

ABSTRACT

The literature on cross-country economic performance has now accumulated ample evidence to prove that much of the difference in performances is attributable to differences in technology. Among recent theories that have been proposed to nuance this view, two important strands of literature single out as particularly appealing. The first acknowledges the existence of an efficiency frontier, rather than a single "state-of-the-art" production function; by making technological choices endogenous, it emphasizes that differences in factor endowments will induce countries to pick optimally different technologies. A second strand of literature points to the existence of barriers to technology adoption, and identifies a large variety of factors that contribute to impede adoption and efficient use of knowledge in production.

This study is an attempt to integrate the main ingredients of these two strands of research into an operational quantitative policy exercise. Our first contribution is to suggest a reappraisal of the concept of "deep integration", a concept often used in international policy discussions though never rigorously defined. Our definition of deep integration is clearly relevant to the context of Europe's enlargement process. The EU enlargement episode of 2004 has involved simultaneous integration of a large set of countries, has had non trivial indirect effects, in particular on factor prices, in incumbent member states. Can we be confident that such a shock will not redistribute welfare at the expense of the low-skilled workers in older member states, hence fueling anti-EU resentment and populist parties that threaten the future of the European unification project? Our second contribution in this paper is to shed light on those important issues by implementing our definition of deep integration in a calibrated general equilibrium model of Europe in order to reassess the 2004 EU enlargement episode.