

Economic integration, structural change and uneven development in the European Monetary Union

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Abstract

The first decade of the European Monetary Union was marked by a substantial increase in trade and financial integration, even though structural convergence among participating countries was not attained. Until the Great Crisis, many initial concerns regarding the effects that the single monetary policy might have on divergence across member countries and regions have been dispelled.

The debt crisis, with all its facets, disclosed the relevance of various asymmetries among countries in an incomplete and still fragile European Monetary Union. The management of macroeconomic imbalances has become a main concern in the context of low growth and deleveraging. In the aftermath of the Great Crisis, the North-South divide and regional disparities are the most relevant economic challenges for the stability of the Eurozone, together with the main political threats such as security, refugees, the mounting of Euroscepticism.

The long recession has significantly disrupted wealth and employment, especially in the South, but not in a homogeneous way within countries. Some recent empirical studies analyzing the post-2008 trends suggest that the overall picture of the European economic landscape was not altered by the crisis as the spatial distribution of wealth and income still continues to resemble that of a core-periphery pattern. One may advocate that polarization forces were at work even before the crisis and the recent evidence confirms the initial prediction drawn from the New Economic Geography. At a higher geographical scale, the concentration of economic activities and wealth in the corridor from North-West England to Northern Italy have remained almost unaltered during the past two decades, and basically confirms the Krugman's predictions. At a lower geographical scale, results from the

empirical evidence on structural change and agglomeration within countries conducted before the Great Crisis is quite mixed with some studies confirming dispersion of manufacturing activities and increasing similarities among regional industrial structures, and others suggesting increasing agglomeration, particularly the urban-rural divide.

There are several underlying mechanisms that can explain low-scale dispersion and agglomeration forces but their empirical assessment requires changing the categories and analytical tools traditionally used in spatial economic analysis. First, the growing integration of some firms and places into global value chains can change the spatial distribution of economic activities, favoring some rising locations over others. Second, there are systematic differences in the activities of the value chains that take place in cities of different sizes, and in the characteristics of firms and workers that carry out those activities. Cities have become increasingly specialized by function rather than sector. Headquarters, management activities, R&D and business services provision have tended to concentrate in larger urban areas. Production activities have instead concentrated in smaller cities. An important implication of this growing functional specialization of cities is that manufacturing has become less spatially concentrated whereas services have become more spatially concentrated. Hence, the increasing specialization by functions and occupations instead of traditional sectoral partitions is another possible source of changing spatial patterns of wealth within the EMU.

Uneven development is an outstanding characteristic of the European economic landscape. A significant share of the available EU budget is allocated to the Cohesion Policy, with the aim to augment the wealth-creating capabilities of Europe's regions and of the people who live in them, paying most attention to areas that are lagging in their development. In a period characterized by deindustrialization and structural change into a service based economy, defining appropriate policies for a stable recovery requires a deep understanding on the territorial organization of production and wealth across the EMU. On this background, this paper explores the recent empirical literature and available data to provide updated evidence on the changing spatial distribution during the last decade.