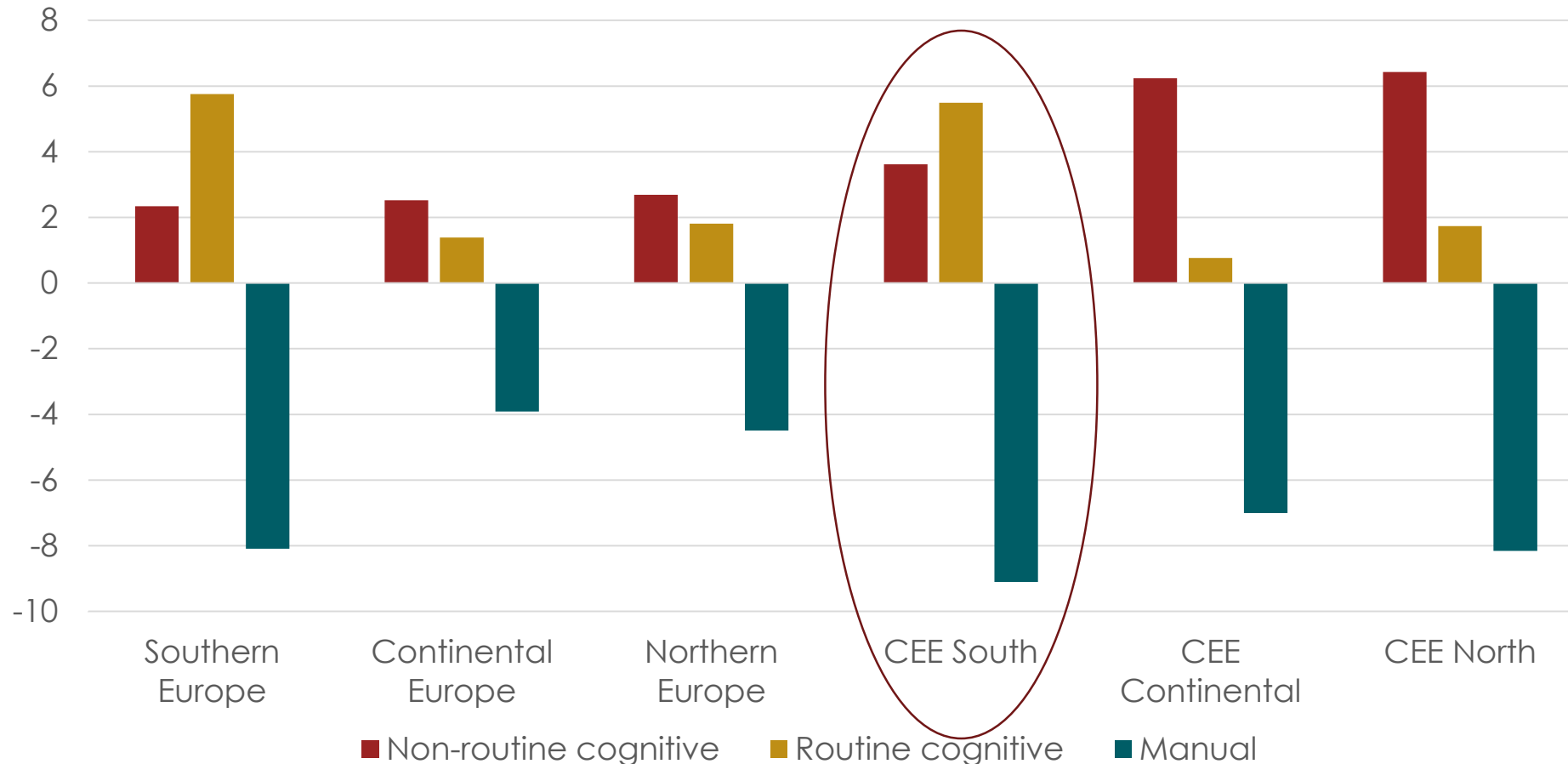
Occupation-specific task intensities, aggregated for each country and standardized over time, regional averages, 1998-2014



Source: Gorka et al. (2017), commissioned for this report.

High-skill workers are gaining, low-skill workers are losing

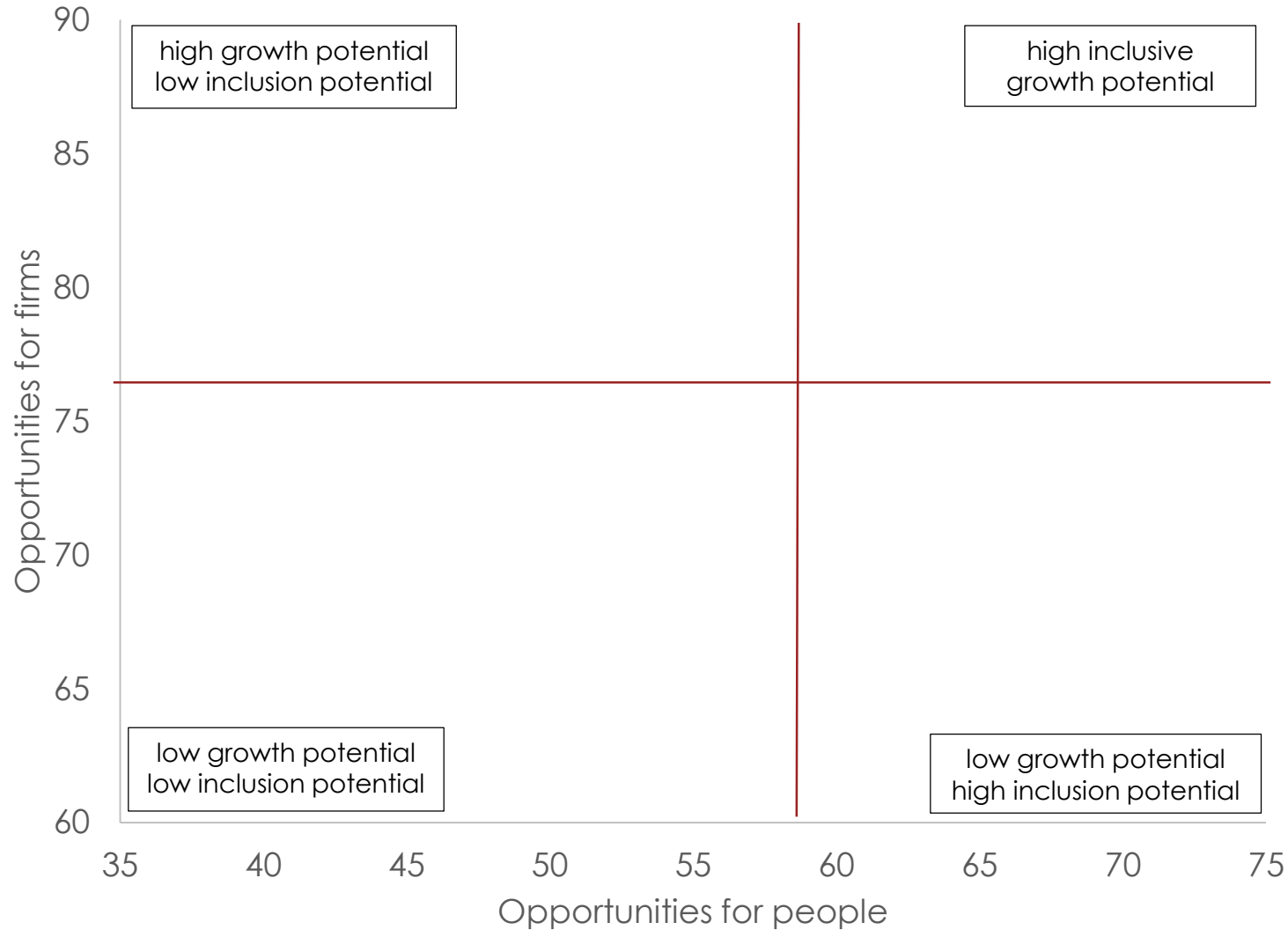
Percentage point changes in share of workers in each job type,
1998-2014



Source: Gorka et al. (2017), commissioned for this report. Note: Jobs are classified by their most intensive task into non-routine cognitive, routine cognitive, and manual.

Boosting opportunities for
people and firms to make
tech change work for all

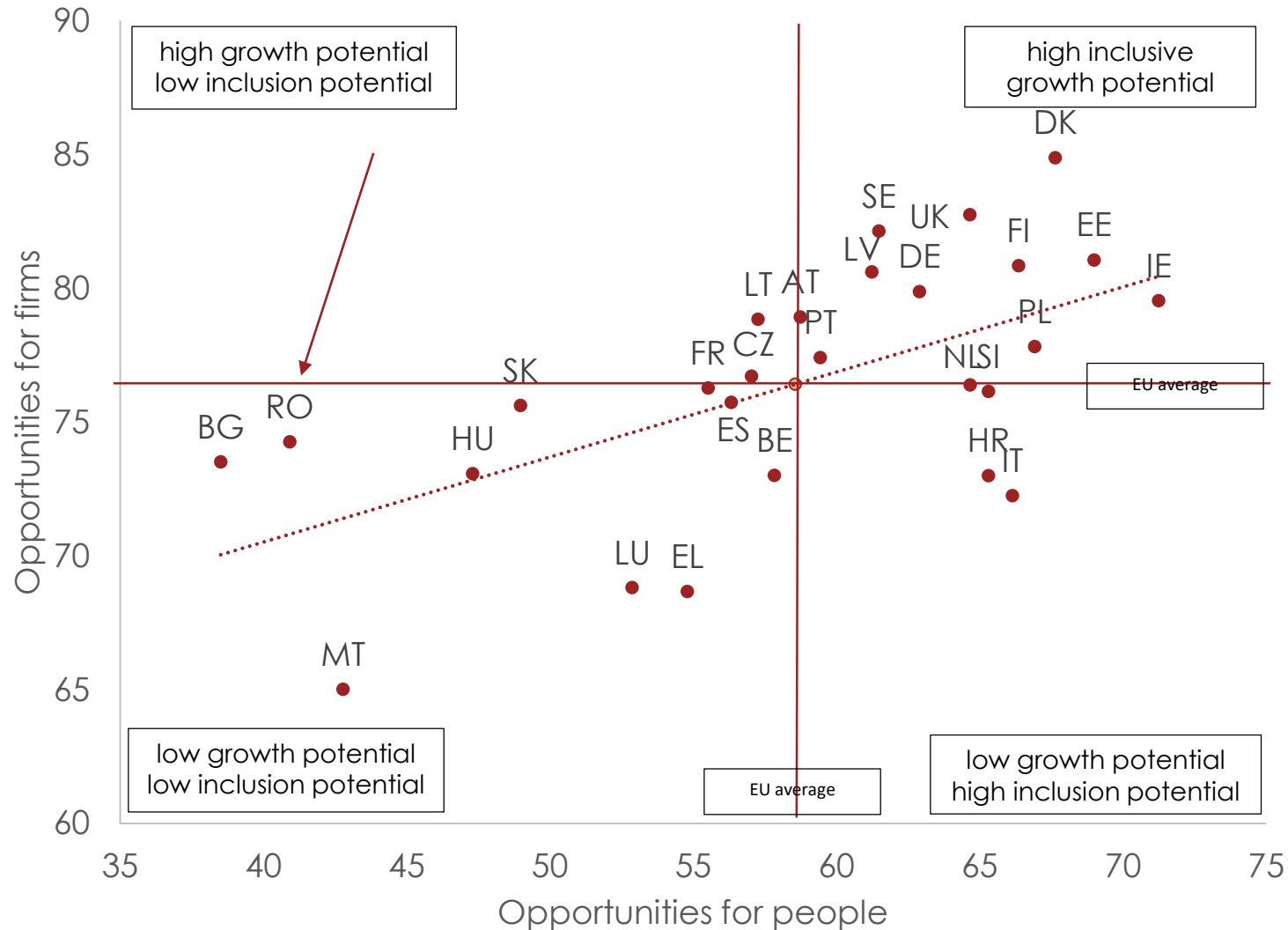
Technological change: good where opportunities for people and firm are high, disruptive where they are low



Technological change: good where opportunities for people and firm are high, disruptive where they are low

High opportunity places: High share of high-skill workers and frontier firms

Low opportunity places: High share of low-skill workers and lagging firms

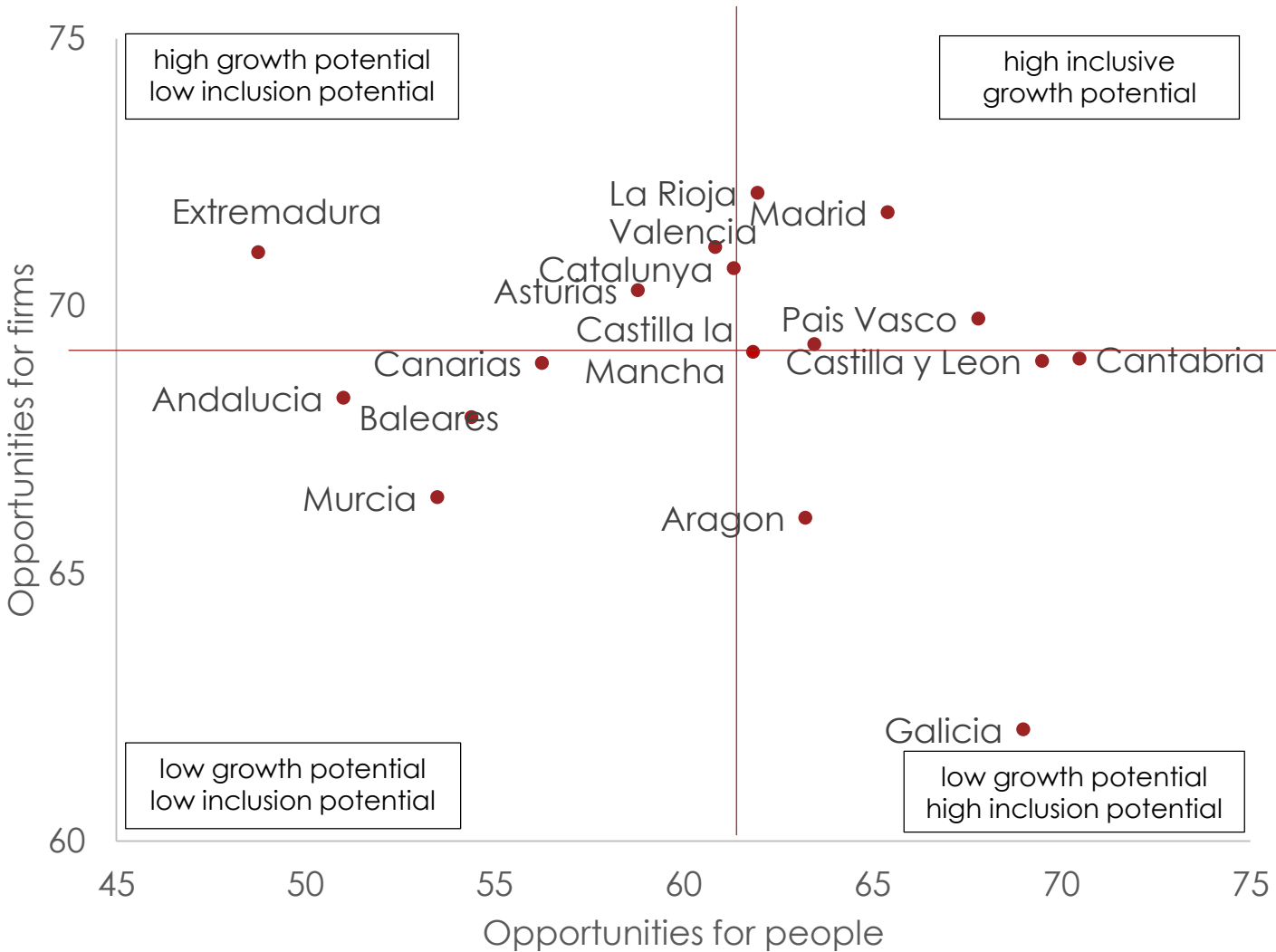


Source: Own calculations based on PISA and Doing Business data. Note: Cross-lines are EU average. OP is measured by share of 15 year-olds above proficiency in PISA reading in 2015, corrected for inequality of opportunities (variation in PISA scores explain by socio-economic status of students) and the proportion of young people that leave school with at most lower secondary. OF is measured by the 2017 Doing Business distance to frontier index.

Opportunities also vary between regions: e.g. Spain

Top 25% global performer on construction permits: La Rioja (Galicia among the bottom 25%)

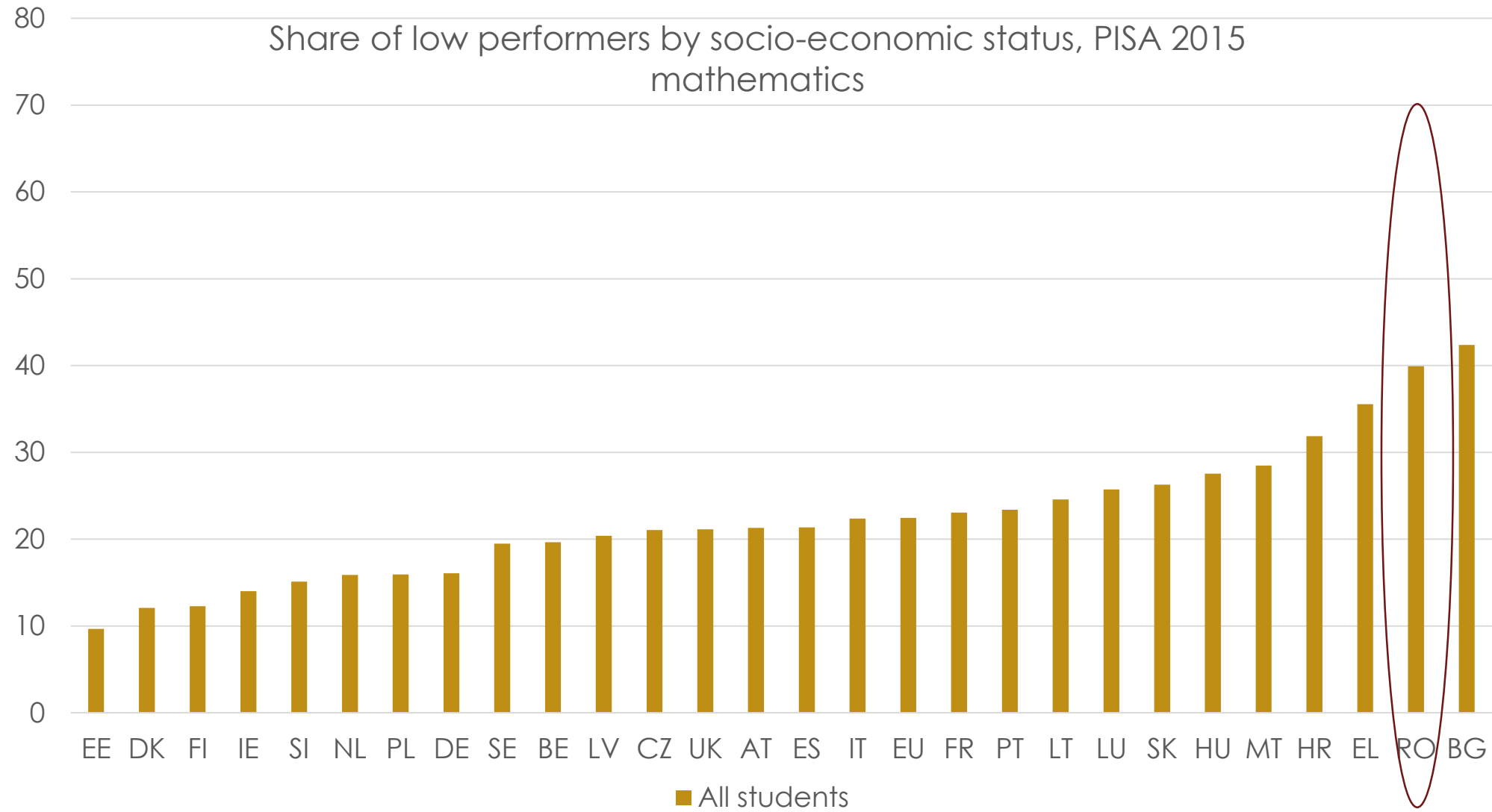
90% of students in Castilla y Leon have basic competency in math (69% in Extremadura)



Source: Own calculations based on PISA and Doing Business subnational data.
 Note: Cross-lines are Spain average

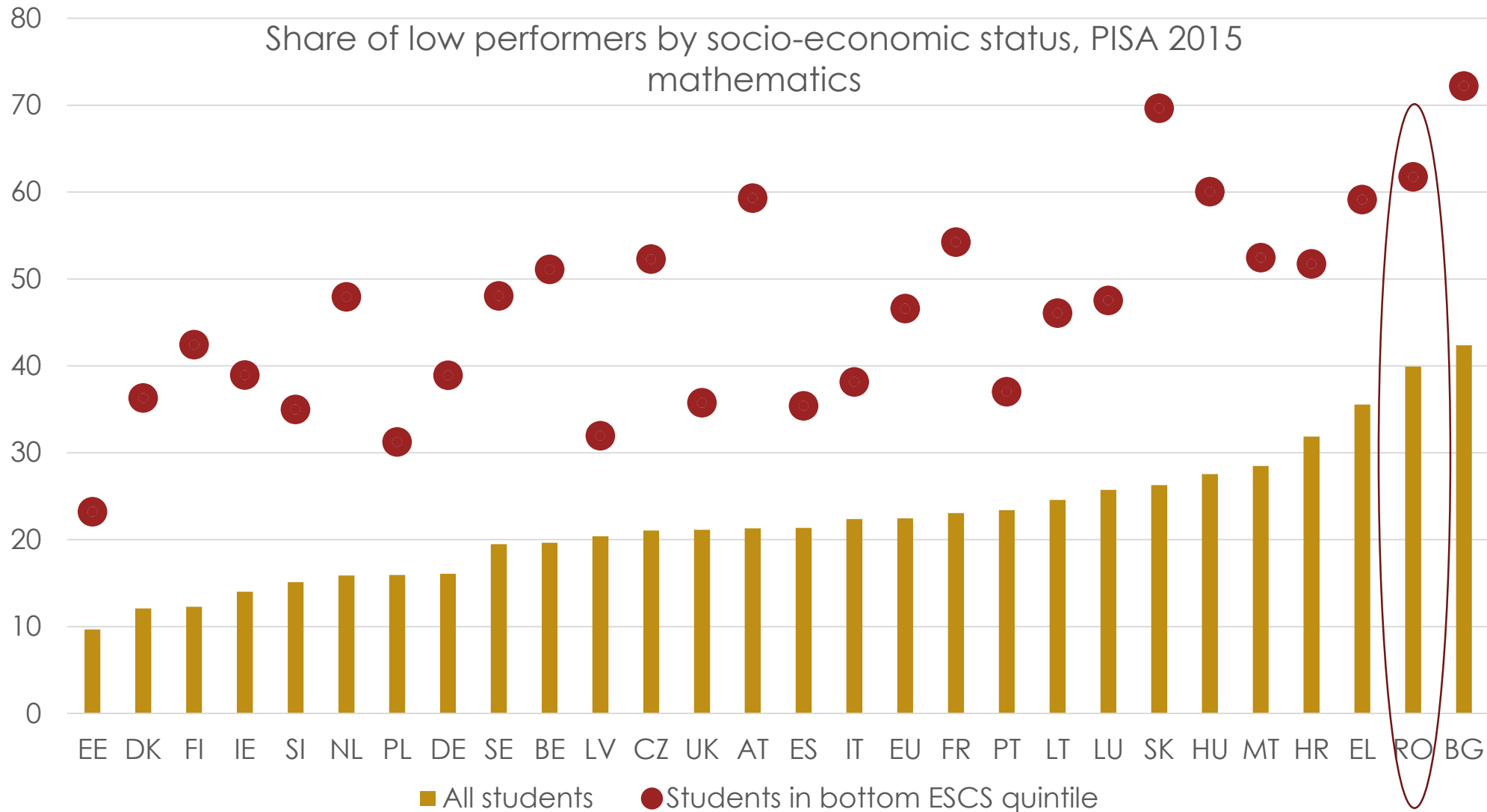
Opportunities for people
and firms vary across EU
countries and regions

Europe's significant foundational skills gap...



Source: World Bank staff calculations based on PISA 2015

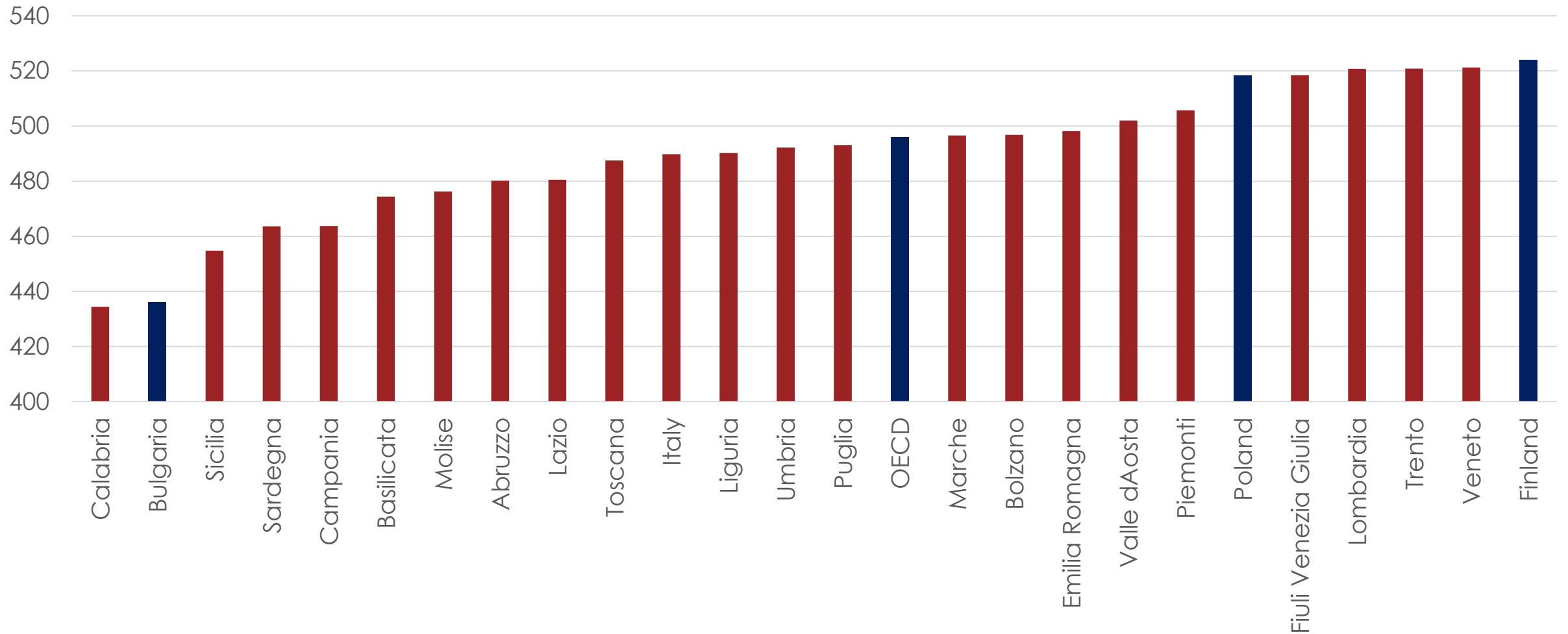
...is largely an equity story for individuals...



Source: World Bank staff calculations based on PISA 2015

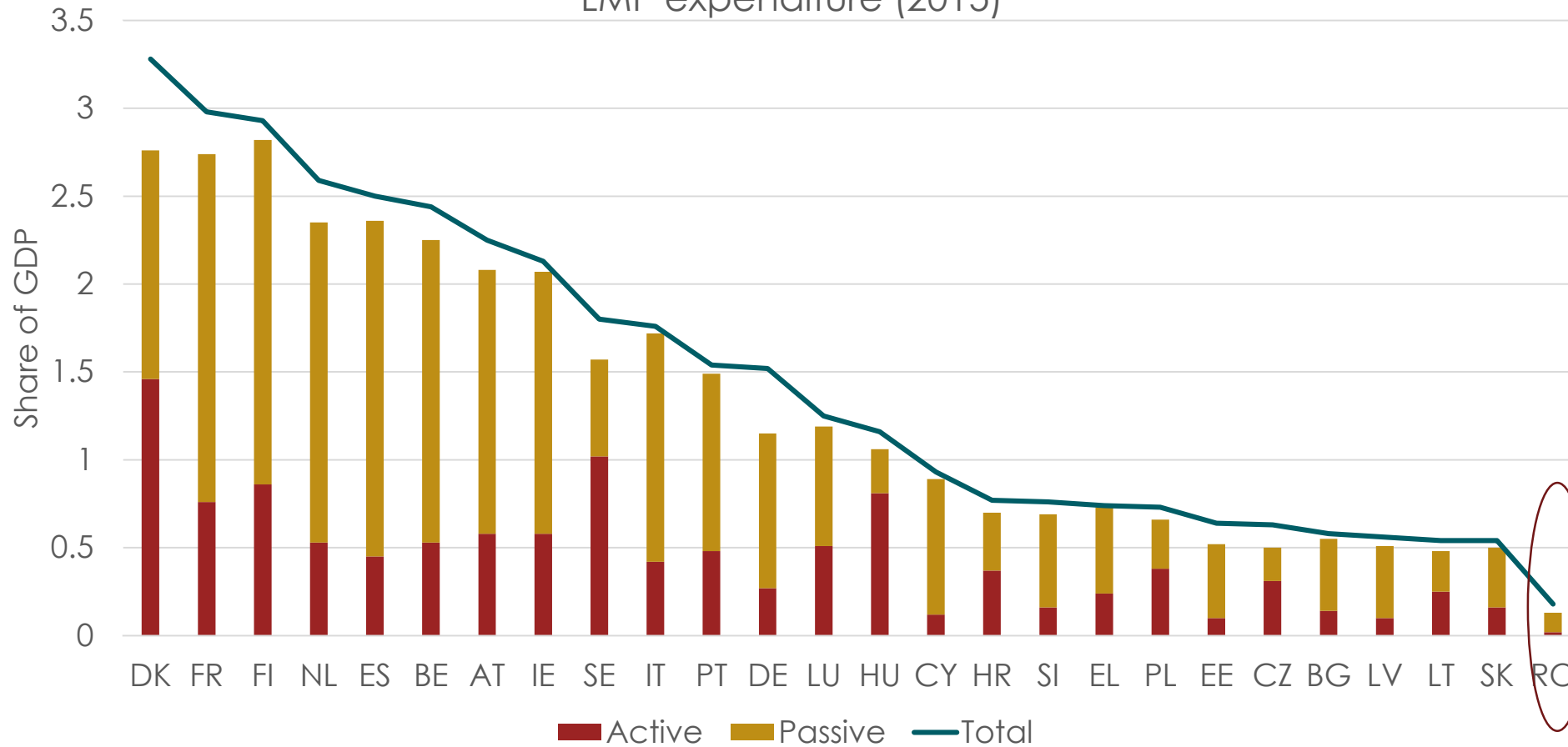
...and regions (eg Italy)

PISA 2012 reading scores by Italian regions and select other countries



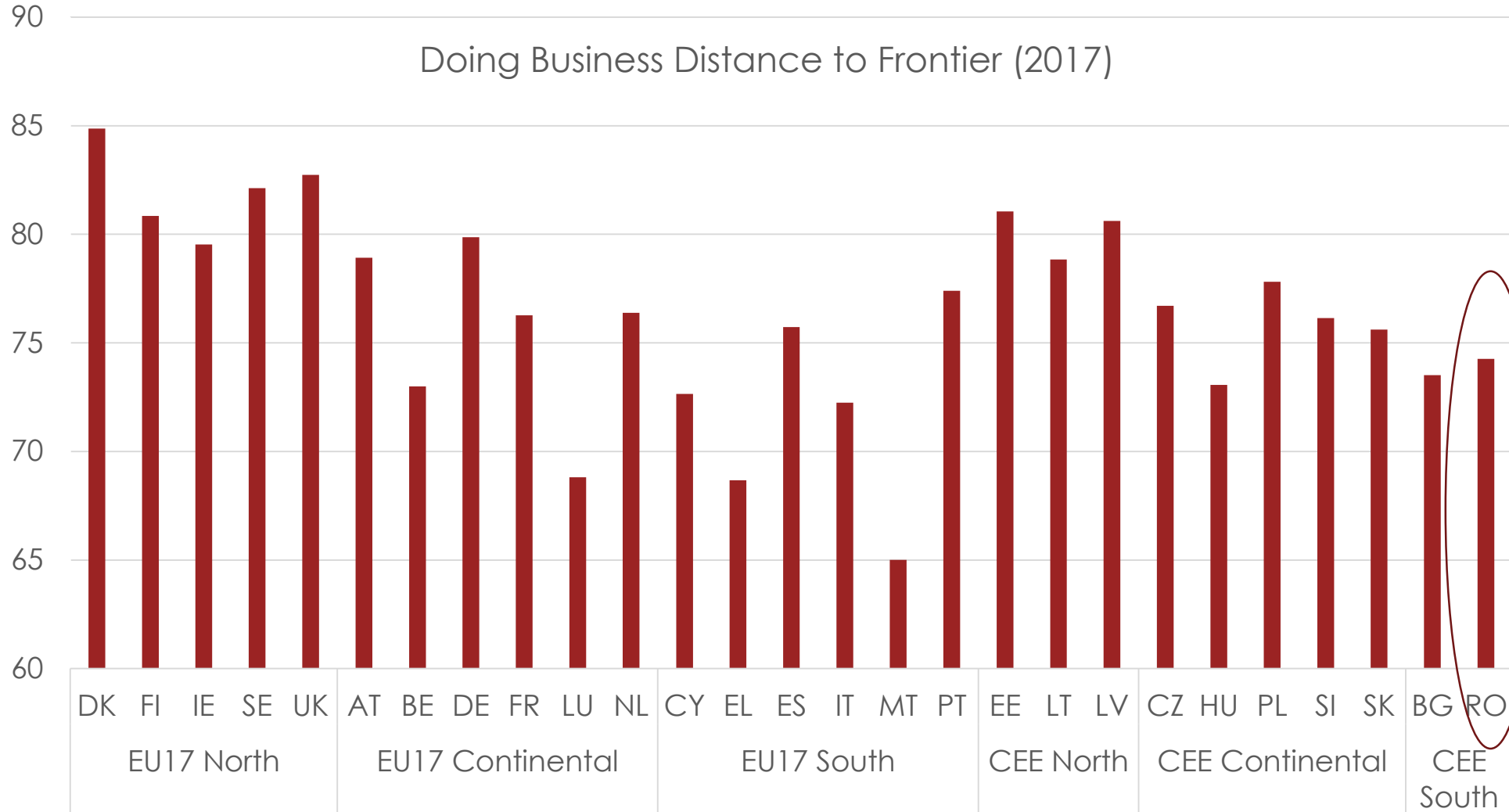
Labor market policy very limited and mostly passive

LMP expenditure (2015)



Source: World Bank staff calculations based on Eurostat.
 Note: Active includes training, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives. Passive includes income support and early retirement. Total also includes labor market services.

Romania can improve its business environment...



Source: Doing Business and World Economic Forum.
Note: Doing Business Indicators measure distance to best performer in Doing Business (best performer = 100).

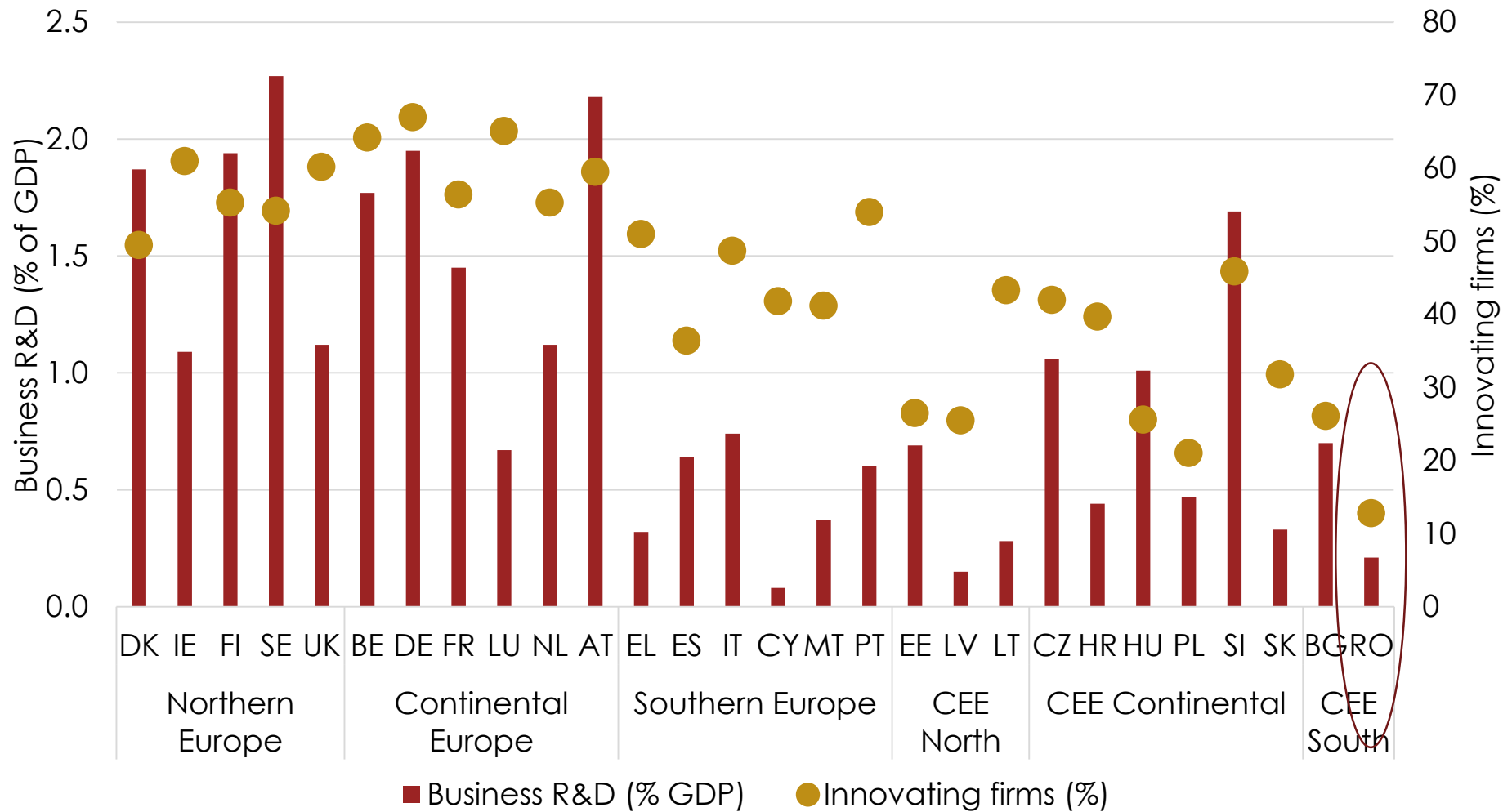
...which varies significantly between regions

Subnational Doing Business scores for Romania 2017

City	Starting a Business		Dealing with construction permits		Getting electricity		Registering property		Enforcing contracts	
	DTF	Rank	DTF	Rank	DTF	Rank	DTF	Rank	DTF	Rank
Brasov	88.8	9	56.3	17	49.6	19	74.7	9	65.5	22
Bucharest	89.5	5	58.1	15	53.2	15	74.7	9	66.4	18
Cluj Napoca	88.8	9	54.3	20	50.4	18	73.8	16	64.1	14
Constanta	87.5	17	49.3	21	49.0	20	74.7	9	62.0	8
Craiova	86.3	22	61.3	14	53.0	16	74.7	9	68.0	13
Iasi	88.3	12	56.0	18	57.8	11	74.7	9	65.3	16
Oradea	89.5	5	57.8	16	50.8	17	75.5	8	66.7	19
Ploiesti	89.5	5	54.4	19	47.2	21	74.6	15	64.5	21
Timisoara	89.5	5	48.9	22	43.6	22	74.7	9	61.8	5

Source: World Bank (2017), drawing on the Doing Business database. Note: The distance to frontier (DTF) score shows how far a location is from the best performance achieved by any economy on each Doing Business indicator. The score is normalized to range from 0 to 100, with 100 representing the frontier of best practices (the higher the score, the better). Rank represents the rank of Romanian cities across a sample of Bulgarian, Hungarian and Romanian cities.

Romania can also enhance its innovation environment



Source: Eurostat and 2014 Community Innovation Survey. Notes: Percentage of innovating firms is measured on the right axis. A firm is innovating if it has implemented a new/significantly improved product, process, new marketing method, new organizational method in business practices, workplace organization or external relations.

Convergence machine 2.0: Toward convergence of opportunities

Equalizing opportunities for people & firms goes together

- People
 - Universal **foundational cognitive skills**?
 - Education **equity** (households and regions): a rethink?
 - Enhancing **social protection** for those left behind?
- Firms
 - **Business environment**: regulations and implementation?
 - **Connective infrastructure** in lagging regions?
 - Boosting **firm innovation and technology adoption**?

Convergence machine 2.0 is a shared responsibility

- Upgrade of policy at **regional, national and EU level**: Most policy levers are national and regional.
- Convergence Machine 2.0 **need not mean new centralization of powers to the EU level, but fully exploiting its key instruments** and the benefits of being a union of many countries.
- Global Europe: look out for **ideas and solutions around the world**.

Upgrading Europe's Convergence Machine

Download the report from

www.worldbank.org/eca/growingunited

 #EUGrowingUnited

