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Regional inequalities and sigma divergence in Romania

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Abstract

Starting from the need to understand the economic context that fuels increased regional inequality, this paper addresses the question of long-term regional divergence in Romania focusing on the effects of the recent economic crisis. The study uses a standard regional investigation tool, measuring variation in inequalities from the perspective of sigma convergence. It also addresses the impact of economic growth and crises on inequality. The results indicate territorial divergence in Romania on the long-run and narrowing regional inequality in the last few years, in the context of the economic and financial crisis. The main explanation for this new trend is higher resilience to the crisis of less developed counties/regions, due to the specific sectorial structure of their economies.

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Introduction

At the beginning of the transition to market economy, Romania had low territorial inequalities, result of active policy of the former communist regime that targeted balanced economic development throughout the country. During the transition period the capital region and a few large cities developed at a more rapid pace, while other regions lagged behind. Accession to EU was expected to support the decrease of territorial gaps due to structural and cohesion funds supporting the more rapid development of the poorer regions. On the contrary, EU membership seems to have contributed to the rise in inequalities because of the low and unbalanced absorption of the structural

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and cohesion funds. The traditional divide between East and West and the sizeable gap that separates the capital region from the rest of Romania persisted and even increased. The discrepancy between urban and rural zones (the latter account for 45% of Romanian population) is also wide.

Starting from the need to understand the economic context that fuels increased regional inequalities, this paper addresses the question of long-term regional divergence in Romania focusing on the impact of the current economic crisis. In the current context of regionalization, administrative decentralization and building up of the Regional Operational Programme it is useful to assess the main territorial disparities in Romania, both at region and county level. In particular, knowledge on the size and dynamics of regional inequalities in Romania is important for the prioritization of regional development strategies as a basis for shaping policies in the field of economic, social and territorial cohesion. The main novelty of this research is the appraisal of the trend in territorial disparities over a long interval of time, including the recent economic crisis, based on statistical analysis of the time series of sigma convergence indicator.

The remainder of the paper proceeds as follows. The next section briefly reviews the relevant literature and section 3 describes the methodology employed for the analysis of inequalities and territorial convergence. Section 4 moves on to present and discuss the empirical results and section 5 concludes.

Literature review

The issue of regional inequalities is systematically addressed by many political and scientific bodies, aiming to provide decision-makers relevant data and information on specific processes and factors that influence the magnitude and evolution of disparities. Although European regional policies explicitly target the decrease in regional inequalities, empirical research shows that there are still deep income disparities, which have widened in the past two decades (Villaverde, 2006; Kallioras, 2010; Nahtigal, 2013).

The growing concern about reducing these regional disparities made the Structural Funds and the Cohesion Fund the fastest growing components of the EU budget. Over the last fifteen years, the income gap between the EU-15 countries has fallen, but inequalities between regions in each Member State have increased.

Enlargements of European Union have contributed to widening regional disparities and stronger financial instruments alone are ineffective in the absence of adequate policies for regional development (Huffschnid, 2005; Horváth, 2009). Studies examining the convergence in Central and Eastern Europe (CEE), from multidimensional perspectives and at different regional levels, indicate that this EU area is relatively homogeneous and the disparities in CEE are lower than those in Western Europe, even in the context of the recent economic crisis (Goschin and Constantin, 2010; Szendi, 2013). A special emphasis has been put in the literature on the influence of regional development on the evolution of inequalities and the resulting convergence/divergence process (Benabou, 1996; Quah, 2002; Hull, 2009).

Empirical heterogeneity across regions and counties has also been investigated in several Romanian studies (Dachin, 2008; Goschin et al, 2008; Patache and Grama, 2011; Antonescu, 2010 and 2012; Boldea et al, 2012) that indicated deeper regional disparities in Romania in the post-accession period.

Traditionally, economic analyses of international and national inequalities explained the differences between regions in terms of endowment with natural resources, inputs, infrastructure and technology (Ailenei et al, 2007; Goschin et al., 2008 and 2009; Constantinescu and Constantin, 2010; Boboc et al, 2012). Removing obstacles to mobility of goods and/or factors of production would therefore automatically eliminate the cause of disparities and would stimulate convergence. However, empirical evidence shows that there are relevant factors of influence missing from traditional analyses, factors that have been highlighted by recent theories on location. The main contribution of theories referred to as the "new economic geography" is to bring together in a common analytical framework convergence and divergence forces, helping to better understand the mechanism of regional disparities. In this framework should be encompassed the studies on economic, social and territorial cohesion in Romania (Constantin et al., 2010; Ailenei et al, 2009; Dobre et al, 2011).

An expected benefit following EU accession was the reduction of regional disparities, mainly as a result of using the structural and cohesion funds that should give support to faster development of poor regions. Joining the European Union not only didn't narrow the gaps between regions, but may actually have contributed to greater inequality, as developed regions having prior expertise in accessing funds profited the most (Zaman and Georgescu,

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