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European regional policy: Reduction of regional disparities in EU

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Prohlášení

Prohlašuji, že jsem diplomovou práci vypracoval samostatně a použil pouze uvedené prameny a literaturu

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EN – ABSTRACT

This study is focused on Regional Policy of European Union, mainly on EU regional policy evaluation regarding on its impact on convergence, in accordance with the reduction of regional income and unemployment rate disparities. The Aim of this study is to examine the convergence within the European Union at regional level. I focus on a measure of regional income disparities in per capita GDP in European Union. For this purpose I chose a comparative analysis of income regional disparities based on the "core-periphery" theory. The data used for this analysis covers fifty years of European Communities since the foundation of EC till present EU25.

CZ – ABSTRAKT

Tato práce se zaměřuje na Regionální Politiku Evropské Unie, krátce popisuje její historii, cíle, nástroje a dosavadní výdaje a hlavně hodnotí jejího dopad na snižování regionálních příjmových rozdílů. Cílem práce je prozkoumat míru konvergence v EU na úrovni regionů NUTS II. Pro tento účel jsem použila komparativní analýzu regionálních příjmových rozdílů Analýza posuzuje míru regionální konvergence příjmů a eventuání vliv regionální politiky na změny v rozdílech. Použitá data pokrývají období 50-ti let, od vzniku Evropslého Společenství až do roku 2002.

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1. INTRODUCTION

The political and economic integration of Europe is a process that started nearly 50 years ago and had become one of the most important determinants of the political and economic situation in Europe. Whereas only six countries signed the founding document in 1950's, the European Union (EU) now comprises 25 Member States. A single European market came in to existence in 1992; in 1997 the Amsterdam Treaty streamlined the process of decision making procedures and brought progress toward to Common Foreign and Security Policy. The European Monetary Union started well in 1999 and the year 2005 could be the year of ratification of the European Constitution. Further deepening and widening is therefore the most likely future for the EU.

There is a widespread agreement that the integration of Europe leads to substantial economic and political benefits for the Union as a whole. It is less clear, however, whether the integration process has positive effect on all parts of the Union, especially with regard to countries, whose level of economic and social development is significantly below the EU average. It is sometimes argued that the negative integration effect have outweighed the benefits.

The importance of a common regional policy in the EU rose with the deepening and widening of the integration process. Historical development shows that with Union's extension Structural Funds increased dramatically. European Community, which was quite homogenous, is becoming more and more heterogeneous.

In the light of the enlarging European Union the question whether regional policy is "effective" is more than actual. The most dramatic enlargement in the history of the EU for 10+2 Central and Eastern European Countries contributes to the area of the EU by 34% and to its population by 28 % but only by 10 % of its GDP.

The Aim of this paper is to examine the convergence within the European Union at regional level. I focus on a measure of regional income disparities in per capita GDP in European Union. Regional GDP is currently the key and most widely used indicator of well-being. This study observes if there is present real convergence between the regions within Member state and in the European Union in term of real income and if change in regional disparity depends on amount of sources redistributed through EU Regional Policy. Hence the new Member States are generally less wealthy,

it is a great challenge for European Regional Policy to concentrate on reducing such economic disparities.

This study focus on evaluation of income convergence within the European Union. For this purpose I chose a comparative analysis of income regional disparities based on the "core-periphery" theory. The data used for this analysis covers fifty years of European Communities since the foundation of EC till present EU25.

The first Chapter is dedicated to formation and evaluation of European Regional Policy. First there are aims and rationales for regional policy stated, than a brief history and an overview of regional policy instruments are introduced. Second part of first chapter pursue the spatial allocation of Structural Funds and the impact of enlargement on regional policy. Last part presents exemplary instance of successful and unsuccessful accommodation of EU Regional Policy.

Next Chapter introduces convergence and divergence theories. Study of economic and social convergence lays down the methodology concept and suggests possible scenarios of convergence for further analysis.

Third Chapter provides the main analysis of regional income convergence in European Union over fifty years. The aim of this chapter is to undertake a systematic analysis of the dynamic of the convergence at regional level. Because of data inconsistency, the only indicator per capita GDP on purchasing power standards could be used for such analysis. Therefore four separated analyses of Member States regions were made. Moreover, this chapter is complemented by short term analysis of regional labour market disparities and labour mobility.

The last Chapter shed the light on what is the impact of EU Regional Policy on convergence. I try to answer the questions of regional policy impact on reduction of income disparities. I use studies of the theoretical conditions of the relation between regional policy and convergence, and comprehensive review of previous evaluations of income convergence and regional policy.

2. EUROPEAN REGIONAL POLICY

2.1. Rationale for Regional policy

Why regional policy in the first place?

Among the most frequently stated aims and rationales for regional policy (in general) in literature are:

1. Flattening "unjust" spatial income distribution (equity or fairness argument)
2. Easing adjustment problems for economies undergoing major transformations or economic shocks.
3. Welfare increase due to the activation of previously unused factors of production.
4. Optimising the spatial allocation of production (for example by internalising external agglomeration effects)

Literature on the growth effects of income distributions, for example links equity and efficiency arguments by saying that there is a negative link between economic growth and inequality (Alesina and Roderik, 1994). Rationale (2) is essentially socio-political argument. In context of EU, however, adjustment problems can become an obstacle for integration. For example, imagine a member state in situation experience major rise of unemployment due to deeper integration because large parts of its industry are not competitive without protection. This member state is unlikely to support deepened integration although it might be beneficial for the economic area as a whole and in the long run, for the member state itself as well. In light of this danger, it becomes economically meaningful to compensate the country for its adjustment problems (Reiner, 1999). The last two arguments are direct economic arguments for regional policy. Argument (3) concerns the employment of unused resources, notably labour. Regional policy can reintegrate these factors of production into economic process, thereby increase aggregate welfare. However, it requires that costs of activation of such factors of production have to be lower than the welfare gains to be obtained. On the basis of the assumption of rational behaviour, the market outcome must be optimal spatial allocation of resources (rationale 4). But the presence of externalities causes that private welfare optimising behaviour is no longer equal to

social welfare optimisation. For instance, private decision to locate a company in an agglomeration can lead to a negative side-effect, such as an increase in traffic congestion. These costs are external to investor and some authors assess it as a regional market failure. There are also many positive benefits from the firm's agglomeration in the lagging region but it is easy to imagine situations, where there is a case for regional policy intervention. In this moment have to be carefully weighed welfare gains against the welfare costs of regional policy interventions. Regional policy should aim at increasing the endogenous potential of lagging regions rather than diverting existing activities from one location to another. All in all, the chances of regional policy to increase aggregate welfare by activating idle sources are very limited and regional policy is normally a second best solution. It is preferable to internalise external effects such as environmental pollution and traffic congestion, for example by road use charges for private transport.

Summing up, it is very difficult to find clear economic rationales in favour of regional policy. Equity arguments for regional policy are certainly more powerful than efficiency argument (Reiner, 1999).

Rationales for European Regional Policy

European Union, nowadays the community of 25 Members, is the area with high economic disparities between individual regions, which are based on cultural and historical differences. Main aim of regional policy is to sustain political and social stability and achieve harmonized and well-balanced development in the countries of EU Communities. State interventions influence the geographic diversification of economic activity and thus reduce economic and social disparities between regions. Its attempt is to gradually decrease wide economic and social differences between countries in several areas, e.g. (these are) the level of average income, productivity level and rate of unemployment. Europe's regional policy is a genuine shared policy based on financial solidarity. It permits the transfer of over 35% of the Union's budget, which comes mainly from the richest Member States, to the least favoured regions.

There are several important arguments from economical, political and social areas for pursuing regional policy. Politically is the existence of big regional differences indefensible. Economically, the imperfections of market call for interventions. For example restricted productions factor mobility or differences in infrastructure can be reduced through the regional policy. Regional policy as well

prevents an excessive concentration of economic activity in developed regions, which can cause large economic and social consequences. Rich regions can profit from that policy in sense of large transfer returns as purchases of technology and know-how. Underdeveloped regions benefit by removing of trade barriers and stronger competition, which helps to their renovation. In addition RP can decrease public expenditures, e.g. expenditures on relief of unemployment.

2.2. European Regional policy

2.2.1. Development of Regional Policy in EU

The evolution of regional and structural policy can be divided into six periods:

1. 1958 - 1973
2. 1974 - 1985
3. 1986 - 1993
4. 1994 - 1999
5. 2000 - 2006
6. 2007 - 2013

- 1. Period (1958 - 1973)

The six establishing Member states (Belgium, France, Italy, Luxembourg, Germany and Netherlands) of EHS were quite homogenous and so the common regional policy wasn't in fact necessary. The common market was established to ensure the development of the Member States and to overcome the development gaps between certain regions. They expected that the removing of trade barriers and the growth increase also automatically contribute to levelling the existing regional disparities. The Rome Treaty provided for the creation of a *European Social fund* (ESF), which intended to promote employment and encourage worker mobility within the community. Given the strong growth and low unemployment in 1950's and 60's, the fund had a limited role at the time. Just as The European Investment Bank, this should provide profitable loans to less developed regions. The individual approach without coordination on supranational level was characteristic for the first period. After the 1973 oil shock and the first enlargement (Denmark, Ireland, and United Kingdom)

differences increased not only between the Member States, but especially between the individual regions.

- 2. Period (1974 -1985)

Within this period some important economic problems appeared and structural crises arose, followed by the slowdown of the overall economic dynamics. The regional disparities increased significantly in connection with the accession of the United Kingdom, Ireland, then Greece (and later Spain and Portugal 1986). The introduction of a genuine Structural policy to lessen the gaps in development and living standards became necessity. In addition to the European Social Fund measures, other Structural Funds were introduced in 1975, each with specific target. Thus, the Community created the *European Agricultural Guidance and Guarantee Fund* (EAGGF) to finance the common agricultural policy and the *European Regional Development Fund* (ERDF), assistance from which relates specifically to the regions whose development is lagging behind.

- 3. Period (1986 - 1993)

The third period was relatively more favourable as regards the structural policy and economic efficiency of the Member States (project initiation of Internal Market and approval of the Single European Act). In 1988 a reform of regional policy was implemented. The new conception of regional policy (compared with prior periods) ensured a more efficient use of funds and brought some positive results in decreasing regional disparities. Moreover, the increased European competence for economic and social measures was inserted into primary European law:

In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion.

In particular, the Community shall aim at reducing disparities between the levels of development of various regions and the backwardness of the least favoured regions, including rural areas. (Article 130A (1), EC Treaty)

The reform of regional policy affected the role and operations of Structural Funds, for which five Objectives for period 1989 - 1993 were laid down. Other important elements of reform were arranged around four guiding principles, namely "programming", "concentration", "additionality" and "partnership". These principles

are discussed below. The Maastricht Treaty also led to a number of changes in the instruments of European regional policy. The European Investment Fund (EIF) and Cohesion Fund were created.

- 4. Period (1994 -1999)

Objectives of regional and structural policy were retained. In 1994 Act of accession of Austria, Finland and Sweden the sixth objective was laid down (promotion development and structural adjustments in arctic regions with extremely low population). In connection with the Maastricht Treaty the *Financial Instruments for Fisheries Guidance* (FIFG) was founded, which stood alongside the structural funds.

By the means of those instruments transport and environmental infrastructure were financed in those Member States, whose gross domestic product per capita was less than 90% of Union's average. Thus, the Union's four poorest countries (Ireland, Greece, Spain, and Portugal) have improved economically. The most impressive example is undoubtedly Ireland, which has seen its per capita GDP increased from 64% of the Community average in 1983 to nearly 90% in 1995.

- 5. Period (2000 - 20006)

In general terms, the 1999 reform (EC in Berlin) has increased the concentration of assistance, but has also moved towards the simplification and decentralisation of its management. On the other hand, the reform introduces a clearer division of responsibilities and stricter application of principle of subsidiary.

In February 2004 European Commission came up with the financial perspective proposal for enlarged European Union for 2007-2013 budget period. In July 2004 European Commission adopted proposals on cohesion policy reform.

- 6. Prospective Period (2007-2013)

The proposed reform should completely change the European solidarity landscape. The strategy and resources of cohesion policy will be grouped into three new priority objectives (Convergence, Competitiveness and Employment cooperation). The reform should lead to innovations and simplifications aimed at making cohesion policy more effective.

2.2.2. Regional policy instruments

European Regional policy Objectives

At the beginning there were established five priority objectives for regional policy. After 1983-1989 periods, the list of objectives was partly revised and, following the accession of Sweden and Finland, a sixth objective for the new Nordic member states, was added. For the last period 2000-2006, the number of objectives was reduced from 7 to 3 priority objectives. Reduction of the number of Objectives has increased concentration, but a closer look at these objectives shows that they encompass all already existing objectives and even add some new fields of activities. These objectives can be divided into two different categories. "Regional" objectives 1 and 2 refer only to certain eligible areas while "horizontal" objective 3 can fund activities in the entire EU. For schedule of complete European regional policy Objectives see annex table 1.

- **Objective 1** promotes the development and structural adjustment of regions whose development is lagging behind, i.e. whose average per capita GDP is below 75% of European average. The new objective also covers the most remote regions (the French overseas departments, the Azores, Madeira, and Canary Islands) as well as the areas with very low population density. As was previously the case, two thirds of structural Funds operations come under Objective 1. Almost 20% of the Unions total population should benefit from the measures taken under objective 1.

- **Objective 2** contributes to the economic and social conversion of regions in structural difficulties other than those eligible for the Objective 1. This Objective brings together the former Objective 2 and 5b and other areas facing need for economic diversification: overall it will cover areas undergoing economic change, declining areas, depressed areas dependent on fisheries and urban areas in difficulties. No more than 18% of the Union's population will be covered under this Objective.

- **Objective 3** gathers together all the measures for human resource development outside the regions eligible for Objective 1. This Objective carrier over the

former Objective 3 and 4. It is the reference framework for all the measures taken under the new Title on employment in the Treaty of Amsterdam and under the European Employment Strategy.

Four Community Initiatives

The Union has also devised four special programmes, known as Community Initiatives, to find common solutions to problems affecting the whole Union. These four programmes absorb 5.35% of the budget of the Structural Funds. The new regulations provide for a reduction in the number of Community Initiatives from 13 to 4. Each of the new Initiative is financed by only one Fund.

- **Interreg** promotes cross-border, transnational and interregional cooperation, i.e. the creation of partnerships across borders to encourage the balanced development of multi-regional areas (financed by the ERDF).
- **Urban** concentrates its support on innovative strategies to regenerate cities and declining urban areas (financed by the ERDF).
- **Leader** aims to bring together those active in rural societies and economies to look at new local strategies for sustainable development (financed by the EAGGF Guidance Section).
- **Equal** seeks to eliminate the factors leading to inequalities and discrimination in the labour market (financed by the ESF).

Structural Funds

The **ERDF** is intended to reduce the regional imbalances in the Community. The Funds provide financial assistance for development of the less-favoured regions. Prior to the 1988 reform, ERDF resources were allocated to member states on the basis of fixed quotas. Naturally, member states had to co-finance all projects supported by ERDF. Almost 85 per cent of ERDF-funded projects concerns infrastructure improvements. To this end, it contributes to the new Objectives 1 and 2 and to the Interreg and Urban Community Initiatives. In term of financial resources, the ERDF is the most important Structural Fund.

The **ESF** is the Community's primary social policy instrument. It funds training, vocational retraining and job creation measures. The emphasis will henceforth be put

on improving the way labour markets operate and on getting the unemployed back to job. It contributes to all three Objectives but its primary target is the new Objective 3. It also funds the Equal Initiative. In addition, the new Regulation strengthens the ESF's role in Community's social policy through its participation in action undertaken in context of the European Employment Strategy and the guidelines for employment policies.

The **EAGGF** is sectoral policy instrument and is divided into two Sections:

- The Guarantee Section's main purpose is to fund expenditures arising from the common organisation of the markets and agricultural prices, rural development accompanying market supported and rural measures outside Objective 1 regions
- The Guidance Section funds other rural development expenditure not funded by the Guarantee Section, including the Leader Initiative.

The 1999 reform maintains the **FIFG**'s dual contribution to regional development policy and the common fisheries policy. The structural measures in the fisheries sector fall within the fisheries common policy, or are even considered a sectional policy instrument.

The **EIF** is a special credit facility, organically linked with the European Investment Bank (EIB). The facility is designed to ease the financing of projects in economically backward parts of the EU which involve a higher credit risk than the standard operations of EIB.

Within this definition of the Objectives and Community Initiatives, each of the four Structural Funds fulfils a specific role. The following table shows competencies of Structural funds to the Objectives and Community Initiatives for 2000-2006 programming period:

Objective 1	ERDF	ESF	FIFG	EAGGF
Objective 2	ERDF	ESF		
Objective 3		ESF		
Interreg III	ERDF			
Urban II	ERDF			
Leader+				EAGGF
Equal		ESF		

Source: http://europa.eu.int/regional_policy/

The Cohesion Fund

This Fund has been maintained as a part of the reform of Community's structural policy. The CF is based on Article 130D (2), EC Treaty and provides additional funding for environmental and transport infrastructure projects in member states with per capita GDP of less than 90 per cent of the EU average. The condition for assistance from the Cohesion Fund is presentation and implementation of a national convergence program in order to qualify for EMU. Henceforth, if the public deficit criterion is not met, funding will not be suspended, as used to be the case. The CF defining criteria are national rather than regional and CF is specifically designed in order to ease cohesion countries' transition to EMU. This implies that the CF is strictly speaking not comparable with the Structural Funds but its purpose is also the promotion of economic development in weaker parts of the EU.

2.2.3. Classification of the territorial units for regional policy (NUTS)

The expression NUTS comes from French abbreviation of *La Nomenclature des Unites Territoriales Statistiques* - Nomenclature of Territorial Units for Statistics. It's a system of territorial units based on different hierarchical levels. Establishment of individual NUTS levels is liable to approval of Statistical Office of European Union (EUROSTAT). The lesser the number of a NUTS level is, the bigger region it represents. As regard needs of regional policy, the NUTS II and NUTS III levels, or micro regions, are of the main importance. These levels are directly linked with Structural Funds.

There are five NUTS levels:

- NUTS I: usually the state itself, comprising of several NUTS II units;
- NUTS II: with population between 1 and 2 million and territory of 3 to 10 thousand km^2; As regards the Czech republic, it was decided in 1998 to establish 8 units of this type were (Prague, Southwest, Northwest, Northeast, Southeast, Middle Bohemia, North Moravia, South Moravia);
- NUTS III: an equivalent of districts or counties; population of 410 thousand (the EU average); As regards the Czech republic, 14 newly designed counties;
- NUTS IV: mikroregions;
- NUTS V: a commune level.

This division was based on statistical grounds, in particular to facilitate comparability of regions of individual Member States.

2.2.4. Principles of European Regional Policy

Regional policy includes all member states of the European Union, the poor areas as well as the rich ones. Therefore all nations have to perform up to their highest economic potential. Consequently a modern regional policy is essential, which focuses on the improvement of the economic performance of every member state of the EU. By means of that market and social failures have to be analysed, as they hamper opportunities for other nations. This requires a locally led regional policy as a key element of the Government's economic and social strategy. The Government's regional development strategy is based on:

- **macroeconomic stability**, providing a stable basis to plan and invest following decades of under-investment;
- **microeconomic reforms** to tackle market failures at the national, regional and local level, focused on the key drivers of economic growth; and
- **regional policy framework of devolution and decentralisation** so that regions have the resources and flexibility to deliver locally led policies, within a framework of clear accountability.

EU Member States would agree common principles, but delivery of regional policy would be substantially devolved and decentralised, and offer greater flexibility to Member States and regions. The Governments believe that the principles underpinning its domestic regional policy should be the basis for reform of EU regional policy, so that it is locally-led and substantially devolved. This reform becomes even more important in an enlarged EU. The priorities and methods needful for achieving higher potential in poorer accession countries differ from those appropriate for the wealthy current Member States. The Government's desire and commitment to see every nation and region enabled to realise its full potential to the full is at the heart of its approach to the future of regional policy in Europe.

Request for regional project support initiates essentially government (respectively regional authority) of a member state and European Commission decides according to strictly given criteria's and principles:

Concentration

One of the guiding principles of the 1988 reform was the concentration of the regional policy on those parts of the EU, which are in greater need of structural support. Prior to the reform, areas eligible for the national regional support became automatically qualified for the support from European structural funds. The Commission used the 1988 reform to develop its own regional policy "objectives". There were two main reasons for this change. First, the definition of eligible regions on the European level ensured that member state do not unduly expand their eligibility in attempt to maximize European structural support payments. Second, European perspective is much more useful than national perspective, for a policy aimed at the reduction of socio-economic disparities at the Union level and finding what constitutes a regional problems.

The 1988 reform established five priority objectives for regional policy. After 1989-1993 periods, the list of objectives was revised and, following the accession of Sweden and Finland, sixth objective was added. The Commission proposals for 2000-2006 programming period reduced number of objectives from seven to three. The aim is to concentrate as much as possible sources to the problematic regions, preferably for the most profitable projects than to use financial means for many small projects.

Programming

Prior to the 1988 reform, aid from the European Structural Funds was granted on a project basis. Reform's regulations changed this system into programming approach. The major advantage of programming is that it allows the integration of different forms of regional support for particular area into an encompassing development plan and investment strategies. Emphasise comprehensive approach to problems in lagging regions and the financial means of structural funds are allocated on the basis of multi-annual and multi-specialty programs. During the first phase of programming, regional and national development plans are drawn up by the national and/or regional authorities concern. Then the European Commission together with national and regional authorities developed Community Support Framework (CSF). Expenditures of

CSF falls under three main categories, Productive Investment Support, Human Capital Formation and Infrastructure. The third step in the implementation process are the Operational Programmes (OP), the implementation is mainly the task of national and regional authorities within the member states.

Partnership

The successful implementation of the EU structural policy depends on close partnership and co-operation between European, national and sub-national authorities. Respective authorities should actively share planning and realization of investment in all phases of programming.

Additionality

The additionality principle was designed in order to make sure that EU funding would not be used only as compensation to national structural subvention but will be used as an additional financial means to local sources. The EU financial assistance on programs is as a rule 50%. Departure from this principle of European funding is a framework for "objective 1" that can cover up to 75% of total project expenditures. In order to ensure the implementation of additionality principle member states have to provide detailed financial information for plans verification.

2.3. Expenditures on Regional Policy

2.3.1. Spatial allocation of Structural funds Support

The development of the financial allocations for EU regional policy shows the increased importance of structural actions within the overall framework of the EU. In the wake of the 1988 reform, the available resources for the structural funds were doubled from ECU 7,2 billion in 1987 (the last year before the reform) to ECU 14,5 billion in 1993, at the end of the first programming period. In relation to the EU budget, this represents an increase from 20% in 1987 to 35% by 1993. The Funds' contributions have grown to EUR 32 billion per year in 1999. The total Structural Funds means allocating during current 200-2006 counts EUR 195 billions (at 1999 prices) over the seven year period. Amount allocated year has decreasing tendency, starts at EUR 29,4 billons in 2000 and ends up EUR 26,6 billons in 2006.

In total, EUR 213 billion is available

Year	2000	2001	2002	2003	2004	2005	2006	2000-2006
Structural funds (in thousands)	29430	28840	28250	27670	27080	27080	26660	195000
Cohesion Fund	2615	2615	2615	2515	2515	2515	2510	18000
Structural measures	32045	31455	30865	30285	29595	29595	29170	213000

Source: www.europa.eu.int/comm/regional_policy/ag2000

There is also a special Fund to assist Spain, Greece, Ireland and Portugal, as their transport and environmental infrastructure remains inadequate. This is the Cohesion Fund, whose resources amount to about EUR 2.5 billion at average per year from 2000 to 2006, for a total of EUR 18 billion (at 1999 prices).

Just for direct comparison, according to the Commission proposal the annual amount of planed regional policy expenditures in 2007-2013 period should be EUR 48 billions (at 2004 prices). It makes in total EUR 336,1 billions. This amount corresponds to 41 per cent of EU 25 budget.

The total resources allocated through the European regional policy in 2000-2006 represent approximately 35 per cent of the EU 15 Community budget. The overall Structural Funds resources are supposed to amount to EUR 195 billion in financial years 2000-2006. The largest part of financial means is assign to Objective 1 in amount almost EUR 136 billions.

Amounts in euro in 1999 prices:

Structural Funds	**195,00 billion**		
Priority Objectives	182,45 billion	Objective 1	135,90 billion
		Objective 2	22,50 billion
		Objective 3	24,05 billion
Fisheries	1,11 billion		
Community Initiatives	10,44 billion		
Innovative actions	1,00 billion		
Cohesion policy	**18 billion**		

Source: www.strukturalni-fondy.cz

The comparison of total financial sources from Structural funds allocated to the Member States in years 1994-1999 and 2000-2006 show that the total amount of financial resources increased for more than EUR 30 billion . See the following table:

Member States	Period 1994-1999 (mil. EUR)	Period 2000-2006 (mil. EUR)	+ / -
Belgium	2096	1829	-13%
Denmark	843	745	-12%
Finland	1652	1836	11%
France	14969	14620	-2%
Ireland	6103	3088	-49%
Italy	21646	28484	32%
Luxembourg	104	78	-25%
Germany	21724	28156	30%
Netherlands	2615	2635	0%
Portugal	15038	19029	27%
Austria	1574	1473	-6%
Greece	15312	20961	38%
Spain	34413	43087	25%
Sweden	1377	1908	38%
United Kingdom	13115	15635	19%
EU-15	**153038**	**183564**	**20%**

Source: www.inforegio.ccc.eu.int/wbpro/prord

The biggest amount of financial sources, as in the previous period, will be received in period of 2000-2006 by Spain due to the fact, that main factors for assistance will remain the same also in the mentioned period. As regards the total amount of aid received, Italy and Germany will keep the second and third position respectively. Also in their case, as for Spain, the main factors for assistance remain unchanged – problems with new *Länder* in Germany and the low level of economic development of the south of Italy. Greece occupies the fourth place. Despite the effort of EU to financially foster development of this Member State, Greece starts to represent quite unsuccessful example of regional and structural policy implementation.

The biggest decrease of the amount of financial resources used both in absolute and in relative terms, was recorded between periods of 1994 – 1999 and 2000 – 2006 in the case of Ireland. Having been one of the Europe's most undeveloped regions in the past, today Ireland shows per capita GDP higher that EU average.

It seems obvious from this case that Member States can particularly benefit from regional and structural policy resources, when a connection with prudent economic policy of their governments can be found. On the other hand, assistance from structural funds as itself cannot be a solution to low economic development of particular country.

2.3.2. Impact of enlargement on eligibility of EU regions for regional aid

This part of study illustrates how the EU enlargement for ten new Member States will affect the regional aid. With respect to the relative backwardness of new Member States in time of accession, they will be eligible for the most intensive form of structural assistance, which ca be regarded as "Objective 1" assistance. A region is eligible for "Objective 1" assistance when its per capita GDP in PPS is less than the threshold of 75 per cent of the Union average per capita GDP in previous three years. From among the all the regions of new Member State there are only five regions (three capital regions -Prague, Bratislava, Budapest and two countries – Cyprus and Slovenia) that currently exceed the threshold[1].

According to the Commission's proposal for the reform of cohesion policy for the next programming period 2007-2013, the European regional policy bill will increase from 35 to 41 per cent of EU budget. However, this increase in Regional policy expenditures does not avoid the situation that some of the regions currently receiving structural assistance will lose further eligibility for it. Due to the fixed contribution ceiling of the EU Member States to the European Community budget and due to the fact that the new Member States lower the average GDP of the Union, some countries that currently benefit from "Objective 1" assistance will no longer qualify.

[1] For counting the threshold of 75 per cent of the Union average per capita GDP in PPS were used 2000-2002 data series and EU25 average. The index score of five new Member state regions exceeding the threshold are: Prague 153, Bratislava 120, Budapest 96, Cyprus 83 and Slovenia 75,3.
Source: Eurostat and own calculations.

Preliminary data for enlarged EU shows, that regional disparity measured by per capita GDP increased mainly because of the low living standard in new a Member States. More than 92 per cent of their population live in regions whose per capita GDP is below the 75 per cent EU25 average. What more, 61 per cent of new Member States population live in regions with per capita GDP below 50 per cent GDP EU25 average. There is not even one of EU15 member state regions below this 50 per cent threshold.

In EU15 there are still 33 regions with 14 per cent of population that qualify for "Objective 1" regional policy assistance after enlargement, because their per capita GDP henceforth does not reach the 75 per cent EU25 average.

More, 17 regions (16 regions in EU15 and Slovenia) which represent 4 per cent of EU25 population would not exceed the 75 per cent threshold not to be the enlargement. According to Commission proposal it is for this statistically excluded regions prepared transitional support.

Likewise, 11 regions in EU15 and 1 in CEEC would not be eligible for "Objective 1" assistance. These regions through their economic growth exceeded (during the past three years) the 75 per cent EU25 average threshold. This can be regard as success of regional policy. It is proposed to cover these successful regions into activities in "Objective 2", respectively "Regional competitiveness and employment" Objective as "Phasing-in" regions.

Following table provides information about the NUTS level II regions for each Member State of EU. The total number of NUTS level II regions is provided in the first column, the number of NUTS level II regions eligible for "Objective 1" assistance in the financial period of 1994–1999 in the second column, and the number of regions eligible in the current financial period in the third column. The last triple-column provides the numbers of NUTS level II regions eligible for regional assistance in prospective programming period.

Country	Total number of NUTS II	Number of Objective 1 regions in 1994-1999	Number of Objective 1 regions in 2000-2006	2007 – 2013		
				Number of Objective 1 regions in 2007-2013	Statistical effect	Phasing-in regions
Belgium	11	1	1	-	1	-
Denmark	1	-	-	-	-	-
Germany	40	6	6	7	4	-
Greece	13	13	13	8	3	2
Spain	18	11	11	4	4	3
France	26	5	5	4	-	-
Ireland	1	1	1	-	-	1
Italy	20	8	7	4	1	1
Luxembourg	1	-	-	-	-	-
Netherlands	12	1	1	-	-	-
Austria	9	1	1	-	1	-
Portugal	7	7	7	4	1	1
Finland	6	-	1	-	-	1
Sweden	8	-	-	-	-	-
UK	35	3	4	2	1	2
Czech Rep.	8			7		
Estonia	1			1		
Latvia	1			1		
Lithuania	1			1		
Hungary	7			6		1
Malta	1			1		
Poland	16			16		
Slovenia	1			-	1	
Slovakia	4			3		

Source: Second Report on Economic and Social Cohesion – Statistical Annex,

Following table provides information about the population covered by Objectives 1 and 2 in each Member State of EU in three periods of Regional policy. Two thirds of Structural Fund operations concentrate on Objective 1 and more then 20% of the Union's total population is affected by measures taken under this Objective. The eastern enlargement substantially increased the percentage of population covered by the Objective 1.

The population of all the areas eligible for Objective 2 of the Structural Funds may not be more than 18% of the total population of the Community, i.e. no less than two thirds of the population previously covered by Objectives 2 and 5(b).

Population Covered by European Regional Policy								
	Objective 1 (in %)				Objective 2 (in %)			
	1989-93	1994-99	2000-06	2007-13	1989-93	1994-99	2000-06	2007-13
Austria	-	3,7	3,4	-	-	7,5	25	
Belgium	-	12,8	-	-	22,1	14,2	12	
Denmark	-	-	-	-	4,9	8,5	10	
Finland	-	16,7	20,7	-	-	15,7	31	
Germany	20,6	20,6	17,2	12,5	12,4	8,8	13	
Greece	100	100	95,7	36,8	-	-	-	
Spain	57,7	59,7	57,6	32	22,2	20,4	22	
Sweden	-	5,3	5,1	-	-	11,5	14	
France	2,7	4,4	2,7	2,7	18,3	25,1	31	
Ireland	100	100	35	-	-	-	-	
Italy	36,4	36,7	33,3	28,8	6,6	11	13	
Luxemburg	-	-	-	-	38	34,6	28	
Netherlands	-	1,5	-	-	9,9	17,4	15	
Portugal	100	100	100	68,3	-	-	-	
UK	2,8	5,9	8,6	4	35,5	30,9	24	
Total EU12/15	21,7	27	22,9	14,5	16,8	16,4	18	
EU25			32,1				15	
Czech Rep.			89				3,5	
Estonia			100				-	
Cyprus			-				30	
Latvia			68,7				-	
Lithuania			100				-	
Hungaria			100				-	
Malta			98,47				-	
Poland			100				-	
Slovakia			88,45				3,3	
Slovenia			99,7				-	

Source: European Commission (2004)

2.3.3. Instrument for Pre-accession aid

Enlarging the European Union to include central and Eastern Europe w..as a major challenge for cohesion, given the number of applicant countries and their economic and social disparities. Despite the considerable efforts which they have made, integrating the applicant countries into exciting structure and Community programmes was a complex task.

The pre-accession strategy to be implemented during the period 2000-2006 in all the countries of central and Eastern Europe comprised:

- establishing comprehensive pre-accession strategy with a view to preparing the countries for accession to the European Union;
- bringing the various form of EU aid together within a single framework (the Accession Partnership);
- familiarising the applicant countries with EU procedures and policies in order to enable them to take part in Community programmes and to help them to comply with existing Community legislation.

Three instruments have assisted the applicant countries in the run-up to accession:

- **PHARE** (whose objectives are consolidation of the countries institutions, the participation in Community programmes, regional and social development, industrial restructuring and development of SME's);
- **SAPARD** (whose aims are to modernise agriculture and to promote the rural development);
- **ISPA** (which supports the development of transport and environmental protection measures).

Financial assistance provided by pre-accession structural funds instruments for the period 2000-2006 amounts is in total to EUR 21,84 billion:

	2000	2001	2002	2003	2004	2005	2006	TOTAL
PHARE	1560	1560	1560	1560	560	1560	1560	10920
SAPARD	520	520	520	520	520	520	520	3640
ISPA	1040	1040	1040	1040	1040	1040	1040	7280
TOTAL	3120	3120	3120	3120	3120	3120	3120	**21840**

Source: www.eurpa.eu.int/comm/enlargeent

2.4. Ireland vs. Greece

Ireland's recent economic performance is exceptional in the EU. Between 1987 and 1997 Irish GNP grew by almost 70 per cent, compared to EU growth rate of 24 per cent. Since the mid-1980's, the 'catch up' with the European per capita GDP was such that the whole country taken as a region is no longer qualify for Objective 1 region in current programming period of EU Regional Policy. The Eastern region, with current per capita GDP around 95%, accounts for 65 % of the total population. Western region, accounting for the remaining 35% has per capita GDP of EU average on 72% and thus retains Objective 1 status for 2000-2006 period and will qualify as an Objective 1 region 'in transition' in the next programming period.

How Ireland did achieve its success?

Perhaps of all EU countries, the Republic of Ireland has been most pro-active in fostering economic development using regional policy tools. Its economic development strategy has focused on employment creation and has been characterised by actively promoting: development of a modern export-led-growth manufacturing sector through financial and fiscal support; new greenfield investment by foreign companies, producing output specifically for export markets; and a pattern of economic development which brings private sector investment to the lesser developed Western area of the country. Key to this strategy adopted in 1960's was that the economy should move to free trade and that foreign investment should play a key role in this process.

Effectively, Ireland's strategy has been driven by the need to create employment, in order to reduce historically high rates of unemployment and net out-migration from the country. It ha centred on using industrial incentives to promote export-led growth, driven by FDI firms, especially electronics and pharmaceutics.

Undoubtedly Ireland has succeeded in developing a rapidly-growing, export base manufacturing sector. Annual average growth rates in industrial production in Ireland were 4,5% in 1970's, 6,3% in 1980's and 15,3% in 1990's compared with EU-11 averages of 3,0%, 1,7% and 5,2% respectively. The success in winning FDI companies was reflected also in its changing sectoral composition. Foreign companies accounted for 70% of output and 44% in employment in manufacturing in 1991.

Krugman (1997) pointed out that Ireland was very lucky. Its strategy of wooing Intel and Microsoft paid off, providing the basis for the consolidation and growth of the electronics sector. In the absence of these two investment projects, might the performance of Irish economy over the past decade have been much less spectacular and more akin to that experienced by Portugal and Spain.

The Greek growth rate at the time of entry EC did not paint the "gloom and doom" picture favoured in the descriptions of the Greek case. The only major exception this generalisation was the Athens (Attiki) area, which represents over half of the Greek population and the bulk of Greek production. Attiki experienced very low and even negative growth over the period 1981-1991, and its lack of the performance may have been due to and over-saturation of economic activity combined with urbanisation and political control in the area around the national capital.[2] Greece is highly monocephalic country, and Athens is an example of national core area that has used development funds in an increasingly unproductive manner. Expansion in Athens has les to diminishing returns. This should suggest that it would be wise for Greek government and the EU to locate new industries, and even transfer older industries to, other areas of the country. Also the weight of Attiki in the calculation of national GDP is often a dominant factor in overall negative figures that have been reported for Greece. Another explanation for the poor performance of Greek economy in relation to other member states is the relative low rate of foreign investment in Greece. It could be argued that Greece does not lack the structural economic factors, like e.g. adequate infrastructure and skilled labour, access to markets or investment grants, to attract capital and industry. The reluctance of foreign investors to enter Greece and low level of domestic investment may have more to do with the doubt about the transparency of political and administrative processes than with the profitability of Greek investments.

[2] Leonardi, R. (1996) *Convergence, cohesion and integration in the European Union* (St. Martin's Press)

3. CONVERGENCE AND DIVERGENCE IN ECONOMIC THEORIES

In broad literature on economic convergence and divergence is a significant debate not only on direction of changes but also on what cause changes and how that can be measured. In the past, the main factor explaining convergence or divergence have concentrated on physical factors such as infrastructure, financial capital and access to natural sources. In more recent time attention has begun to focus on the role of human capital (skills and entrepreneurial predispositions), institutional/political resources (formal constitutional structures of government) and social/cultural factors (as associations, policy networks and views on social cooperation).[3] Theories concerning the institutionalisation of supranational decision making in Europe have also made explicit assumptions about the dynamic of economic growth and convergence and its link to the process of institution building in the EU.

In this part I will discuss theories that explain the relationship between the core and periphery within the national states and the EU, as well as the prospects of convergence of national and regional economies in an increasingly integrating European market. In the past, theories on convergence and divergence have been used to formulate hypotheses to analyse the economic and political prospects of peripheral states and regions in Europe. Recently, these commonly accepted notions have been placed into question by empirical trends that have not conformed to the expectations or traditional notions concerning underdeveloped regions.

The economic theories that have searched for an explanation of the dynamic of regional growth (or the lack of it) and have been used for proposing regional policies can be divided into two basic categories. The first places emphasis on the move toward cohesion. Convergence can be defined as an end-product of socio-economic policies designed to reduce socio-economic disparities. That is, regional and national economies converge if the initially weaker economies benefit from appropriate economic policies design to spur development, and if the peripheral states and regions grow at rates faster than those in the core areas. Divergence, in contrast, is defined with experience of increased disparities. Disparities increase as the logic of differentiated flows of factors of production o behalf of developed regions or

[3] Leonardi, R., Nanetti, R.Y. (1994) *Regional Development in a Modern European Economy: The case of Tuscany* (London: Printer) the authors place themselves in the latter category in emphasising the role of civic values and sense of community in the determination of institutions and economic performance.

countries. The rich get richer and the poor get poorer. Divergence continues due to fact that the regions and states undergoing decline are not endowed with the appropriate policies, performance level necessary to reduce the gap and potential for the growth. That all separates the poorer areas from more developed ones.[4]

My concern here is to show which approach best describes the empirical reality of the pace and content of national and regional economic changes during the past forty years. How these levels of economic performance and outcomes are linked to the process of European integration. This chapter provides an overview of the convergence and divergence approaches of economic theory.

3.1. Convergence theories

A number of approaches explain the process of economic convergence. The first four approaches discussed here are based on mix of market, government and social factors that stimulate and maintain growth over time.

The first approach looks at causes of growth and emphasises the role of industrialisation in the growth theory[5] and the creation of large industrial enterprises using economies of scale at their basic organising principle.[6] According to this, peripheral areas are underdeveloped because they lack the industrial base that would allow them to compete with the core areas. Prior to 1974 the industrialisation paradigm maintained the most of developed economies focused on the adoption of economies of scale. National governments pursued policies aimed at providing investment incentives, attracting capital from abroad and mobilising capital for productive investments, raising the skill level of workforce and encouraging a sifting-out process among small and medium-sized enterprises in order to encourage the emergence of a dominant producer. The success of the industrialisation process was based on mass produced goods able to compete on the world market because of their lower production costs.

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[4] Leonardi, R., (1996) *Convergence, cohesion and integration in the European Union* (St. Martin's Press)

[5] See more in works of Hoffmann (1958) *The Growth of Industrial Economies* (Manchester: Manchester University Press) and Bryce (1960) *Industrial Development: A guide to Accelerating Economic Growth* (New York: McGraw-Hill)

[6] See more in: Apter, D. (1987) *Rethinking Development* (London: Sage), Gupta, L. C. (1983) *Growth Theory and Strategy: New Direction* (Delhi: Oxford University Press)

More recent elaborations[7] of this approach have emphasised the role of integration in stimulating growth through a process of market scale. The removal of trade barriers allows peripheral economies to gain access to large markets of core areas, eliminate redundancy and spur the transfer of technology, thereby permit peripheral regions to share immediately in innovations.

This line of reasoning has actually formed the basis of conventional theories of economic integration developed since the pioneering work of Viner (1950). Thus, those models - sharing the assumptions of neoclassical growth theory – generate a tendency for prices, costs and income levels to converge, with trade and international factor mobility acting as the convergence mechanism. This process of real convergence is further stimulated in the case of monetary union by the reduction of transaction costs (including the elimination of foreign- exchange uncertainty) associated with trade and factor movements.

Other writers have emphasised the difficulty of realising these objectives because of inherent rigidities in the free flow of production factors, geographical determinants, differences in availability of resources, the education of management and training of labour, regional economic structure, institutional factors such as the centralization of public institutions and national wage setting in spite of differences in productivity. Vanhove and Klaassen (1980) were interested in the mobility of labour, capital and prices. They argued that economic reality in Europe reflects the inflexibility of wage bargaining and distribution structures dominated by large national firms. These characteristics prevent firms from adequately adjusting of their production and marketing strategies and don't take into account changes in demand and increased competition. Such built-in price and wage rigidities prevent the market from adequate reaction in areas hit by recession.[8] The end-result of rigidities built into market by governmental social policies is decrease in investment and increase of regional disparities, unemployment and government deficits.

The second approach to spurring economic growth in Europe was the „growth-pole" theory developed by Francois Perroux (1955). The growth-pole theory accepted the industrialisation paradigm, but in contrast with classical models of economic growth it introduces into development equation role for national economic planning

[7] Grossman, G: M. and Helpman, E. (1991) *Innovation and Growth in the Global Economy* (Cambridge, MA:MIT Press)

[8] Vanhole, N. and Klaassen, L. H. (1980) *Regional Policy A European Approach* (Montclair, J: Allenheld, Osmun & Co.)

and political decision making.[9] It is basically states in theories that growth can be planned and concentrated into developed areas, such those identified as urbanized, metropolitan areas. Underdeveloped are usually rural areas with low level of urbanisation and shortage of economic infrastructure, capital and skilled labour. Given the imbalance between urban and rural areas, growth-pole approach advocates suggest that government must intervene in favour of less developed regions to equalise the factors of production to accelerate growth there. Growth is therefore a by-product of governmental policy than the unconscious consequence of private economic forces.

In contrast to growth-pole theory, the third approach to growth views the governments and public policy as difficulty to development because the government rules on investment, capital transfers, wages and working conditions can operate as inhibitors of development. Hirsch and Olson emphasize the need to reduce state interference in economic activity especially in countries rich in capital, technology and skilled labour that need to compete at world market against low-wage countries. Growth is not based on governmental intervention in creation of productive capacities or in industrialization processes. Instead, government need to concentrate on reducing structural impediments to economic growth, such as capital control, regulations governing economic activity, labour law, and environmental standards and so on.[10] This approach has gained great favour since the 1980s, when the governments of EU states pursued policies of deregulation and privatisation. Loukas Tsoukalis had argued that the growth of Spain, Portugal and Greece in 1960s and 1970s was based on the reorganisation of their markets toward greater interaction with other Western Europe through the elimination of autarkic economic policies.[11]

The fourth approach to development has achieved prominence during the last twenty years and emphasises the role of endogenous, local factors in promoting growth. It's based on the new growth theory, which (contrary to the neoclassical paradigm) does not predict that income convergence between rich and poor countries (regions) is the only possible outcome of the economic integration. The endogenous theory of growth is a certain extent of Perrouxian growth-pole theory and other theories emphasising the role of state institutions. This school of development

[9] For discussion of Perroux and other traditional regional growth theories, see Holland, S. (1976) *Capital against Regions* (London: Macmillan)
[10] Hirsch, F. (1976) *Limits to Growth* (Cambridge: Harvard University Press.), Olson, M. (1982) *The Rise and Decline of Nations: Economic Growth, Stagflation and Social rigidities* (New Have, Con: Yale University Press)
[11] Tsoukalis, L. (1981) *Economic Divergence and Enlargement* (London: Allen & Unwin)

theorists (works of Cappellin, Stoehr) evolved from critique of equilibrium theory: production factors are basically immobile. Instead they admit that basic components of development – physical infrastructure, labour, capital and technological inputs and so on – remain fixed in particular location. Thus the challenge for the governmental development is to create conditions and encourage migration through appropriate incentive programmes. Public policy designed to promote endogenous development needs to focus on lowering the barriers to firm creation and on helping existing firms to migrate into sectors of production where the local areas have a comparative advantage. These objectives can be achieved through proactive research and development policies, vocational education, increased producer services, aggressive foreign marketing strategies, public-private cooperation and environmental-protection strategies designed to increase the area's attractiveness to indigenous and external entrepreneurs.[12] Endogenous growth theory differentiates itself from the previous approaches by emphasising the role of regional and local authorities as active participants. The role of regions is to create an incentive structure and provide coordination of policies, while the role of local government is to build the social and physical infrastructure necessary for firms to maximize their external economies.

3.2. Divergence theories

The group advocates divergence theories does not exclude the possibility of underdeveloped regions experiencing growth, but points to the difficulty to achieve this result. The major argument in the development of EC regional policy in the 1970s drew up the theoretical work of Gunnar Myrdal. In 1957 Myrdal developed the cumulative causation theory, which is based on criticism of the comparative advantage model in international trade.[13] Myrdal argues that market forces do not bring about an equal redistribution of production factor or incomes, because whenever any difference among regions arises, advancement raises the difference. In other words the success of the more developed regions is paid by the reduction in the developmental potential of the less developed regions. As a consequence, there was created cycle of

[12] Garofolli, G. (1992) *Endogenous Development in Southern Europe* (Aldershot: Gower).
[13] Vanhole, N. and Klaassen, L. H. (1980) *Regional Policy A European Approach* (Montclair, J: Allenheld, Osmun & Co.)

underdevelopment produce a backwash effect that pushes capital, skilled labour, entrepreneurship and technology toward core areas.

Myrdal also recognizes 'the spread effects of development' economic growth in core areas has some positive effects for peripheral areas. The initial spread effect, emphasising the role of peripheral areas as exporters of agricultural products and raw materials to developed areas was counteracted since early 1960's by the existence of naturally endowed countries on the east and by the impact of the Common Agriculture Policy. In fact, since early 1970's underdeveloped areas such as south Italy and Greece have become net importers of agriculture products originating from core countries.

Premised backwash effects have stimulated formulating regional policies on nation state and at the European level. Governments have attempted to protect newborn industries from open-market competition and encourage the local product factors to remain in underdeveloped areas. From this perspective economic integration could not be considered as a solution to the problem of mobilising potential of local growth. National and EU regional policies should have two fundamental goals: (1) efficiency – reducing the level of unemployment and wasting of social capital due to fixed social costs (e.g. education and income support policies) through the fostering of regional growth and (2) fairness – equitable redistributing the gain of national growth.

The second group, radical and neo-Marxist theorists, have adopted a similarly pessimistic view as that voiced by Myrdal on chance of peripheral economies attaining the level of development of core areas. But their critique of prospect for development is system-oriented rather than based on an ability to balance backwash against spread effects in regional economies. Marxist theorists basically exclude the possibility of redressing regional differences.

Third group of divergence theories consist of "new economic geography" models e.g. path dependence (B. Arthur, A. David), new endogenous growth theory (P. Romer), new trade theory (P. Krugman and M. Porter) and new growth theory (R. Barro and X. Sala-i-Martin).

Authors of "new economic geography" models abandoned a neoclassical postulate concerned with diminishing returns and trust in ability of present mathematical applications to intercept even very complicated non-linear and diverging tendencies of regional development into mathematical models. These models are qualified into several spheres according to the most important mechanisms which cause convergence/divergence. Romer (1986) emphasise the role of human capital

accumulation and technological spillover as the main driving forces of economic growth which under some circumstances, even widening, technological and income gaps between countries. Also the path dependency theory is very specific and describes suboptimal consequences of decentralized technology selection. It's rather description of historical events than an analysis of social development (Ron Martin, 1998). Krugman's new trade theory is embedded into self-regulating economic environment with the advantages of spread of knowledge, technological spillover, large market demand and supply and increasing returns to scale. According to this theory regional policy should support deeper branch specialisation, interregional trade, more regional decentralisation of economic policy and protection of new born industries.

The theories dealing with tendency of regional development differs a lot. The new growth theory (Barro, Sala-i-Martin) has focus attention on question of convergence or divergence. Authors recognize several types of convergences. Essential is their definition of conditional beta-convergence. The definition says that every region and country tends to its own steady state. The direction and speed of convergence of each region and country depends on differences in technologies and behavioural characteristics. We can talk about conditional beta-convergence for instance if the growth rate of regional economy is positively correlated with its distance from its steady state. From this point of view authors suppose that tendencies to convergence are more explicit on interregional level than on international level because of strong social, institutional, structural and technological resemblances of regions within one country than between countries on international level.

Models of "new economic geography" emphasise importance of individual's initiatives for the regional development. On the other side models disagree with dragoon state interventions into reduction of regional disparities. It's always preferred to stimulate production and specialisation of small and medium size enterprises.

3.3. Study of economic and social convergence in EU

3.3.1. Methodology

In making the transition between the "predictions" of economic and political theories and analysing what is happening in regional economies in Europe, is the

evaluation of convergence. First part concentrates on defining and evaluating dependent variables – that provide evidence of change in cohesion gap and level of convergence. Second part pay attention on independent variables – those, that can explain or account for the changes observed in the dependent varialbes.

In order to measure the concept of convergence, it is necessary to construct variables that contain data measuring the level of economic and social well-being over different point of time and ensure that the datas are reliable and valid. Furthermore, the appropriate level of analysis for study of cohesion is the national-state and regional level. While the definition of the constituent national state has not changed within the EU during the last fifty years (except the German unification), the same can not be said for the regions. As acknowledged by the EU in its definition of territorial levels through the distinction among NUTS I, II and III, the term "region" differs from one nation-state to another. The importance of using a consistent definition of region is that it permits evaluation of convergence trends beyond limited number of cases and a short period of time and it removes the restriction of basing the analysis on just a few regional case studies. The regional-level data provides the opportunity for the analysis of trends to move on to more differenciated and detailed level of aggregation and focus on problems areas at the subnational level.

The two data bases used in this study are (1) EUROSTAT's REGIO regional dataset covering the period 1970 to 1988, suplemented by EUROSTAT datas since 1989 and (2) data published in Molle, van Holst and Smit (1980), covering the period between 1950 and 1970. The two data sets have to be analysed separately because of different definition of dependent variable and slight variations in the units of analysis. However both data sets are very similar in structure and can provide clear identification of course of regional and national disparities over the life in EU.

In the analysis of the 1970-91 period a sub-sample of the 174 NUTS II statistical regions used by EUROSTAT was created and reworked, because it was necessary to take into acount changes in the definition of NUTS II regions between 1970 and 1980. So, the sample datas used in this analysis covers 80 regions in the original nine member states over period 1970 -1991. The regional data sets from 36 regions of other three member states (Greece, Spain and Portugal) are treated only over a shorter, fourteen-year period (1981-1994). The data set's for 1995-2002 period covers 213 regions of 15 EU Member State and 41 regions of 10 new accesion countries. This data set consists of 254 NUTS level II regions in total. I use the data for the year 2002,

which is the most recent data available for all of the countries. In addition these sets of datas can be used to generate conclusion concerning the impact of economic convergence on less developed regional economies on the periphery of the EU.

The rate of convergence can be measured in two imporant ways: It can be expressed in absolute terms, as measured by specific levels of productivity, comsumption and investment or it can be expressed in relative terms through the relative change in position on indexes vis-à-vis other regions. Both ways will be used in this study, because they measure various parts of the issue and provide alternative scenarios for future policy intervention.

3.3.2. Scenarios for the study of convergence

In testing the hypothesis generated by the theoretical literature discussed above, it is necessary to make explicit reference to how change is expected to manifest itself. For this purpose had been formulated three possible scenarios that could be followed in achieving convergence, one scenario for divergence and one for no change in the status quo. It is theoretically possible that both sets of convergence and divergence theories are wrong. Empirical analysis may show that there has simply been no change in disparities despite the massive resources invested in regional development. As a consequence it's necessary to take into account the possibility of third hypothesis that predicts no change over time.[14]

The first convergence hypothesis is called "equivalent growth hypothesis" presented in Figure 1. In this figure both the most and the least developed regions experience growth at the same level. Thus there is no change in the cohesion gap that separates the regions at two different points of time when the measurement is made. Expressed in the criteria for convergence over time, there is absolute change in both cases of regions but no relative change; the regions do not make any progress with respect to each other.

[14] Leonardi, R. (1996) *Convergence, cohesion and integration in the European Union* (St. Martin's Press)

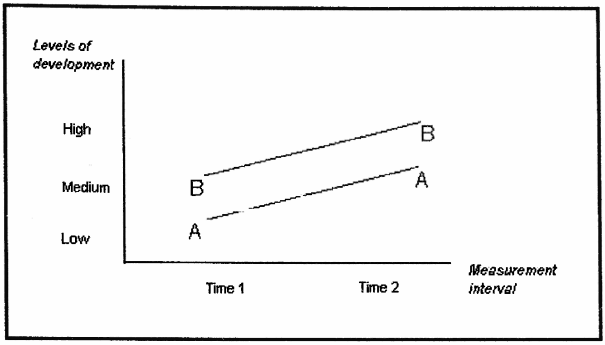


Figure 3.3.1.: Equivalent growth hypothesis

The next two hypotheses are predicted by the economic convergence and neofunctionalist integration theories through a process of "peripheral ascendancy". Peripheral ascendancy predicts that less developed regions will grow faster than the most developed regions. Thereby the cohesion gap between two groups of regions will be reduced as measurements taken over the time. Figure 2 presents possibility, where the cohesion gap is closing through "upward convergence". The less developed regions experience accelerated rates of growth while the most developed regions undergo less spectacular growth. The same end-result is hypothesized through the "downward convergence", the decline in the strongest regions and the modest growth by the less developed regions. The downward convergence scenario is presented in the Figure 3.

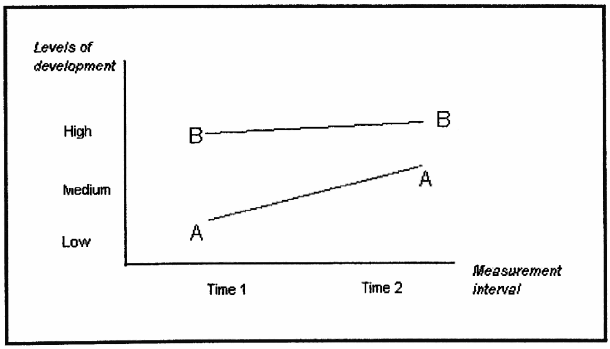


Figure 3.3.2: Hypothesis of upward convergence

The overall result of the dynamics illustrated by Scenarion2 and 3 is the same, but the policy implications of the two hypotheses are radically different. In Figure 2 reduction of the gap is anticipated on the basis of rapid growth on the part of the weakest regions. The growth rate of the weakest regions between Time 1 and Time 2 outweigh the rate of development of the strongest regions, and the outcome is the reduction of the cohesion gap. According to this hypothesis, the reduction is taking place in absolute terms. But there is still the theoretical possibility that there might not be taking place in relative terms: rank positions may remain unaltered in the process, while the gap between regions is reduced. In statistical terms the standard deviation decreases.[15]

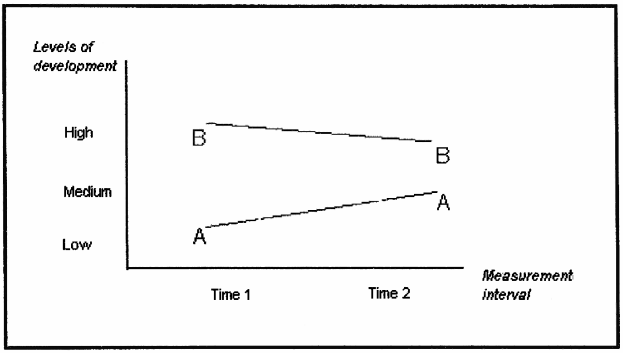


Figure 3.3.3: Hypothesis of downward convergence

Reduction of the cohesion gap in Figure 3 is based more on the negative performance of the strongest regions. Convergence is caused by an economic regression of the strongest regions instead of the sustained growth of less developed regions. In the second half of 80's and beginning of 90's many convincing arguments in support of 2. and 3. convergence scenarios were presented, e.g. Jacques Delors (1989) argued that the traditional factors (transport costs and economies of scale) fuelling the growth of the core versus the periphery have decline in importance in determining the industrial-location decisions.[16] A similar point is made by Tsoukalis (1991) in arguing that serious regional problems can be alleviated if EU policies aim at

[15] Leonardi, R. (1996) *Convergence, cohesion and integration in the European Union* (St. Martin's Press)
[16] Delors, J. (1989) *Regional implications of Economic and Monetary Integration,* in CEC (Luxembourg: Office of Official Publiations of the European Communities)

(1) promoting flexibility of product and factor markets and (2) the effectiveness of EU and member state regional policy instruments.[17]

The last hypothesis under convergence theory, which should be considered here, is a combination of the two previous scenarios. Figure 4 presents the most extreme form of convergence or periphery ascendancy. Consider a situation where core regions run into some difficulties and still maintain its relative and absolute standard of growth. Contrary to this situation in core, the periphery regions experience sustained growth to the point that the positions are reversed. The periphery becomes core and core becomes periphery. In such an eventuality the cohesion gap may remain the same, just the positions of regions changed.[18]

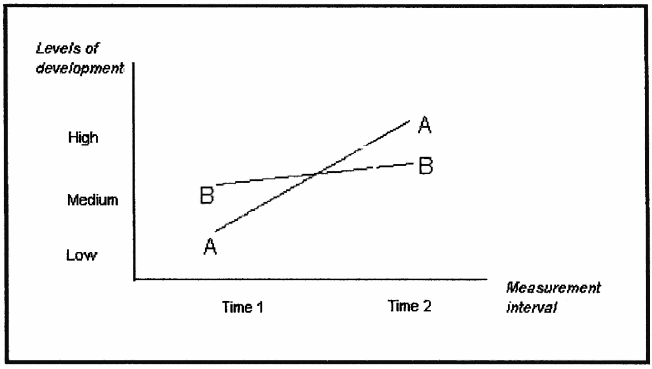


Figure 3.3.4: Reversal of roles hypothesis

The last hypothesis (figure 5) is more traditional in the discussions of regional disparities in the EU and stresses the increasing divergence between the developed core regions and underdeveloped peripheral regions. The core-periphery hypothesis predicts a widening gap between rich and poor regions over time. Rich get richer and poor get poorer in relative and absolute terms.

[17] Tsoukalis, L. (1991) *The New European Communiyt: The Politics and Economics of Integration* (Oxford: Oxford University Press).
[18] A feasibility of the full reversal of roles hypothesis is unrealistic in the shirt run.

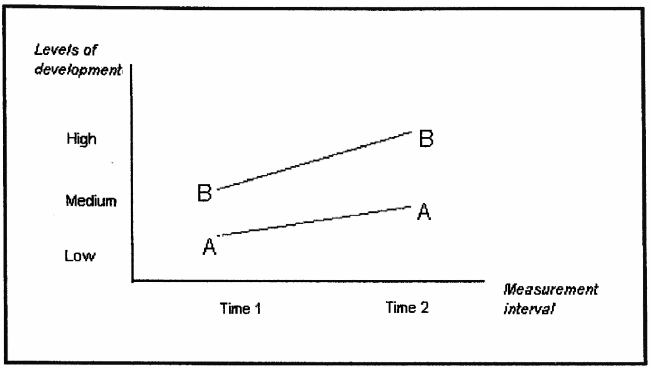


Figure 3.3.5: Divergence hypothesis

According to this hypothesis core regions possess structural characteristics such economies of scale, skilled labour force and higher level of technological development that contribute to the core growth and increase the regional divergence. The periphery can expand but cannot do so on the same level as rich regions because of missing the same advantages. EU transfer payments can just help to "ease the pain" of increasing cohesion gap. In this perspective, the significance of EU policies has changed during the last decade from the policies of "side" transfer payments for the less developed regions to policies stimulating the dynamic of market factors.

The scenarios that I will try to examine here are the ones associated with convergence hypothesis. If peripheral ascendancy is taking place in the EU, the periphery should demonstrate accelerate and sustained level of growth and the changes in the variables should indicate a closing of the gap between core and peripheral regions. In this part is also necessary to take into account (illustrate) the impact of EU enlargements on regional imbalances within the EU. In the second analytical part I try to show if there is any coherence between the increasing expenditures on EU regional policy and the reduction of the gap between the core and peripheral regions. The analyses as a whole reveal that the present system of regional redistribution in the EU can result in problems with the bargaining process about regional redistribution when the last enlargement took place.

4. FIVE DECADES OF CONVERGENCE

4.1. Regional income disparities

The aim of this chapter is to undertake a systematic analysis of the dynamic of the convergence at the regional level. Defining of dependent variables was handicapped by a lack of adequate data over the chosen period. So, the only two indicators that could be used are per capita GDP and data on per capita purchasing power standards (PPS). In the Second Periodic Report was used per capita GDP variable as a means of assessing the regions' potential to adapt to changes in the international economy and develop indigenous resources to the highest possible degree. Per capita PPS is a key indicator for income disparities. PPS compares prices for the same basket of goods and services in the different member states. It is a good indicator of social development, especially if the objective of regional policies is to promote convergence of living standards, income and productivity.

Analysis of 212 cases over eight year period 1995-2002 uses the variables per capita GDP in Euro currency. Two separated analyses of 80 cases of nine Member state and 36 regions of three peripheral countries (Greece, Spain, and Portugal) use the variables per capita GDP in ECU and per capita in PPS over twenty-one year period 1970-1991. Analysis of 76 cases over the 1950-1970 period use variable per capita GDP expressed in US dollars. All the analyses show that there was a significant reduction of the cohesion gap.

1950-1970

Tables 4.1.1. and 4.1.2. present the per capita GDP figures analysed to measure the dynamic of regional disparities in 1950-70 period covered by the Molle, van Holst and Smit (1980) study. In 1950 the centre of development was located on both sides of La Manche Channel, around the capital cities (Paris, Brussels, London, Luxembourg) and their surroundings. The other top regions were those containing traditional industrial concentrations, such as heavy industrial and mining activities (Wallonie, Nord, West Midlands and Yorkshire-Humberside). Only one German region (Hamburg) was among the top regions, while a number of others were below the average for member states. The bottom was composed of all of Italy's southern

regions. At the absolute bottom were the three mountainous regions of Italy (Molise, Calabria, and Basilicata). The other low-scoring regions were largely agricultural areas. During the following ten years there was slight shift in the concentration of the strongest regions toward the southern side of La Mancha Channel. The list of weaker regions remained constant and their relative scores decreased.

Table 4.1.1.:

Index scores per capita GDP (in US dollars)

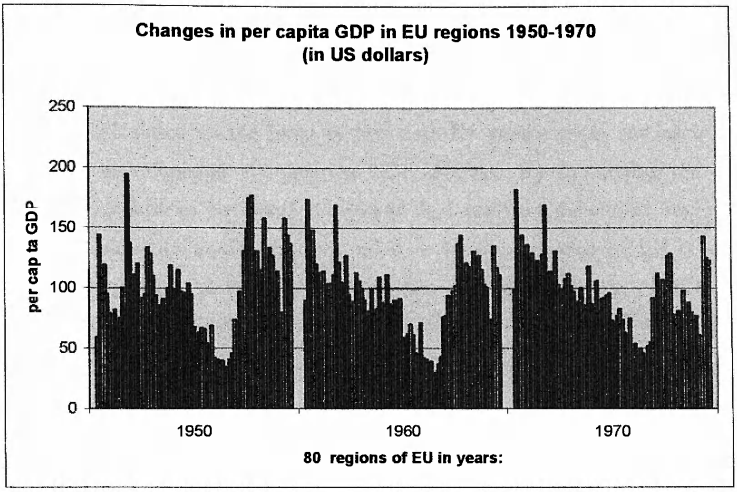
TOP 10	1950	1960	1970
Ger. - Hamburg	144	174	182
Ger. - Bremen		148	144
Ger.- Nordrhein-Westf.			129
Ger. - Hessen			136
Ger. - Baden-Wurtemb.			129
Ger. - W. Berlin			128
F - Region Parisienne	194	169	169
F - Nord	137	122	
F - Haute Normandie		127	131
B - Wallonie	149		
B - Brabant	175	137	
L - Luxembourg	177	144	129
UK – Southeast England	158	131	
UK - West Midlands	134	127	
Dk - Sjaell	158	135	143
Dk – Fyn	144		

Index scores per capita GDP (in US dollars)

BOTTOM 10	1950	1960	1970
It - Umbria	54	46	
It - Marche	53	45	61
It - Campania	42	42	48
It - Abruzzo	41	41	54
It - Molise	34	35	44
It - Puglia	40	39	50
It - Basilicata	35	29	46
It - Calabria	34	30	41
It - Sicilia	41	37	52
It - Sardegna	46	43	55
UK - Northern Ireland			61

Source: Molle, van Holst and Smit data (1980) and own calculations

By 1970, there was a significant improvement in the position of the less developed regions. The southern Italian regions witnessed a significant improvement, which allowed them to overcome the decline experienced in the 1950's. Average index scores went up considerably, and the gap between the top and bottom ten regions was reduced from 3,7 /1 multiple in 1950 to 2,8 /1 in 1970. It can be conclude that the disparity between the regions of European Community decreased markedly in this period, as shown in the graph.



Source: Molle, van Holst and Smit data (1980) and own calculations,

Regions, where the growth was greatest, were located in Germany, while the traditional manufacturing areas along the La Mancha Channel continued to grow, but at lower levels. The following table shows the change in dynamic of economy between 1950 and 1970, expressed in the change in index scores.

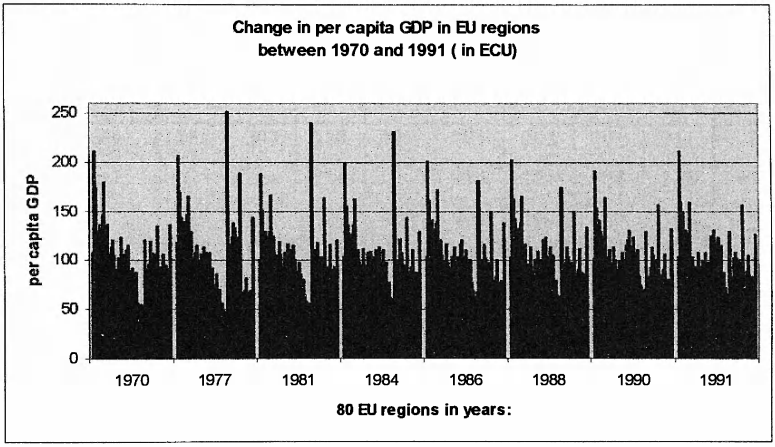
Table 4.1.2.:

10 best performing regions	Change in index scores 1950-1970	**10 worst performing regions**	Change in index scores 1950-1970
Ger. - Hessen	+57	UK - Southeast England	-60
Ger.- Bayern	+49	UK - York and Humberside	-53
Ger.- Rheinland-Pfalz	+48	B - Wallonie	-52
Ger.- Sued	+48	B - Brabant	-48
Ger.- Baden-Wurtemberg	+47	L - Luxembourg	-48
Ger.- W. Berlin	+45	UK - Northwest England	-47
Ger.- Schleswig-Holstein	+40	UK - West Midlands	-46
Ger.- Niedersachsen	+39	UK - North of England	-38
Ger.- Hamburg	+38	UK - Scotland	-37
Ger.- Nordrhein-Westfal.	+34	UK - East Midlands	-34

Source: Molle, van Holst and Smit data (1980) and own calculations

1970-1991

Turning to the second group of data, which covers 80 regions between 1970 and 1991, we find in tables 4.1.3. a parallel form of convergence that taking place. The EC average was calculated on the basis of raw data for eighty cases and each region's index score was calculated vis-à-vis the EC-9 average. By calculating the gap that separates the groups of ten most developed and ten less developed regions were calculated ratios which could be compared over twenty-one year period. The results show, once again, a clear reduction of the gap between the developed and underdeveloped regions, as show the graph below. This is true for both dependent variables: per capita GDP and PPS of nine Member States.



Source: Eurostat and own calculations

According to the per capita GDP variable the gap between the single most developed and the single least developed fell from the 1970 level of 5,0 /1 multiple to 3,8 /1 in 1991. The differences between the top ten and bottom ten regions in the intervening years are characterised by the following trend:

	1970	1977	1981	1984	1986	1988	1990	1991
top / bottom 10	2,84	3,43	2,65	2,75	2,48	2,38	2,21	2,19

Source: own calculations

In the year 1977 the gap grew up to the ripple effect, caused by the energy crisis accompanied by the high oil prices. These effects are reflected clearly in the sharp increase experienced e.g. by Groningen region, which moved from 1970 index score of 121 to 251 in 1977 and in 1990 fell back down to 129 on the per capita GDP index scores. The gap between the average of the top ten developed and bottom ten least developed regions decreased from 2,84 /1 in 1970 to 2,19 /1 in 1991.

The dramatic change of peripheral regional economies was caused by a profound transformation of economic sectors in both northern and southern parts of Europe. On one hand the UK regions were de-industrialized, and on the other the Italian regions were no longer dominated by the agricultural production. During that forty years Italy has become more industrialized.

Tables 4.1.3.: Regional index scores on per capita GDP in ECU, 1970-1991

TOP 10	**1970**	**1977**	**1981**	**1984**	**1986**	**1988**	**1990**	**1991**	**Δ91-70**
Ger.- Hamburg	211	207	188	200	201	202	191	211	0
Ger.- Bavaria					125	125	125	128	+10
Ger.- Bremen	174	169	151	155	161	162	154	160	+1
Ger.-Bad.-Wurt.	137	140	125	127	132	132	129	131	-1
Ger.- Hessen	126	144	130	137	141	142	141	150	+6
Ger.- W. Berlin	147	146	130	137	138	138			-38
It.- Lombardie							131	131	+16
F- Ile de France	179	165	167	163	172	165	164	159	-13
F-Haute Norm.	137		125						-23
NL- Groningen		251	240	231	181	174	129	130	-6
NL-North Holland		138		122					-7
B- Brussels	133	188	164	143	149	149	157	156	+5
L- Luxembourg	135								-5
Dk- Denmark	137	143	120	129	138	134	132	127	-5
Σ	**1520**	**1691**	**1540**	**1544**	**1538**	**1523**	**1453**	**1483**	

Source: Eurostat, own calculations

BOTTOM 10	1970	1977	1981	1984	1986	1988	1990	1991	Δ91-70
It - Umbria	70								+29
It - Marche									+26
It - Campania	55	48	55	61	59	60	63	69	+34
It - Abruzzo	56	56	65						+20
It - Molise	46	46	58	67	69	70	75	77	+7
It - Puglia	55	49	56	62	63	65	69	72	0
It - Basilicata	46	48	56	61	56	57	59	63	-2
It - Calabria	42	43	49	50	51	52	54	55	-2
It - Sicilia	54	46	54	61	61	63	65	66	-2
It - Sardegna	54	53	56	67	67	67	71	72	-12
UK – Wales					69	76	73	74	-12
UK - North.Ireland		55	74	71	64	69	65	67	-8
Irl. - Ireland	57	48	57	61	61	59	63	62	-8
Σ	**535**	**492**	**580**	**561**	**620**	**638**	**657**	**677**	

Source: Eurostat, own calculations

In other core countries the trend over time was similar to that registered by UK. The fragment of the data, presented in table 4.1.3, show that between 1970 and 1991 the index scores for core regions generally fell. Germany maintained five of the its Länder in the top ten index, but the majority of the German Länder experienced decrease in their index scores. A similar phenomenon characterised the French regions. Sixteen of twenty-one French regions experienced the slowed growth. In Belgium, the index scores of Flanders and Wallonia fell, as did those in Luxembourg and Denmark. The British and Dutch regions were almost evenly split between those regions that fell and those that rose on the index.

The most benefiting part of European Community in 1970-1991 periods, expressed in change of index scores, was periphery. Ireland and seventeen of twenty Italian regions indicate significant increase in their index scores. Even the south Italian regions, long time related to the bottom of the ranking of nine and even later twelve member states, made strong gains, especially those positioned along the Apennine mountain range. During the twenty-one year period, Abruzzo went from 56 per cent to

88 per cent on the index, Molise from 46 per cent to 77 per cent and Basilicata from 46 per cent to 63 per cent. The fact that index scores of the weakest regions increased while those of strongest regions fell during that two decades, helps once again to explain the reduction the reduction of the cohesion gap as was predicted by the peripheral ascendancy thesis and convergence theories.

The reduced gap between strong and weak regions was seen also in relative ranking of the regions on per capita GDP index. It shown a breakdown of the region's relative ranking over twenty-one years by regions occupied the middle or upper parts of the rankings, such as Champagne-Ardennes, Nord Pas-de-Calais, Lorraine, Picardie, Flanders, Wallonia, East Netherlands, West Midlands, Basse Normandie and Sardegna. Contrary to this, there was a significant movement upward in ranking by Groningen, Lombardia, Saarland, Veneto, Emilia-Romagna, Toscana, Lazio, Marche and Bretagne. The most gains were experienced by regions in the middle or lower end of the scale. According to the convergence scenarios, the changes in intermediate parts of ranking confirmed the "reversal role" scenario.

Parallel conclusions were concluded from the analysis of PPS data. In comparing 1970 index scores with those in 1991, the gap between the most and least well-off region declined from 4,3 /1 multiple to 3,6 /1. Among the top and bottom ten regions, the PPS ratio fell from 2,44 /1 multiple in 1970 to 2,09 /1 in 1991.

	1970	1977	1981	1984	1986	1988	1990	1991
top / bottom 10	2,44	2,19	1,99	2,08	2,06	2,02	2,07	2,09

Source: own calculations

The regions that qualified for the top ten ranking remain fairly stable. Six of the top ten were part of the top group for the whole period. It was three German regions (Hamburg, Bremen and West Berlin), Brussels, Groningen and Ill de France (Paris). The four new members were one German Land (Hessen) and three Italian regions (Lombardia, Valle d'Aosta and Emilia-Romagna). The general rise of northern and central Italian industrial districts in relation to the overall EC mean is evident throughout ranking. The southern regions also increase their overall scores, Abruzzo enjoyed increase of (+31) PPS points and Molise region (+30) PPS points between first and last calculation of PPS scores in 1970-1991 period. In addition to continued the upward thrust of the Ile de France area, an important

Tables 4.1.4.: Regional index scores on PPS per capita, 1970-1991

TOP 10	1970	1977	1981	1984	1991	1988	1990	1991	Δ 91-70
Ger. - Hamburg	185	168	171	179	197	170	178	197	+12
F - Ile de France	158	153	154	158	162	158	162	162	+4
Ger. - Bremen	152	138	138	138	149	138	144	149	-3
Ger. - Baden-Wurt.	120						120		+2
Ger. - Hessen				122	140	126	132	140	+30
Ger. - W. Berlin	128	119	118	122					-38
F - Haute Normandie	121	120							-16
F - Liguria			122						-4
It. - Valle d'Aosta		145	144	124	125	125	123	125	+13
It. - Lombardie		124	127	126	131	136	133	131	+19
It. - Emilia-Romagna			123	123	124	127	125	124	+32
NL - Groningen	123	216	134	226	131	131	131	131	+8
NL - North Holland		119		119					-9
NL - South Holland	121								-19
B – Brussels		148	153		161	153	160	161	+41
L – Luxembourg	126				123			123	-3
UK - Southeast Engl.					121	128			+1
Dk – Denmark	118								-14
Σ	1352	1450	1384	1437	1404	1392	1408	1443	

Source: Eurostat and own calculations

BOTTOM 10	1970	1977	1981	1984	1986	1988	1990	1991	Δ 91-70
F – Corse				73	75	77	77	78	0
It - Umbria	71								+25
It - Campania	56	64	69	68	64	65	64	68	+12
It - Abruzzo	57	75							+31
It - Molise	46	62	73	74	76	77	76	76	+30
It - Puglia	56	66	70	69	69	72	70	72	+16
It - Basilicata	47	65	70	68	62	61	60	63	+16
It - Calabria	43	58	62	56	56	56	55	55	+12
It - Sicilia	55	61	68	68	67	67	66	66	+11
It - Sardegna	63	71	71	75	73	73	72	72	+9
UK - Wales			77						-8
UK - North.Ireland		78	72	75	77	78	72	70	-6
Irl. - Ireland	60	60	62	62	61	63	66	68	+8
Σ	554	660	694	688	680	689	678	688	

Source: Eurostat and own calculations

progress was made by the regions in the France periphery. A reduction was registered by the regions in the north-eastern part of the country Pyrenees region raised for (+19) PPS points, Bretagne (+17) PPS points.

A comparison of the summary scores presented at the bottom of the table 4.1.3. and 4.1.4. shows that, in general, the gap in per capita GDP tends to be larger than that in per capita PPS in all of comparisons.

What is interesting to note in relation to the change in per capita PPS and GDP scores is that in both cases the trend over the two decade period was toward a reduction of the gap between regions at the to and the bottom of the scale. The shift in position less marked in using PPS indicator because of lower initial differentiation between the top and bottom of the scale and greater tendency toward stability on the PPS measure among regions at the top of the index. The two index scores had a very high correlation and the relative rankings of the regions on the two dependent variables were very similar.

Before turning to an analysis of the last period, it is worthwhile to consider what has happened to economic disparities at the national level. During the analysis of the past forty years was shown that the periphery was more or less absorbed by the centre and the disparities within the EU markedly decreased. But is there a similar pattern within the national state?

To provide an answer to this was necessary to calculate the dispersions around the mean at national levels. The data shown that during the forty year period divergence decreased within the larger national states. The only exception from the rule posed UK. In 1970 UK recorded the lowest dispersion rate around the mean of the large EC countries. UK score was 9,97 in standard deviation in contrast with Germany (24,56), France (20,53) and Italy (30,18). During the twenty year period the standard deviation scored for the other member states decreased, just for the UK increased. Through this, the UK standard deviation score at the end of 80's was still lower than those recorded by other large member states.

This analysis show a comparable reduction in the cohesion gap at the national level as there was at the regional level. National level data show that between 1970 and 1991 the gap between the most (Luxembourg) and the least (Ireland) developed countries decreased from 2,4 /1 multiple to 2,0 /1.

As the above analysis of EC-9 80 regions has established, the most developed regions experienced a reduction in their index scores during 1970-1991

period. The drop in the index scores of top ten regions and the rise in index of former bottom regions serve to validate part of the "downward-convergence" scenario discussed above.

The result of forty years convergence was generated for nine member states. The previous analysis did not incorporate the economic performance of Greece, Spain and Portugal that entered the EC during the 1980's, because of the lack of comparable regional-level data for the 1970's in these countries. So the analysis of economic performance use the shorter 1981-1991 period. Second reason, why the Greek, Spain and Portugal data could not be added to the 1970-1991 data set for the nine EC member states, is that there would have to be calculated new index score for EC-12 that would not be comparable with older data. For example, in previous EC-9 analysis the relative ranking index score for Hamburg was 188 in 1981 and 195 in 1989, but when the new regions would be included the index scores for Hamburg would jump to 228 in1981 and 238 in 1989. In this case the absolute change GDP did not changed.

The set of data for 34 regions shown that during the 80's, regions of Portugal and Spain witnessed a substantial improvement in their per capita GDP index scores. Most of the improvement took place during the last two years. The only exception to this rule was Alentejo, which slid down two points on the index. The highest increase in index score was registered in regions of Madrid, Cataluna, Aragon, Navarra, as well as in all Mediterranean regions of Balears, Ceuta y Melilla and Canarias. Luis Suarez-Villa and Juan Cuadrado Roura (1993) predicted that during the 1990's Spain will be transformed into one of Europe's important economic entities.

Tab. 4.1.5.:Regional index scores on per capita GDP in ECU(EC9=100), 1981-1991

TOP 5	1981	1984	1986	1988	1989	1991	Δ 1991-81
E - Pais Vasco	82	73	75	82	78	92	+10
E - Navarra	81	73	74	81	78	101	+20
E – Rioja	81	77	76	83	78		+7
E - Madrid	74	69	72	78		100	+26
E - Baleares	81	87	92	101	95	106	+25
E - Cataluna					75	98	+25
Σ	**399**	**379**	**389**	**425**	**404**	**497**	

Source: Eurostat and own calculations

BOTTOM 5	1981	1984	1986	1988	1989	1991	Δ 1991-81
Gr. - Ipeiros						31	-8
Gr.- Dytiki Ellada						36	-9
Gr.- Voreio Aigaio	35	37	30	30	32	30	-5
P – Norte	28	25	25	26	25		+11
P – Centro	27	24	30		32	30	+3
P - Alentejo	28	25	27	28	29	26	-2
P - Algarve	31	24	27	28	28		+6
Σ	**149**	**135**	**139**	**112**	**146**	**153**	

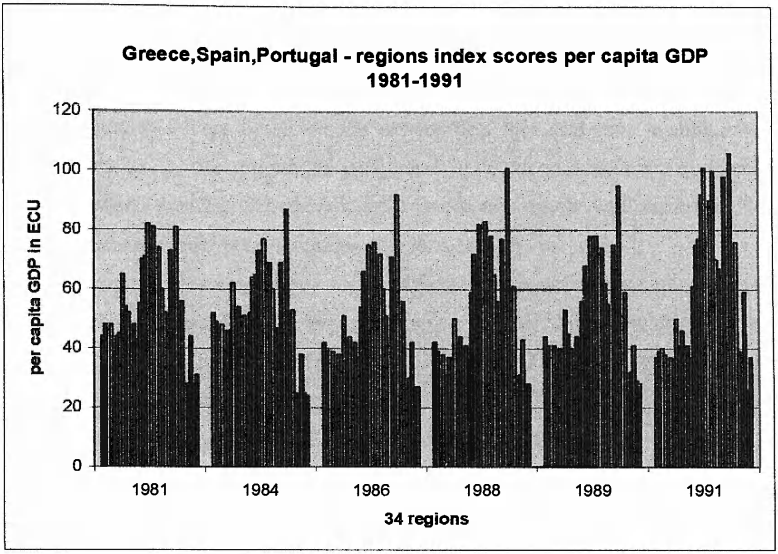
Source: Eurostat and own calculations

In contrast with Ireland, Spain and Portugal – the European periphery – the relative performance of the Greek regional economies was negative across the board. The regions registering double-digit contraction were Thessalia, Sterea Ellada and Peloponnisos, while the remainder were in the single-digit but significant decline.[19]

Despite the fact that per capita GDP scores decreases for Greek regions over time, the PPS scores reported a mix response. Some regions (e.g. Anatolia Makedonia Thaki, Ionia Nisia, Voreio Aigaio and Kriti) increase their PPS scores other continued to decline over the same period (Sterea Ellada, Theassalia, Dyliki Ellada, Peloponnisos and Attiki). This suggests that the decline in exchange rate had negative impact on the GDP scores of Greece, while the level of well-being (measured by PPS) did not declined in consistent manner.

As the above analysis has established, the best performing regions experienced an increase in their index scores while the regions at the bottom of ranking experienced a reduction in their index score. The trend illustrated by the data on the three southern peripheral states corresponds to the "divergence scenario" discussed above.

[19] The overall decline of the Greek scores could be due to apparent depreciation of Greek Drachma vis-a-vis ECU over the entitě period.



Source: own calculations, the graph does not include data for 2 Spanish regions (Ceuta y Melilla and Canarias), which were not available for 1984-89.

For clear assessing of empirical evidence outcome should be taken into account three main differences between the countries.

First, tourism seems to have become important in spurring the development of formerly underdeveloped regional economies in Spain. The increase in the growth rate of Balears, Canarias islands, as well as Madrid and Cataluna regions was based on the development of tourist industry. Neither Portugal nor Greece could develop as primary pump-priming strategy to spur the economic development as Spain did.

Second, in comparing the performance of Portugal and Greek regions with the Spanish counterparts is that the Spanish regions had at their disposal a series of potential levers for development that were not available in Greece and Portugal. The Spanish administrative and political autonomy gives the regions the power to experiment with policies and undertake own self-help projects rather than having wait for the national government solutions (CEC 1991). Greek and Portugal regions did not have the access to these alternative instruments and had to rely on state-generated development schemes.

Third, it must be remembered that the development of the regions was monitored over an eleven-year period, the national states were not member states of EC during the same period. Greece joined EC in 1981, Spain and Portugal joined the EC in 1986. These enlargements were based on the expectation that accession would provide a positive stimulus to the growth of peripheral national and regional economies by providing larger markets for domestically produced goods and attracting outside investment into the local manufacturing and services sectors.

For Spain and Portugal, index scores deteriorated in all regions till the 1986, but started to move upward when both countries became full members of the EC. Subsequent EC allocations in the form of Structural Fund aid substantially contributed to increase in economic investment and the over-all GDP in two for three countries. Despite the positive economic effects of Community Structural Funds and other EC funding programmes, GDP scores in Greece improved neither nationally nor regionally.

1995-2002

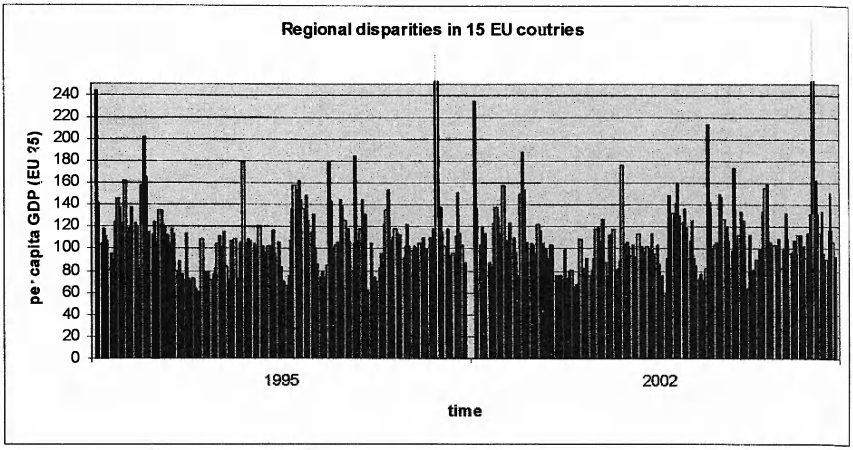
The last considered period is only eight years long, runs 1995-2002 period and the group of data covers 212 EU regions and 41 regions of CEEC. This short interval and much larger and detailed regional description cause that convergence findings are not as distinctive as in two time periods analysed above. The comparison of the relative difference in per capita GDP among regions at current exchange rates may well overestimate the real difference between the developed and underdeveloped regions and affect the convergence towards common price level. The gap between the average of the top ten developed and bottom ten least developed regions counted in per capita GDP in EUR decreased from 4,44 /1 multiple in 1995 to 3,95 /1 in 2002. A useful device for overcoming part of this study associated with the inter-regional comparison of GDP at market prices can be found in current purchasing power standard. The PPS represent more adequately the real level of local purchasing power and it often gives a significantly different result from the ones given in current euro, in particular when there are serious changes in rates of exchange. It is more appropriate to use the PPS indicator than the current EUR values.

The regional index scores were calculated on the basis of raw data evaluation for 212 EU regions and 41 CEEC regions that are evaluated separately. Each region's index score was calculated vis-à-vis the EC-25 average. The gap that separates the

groups of ten most developed and ten less developed regions was calculated as a ratio comparable over eight year period. The results shown, once again, a reduction of the gap between ten most developed and ten least developed regions ratios, characterised by the following trend and the graph:

	1995	1996	1998	2000	2002
top / bottom 10	3,53	3,53	3,28	3,32	3,18

Source: own calculations



Sources: Eurostat[20] and own calculations

The gap between the average of the top ten developed and bottom ten least developed regions decreased from 3,53 /1 in 1995 to 3,18 /1 in 2002. The decline in this ratio took main place in last three years due to the introduction of common currency.

The regions qualified for the top ten ranking during the eight year period remain fairly the same. Five of top ten regions are the political and economic centres like Bruxelles (235), Paris / Ile France (176), Wien (173), London (315) and Stockholm (158). There are only four regions in the "top ten" group that experienced increase in

[20] The scores of 212 regions are arranged in order as followed countries (Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, The Netherlands, Austria, Portugal, Finland, Sweden, Great Britain)

per capita GDP during 1995-2002. It was Inner London, Luxembourg, Berkshire and Stockholm.

Table 4.1.6.: Regional index scores on PPS per capita GDP, 1995-2002

TOP 10		1995	1996	1998	2000	2002	2002-1995
B	Reg. Bruxelles	243	195	193	249	235	-9
Ger.	Oberbayern	162	177	185	177	158	-4
Ger.	Bremen	157	169	165	163		-8
Ger.	Hamburg	201	217	213	208	188	-13
Ger.	Darmstadt	166	194	177	170		-12
F	Ile France	178	181	174	181	176	-2
It.	Valle D'Aosta	157					-24
It.	Bolzano	162	164	163		160	-2
L	Luxembourg	179	190	201	223	213	+34
A	Wien	184	189	186	180	173	-12
Sw	Stockholm				168	158	+5
UK	Inner London	276	254	279	276	315	+39
UK	Berkshire, Buck & Oxfordshire					162	+25
Σ		**2065**	**1930**	**1936**	**1995**	**1938**	

Source: Eurostat and own calculations

The data set revealed a relative decrease in living-standard of European core regions in this period. The index score breakdown stroke of all regions in Germany, Belgium, France, Austria and Sweden (except Stockholm) and in 21 regions in Italy. The most distinctive downturn scored regions in Germany: Berlin (-24), Hannover (-21), Köln (-18) and all other German regions scored decrease around 10 points of their index score. Seven north Italian regions as well as three Swedish regions experienced also double-digit breakdown in index score. In Denmark, Austrian's, French and Belgium's regions the index score slightly fell. The Dutch regions were almost evenly split between those regions that shown no change and those that rose on the index.

The most benefiting part of European Union in 1995-2002, expressed in change of index scores, was again periphery. Ireland, Spain, Greece, Portugal, Finland and twenty-seven of thirty-seven British regions indicate significant increase in their index scores. During the eight year period, Greek Voreio Aigaio went from 59 per cent to 79 per cent on the index of EU25 average, Peloponnisos from 65 per cent to 77 per cent and Ipeiros from 52 per cent to 62 per cent. Significant increase in index ratio took

place in Madeira (+20).The fact that index scores of the weakest regions increased while those of strongest regions fell during that two decades, helps once again to explain the reduction the reduction of the cohesion gap as was predicted by the peripheral ascendancy thesis and convergence theories.

Table 4.1.7.: Regional index scores on PPS per capita GDP, 1995-2002

BOTTOM 10		1995	1996	1998	2000	2002	2002-1995
Ger.	Dessau		62				-3
Gr.	Anatoliki Maked.	59		63	62	59	0
Gr.	Thessalia					65	+1
Gr.	Ipeiros	52	49	48	54	62	+10
Gr.	Ionia Nisia	61		64			+6
Gr.	Dytiki Ellada	60		60	58	58	-2
Gr.	Peloponnisos			60			+12
Gr.	Voreio Aigaio		59				+19
Sp.	Extremudura	55	62	58	61	62	+6
F	Guageloupe		42	60			+5
F	Martinique		56				+5
F	Guyane		50	61	61	57	-8
F	Reunion	59	47	57	58	60	+1
P	Norte	62			64	61	-1
P	Centro	60			62	63	+3
P	Alentejo	62			62		+4
P	Acores	55	57	60	59	63	+8
P	Mardeira		62				+20
Σ		**585**	**546**	**591**	**601**	**610**	

Source: Eurostat and own calculations

Generally positive change in the index ration of regions ranking at the bottom of the scale in combination with decline of top ten regions ranking shows a clear reduction of the gap between regions. According to convergence scenarios considered above, the results of this period shown a case of "downward convergence". To what extend is the reduction of cohesion gap in this period result of good performance of European regional policy is the aim of analysis in the next chapter.

The reason why region's index score of 15 EU Member state was calculated vis-à-vis the EC-25 average was that Eurostat database also provide available data of 10 new European Union Member State for period 1995-2002.

Analysing economic performance of 41 regions NUTS II of 10 Central and Eastern European Countries complete the picture of reasonably comparable regional disparities within current European Union.

The set of data for CEEC regions show that during the eight year period, 32 regions of 8 CEEC witnessed a reasonable improvement in their per capita GDP index scores. The only exceptions to this rule were regions of Czech Republic (excluding Prague), which slid down from three to thirteen points on the index. The highest increase in index score was registered in "capital cities" regions like Prague, Bratislava and Budapest (Közép-Magyarország).

By calculating the gap separating the different groups of top five and bottom five regions was determined increasing trend in this ratio. In other words, during the 1995-2002, the higher ranking regions scored more than the regions from the bottom of ranking. The gap between regions increases from 2,9/1 multiple in 1995 to 3,02/1 multiple in 2002. The trend of CEEC regions data's corresponds to the "divergence scenario".

	1995	1996	1998	2000	2002
top / bottom 5	2,90	3,04	3,12	3,06	3,02

Source: own calculations

Tab.4.1.8.: Regional index scores on per capita GDP in EUR (EU25=100),1995-2002

TOP 5	**1995**	**1996**	**1998**	**2000**	**2002**	**Δ 2002-1995**
Prague	129	139	131	138	153	+24
Kozép-Magyarország	72	79	83	86	96	+24
Cyprus	85	84	84	86	83	-2
Malta	70			78		+3
Slovenia		76	79		75	+7
Bratislava	94	109	114	112	120	+25
Σ	**450**	**484**	**491**	**500**	**527**	

Source: Eurostat, own calculation

Tab.4.1.9.: Regional index scores on per capita GDP in EUR (EU25=100),1995-2002

BOTTOM 5	1995	1996	1998	2000	2002	Δ 2002-1995
Latvia	30	29	32	35		+9
Lithuania		33				+8
Lubelskie	31	32	30	30	32	0
Podkarpackie	31	32	31	32	33	+1
Podlaskie	31	33	32	33	35	+4
Swietokrzyskie	32	33	32	35	36	+4
Warmisko-Mazurskie	32		32	33	34	+2
Σ	**155**	**159**	**157**	**163**	**174**	

Source: Eurostat, own calculation

On this place is interesting to refer to certain parallel of results in analysing the index scores per capita GDP in CEEC during 1995-2002 and "periphery" Spanish, Greek and Portugal regions during 1981-1991.

First, indexes scored by bottom ranking regions in both groups were on the same level. The least developed Portugal's and Greek regions scored about 30 per cent of EC-9 per capita GDP average in that incriminated period before the EC accession. The same index score per capita GDP related to EU25 average scored the worst performing polish regions in parallel few years before EU accession.

Second, in both cases there are slight absolute changes in all regions index scores (per capita GDP vis-à-vis EC/EU average) during the analysed period.

Third, there was a relative change in regions index score. The trends in both cases indicated widening the gap between the top and bottom region scores. The two groups of mentioned regions represent the peripheral regions of enhanced Community/Union.

The last interesting comparison concerns the Structural Funds expenditures. The financial means intended for Structural Funds support of lagging regions in 1989-1993 period amount between ECU 9,64-10,2 billion. This support was headed for all regions of Ireland, Portugal, Greece and 5 underdeveloped regions in south Italy and 6 southern regions in Spain.

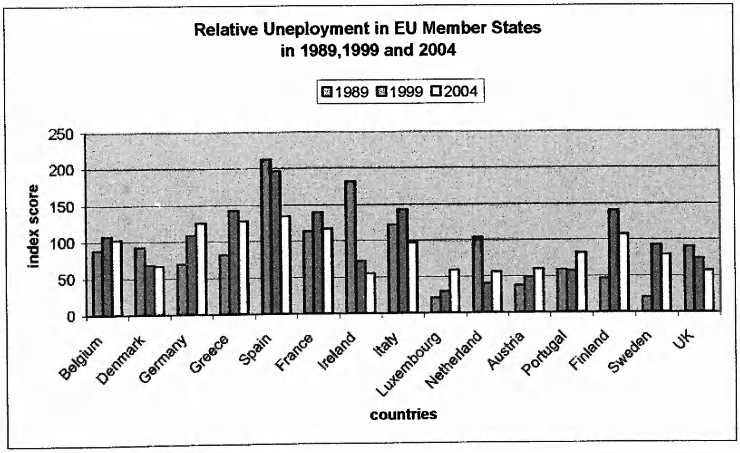
The financial means provided by pre-accession aid Structural Funds instruments for accession countries in 2000-2002 period amounts EUR 9,36 billion. The simplified conclusion could be that the same amounts re-allocated through the EU

Structural Funds into two groups of lagging regions contributed to comparable rise in living standard measured by change in per capita GDP in PPS.

4.2. Regional Labour market Disparities

Unemployment is another important indicator for the assessment of regional socio-economic disparities. Figures 4.2 and 4.3 show relative national unemployment rates of EU Member States and Central and Eastern European Countries in years 1989, 1999 and 2004. The national index score is related to EU15 average in 2004.

The most striking development has taken place in Ireland, which managed to reduce its relative as well as its absolute level of unemployment significantly, and in Finland, where relative and absolute unemployment had dramatically increased. The absolute performance of Denmark and UK is also positive although to the lesser extent then that of Ireland. The relative position of EU peripheral countries is quite mixed. Whereas unemployment appears to be less of a problem for Portugal and Greece, the unemployment rate in Spain is extremely high and shows slight tendency to fall. It has to be kept in mind that the average absolute level of unemployment in EU 15 has changed. The 1989 average EU15 unemployment rate was 8,4, in 1999 the average value increased to 9,4 and in 2004 the EU 15 average decreased back to 8,2. The gap in national unemployment rates had decreased from 15,9 % of EU15 in 1989 to 5,9 in 2004.

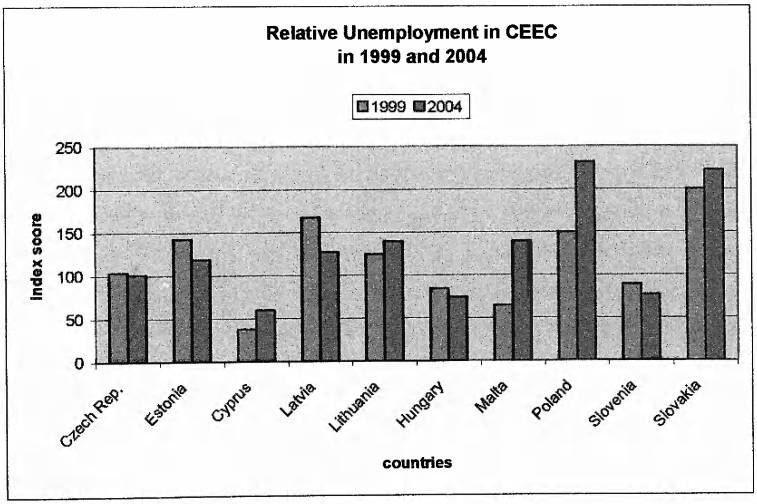


Source: Eurostat and own calculations (2004 EU15 average = 100).

Analysis of regional unemployment differences also pronounced clear closing gap tendency in 1999-2004. In 1999 Luxembourg had the lowest unemployment rate 2,7 per cent, whereas the Spanish region Andalucia was the worst affected region with the unemployment rate of 26,5 per cent in 1999. The regional unemployment rates in 2004 show that the gap between regions with the highest (Andalucia 17 per cent) and lowest (Zeeland 3,4 per cent) unemployment rate decreased.

Intra-national differences of regional unemployment in Spain, Finland and UK remained almost unchanged, whereas the dispersion of regional unemployment rates in Sweden and Netherlands was distinctively narrowed. However, the regional unemployment rate dispersion of EU 15 tends to narrow down over time.

Analyses of national and regional unemployment differences in CEEC did show the tendency to widen the differences in unemployment. Prague was the region with the lowest unemployment rate is in both monitoring years and even slightly decreased from 4,0 per cent in 1999 to 3,9 per cent in 2004. Contrary to this, the unemployment rate in regions with the highest unemployment (Vychodne Slovensko in 1999 and Dolnoslaskie in 2004) increased from 21,3 per cent in 1999 to 24,9 per cent in 2004. Similarly negative results were obtained in evaluating the change in regional unemployment rate dispersions.



Source: Eurostat and own calculations (2004 EU15 average = 100)

All in all regionalised income and unemployment data demonstrate clearly the existence of significant socio-economic disparities within the EU. These disparities exceed comparable values for other large economic areas like United States significantly and they are at the heart of EU regional policy.

4.3. Labour mobility

This chapter concerns in the link between the regional income, employment and productivity in context of EU performance. First, I try to illustrate the evolution of migration flows in European. Later, examine reasons why are the European migrations flows so small.

The regional differences in per capita income can be disaggregated into differences in productivity and differences in the activity rate of regional population. Therefore, factor mobility plays a crucial role in the proper functioning of the market mechanisms. The ability of labour force to move to the sectors or to the regions where their net return is higher should in general be associated with greater economic efficiency. Consequently, the lack of labour mobility can easily mean that factors are trapped in low productivity activities or left unemployment. Although, the freedom and willingness to move are, however, beneficial, the geographical literature has pointed out that factor mobility is typically associated with economic polarization.[21]

The fall in migration within the Europe over past four decades is undisputed. During the 1950's and 1960's the main source of migration was the flow of migrant workers from South to North Europe, given quite large labour flows in the past. Since the early 1970's the flows of migrants, especially from south Italy and Spain, has declined markedly. The decline in international and inter-European migration was drawn down by the sudden and dramatic shift of immigration policies in receiving countries, following the oil shock and the surge in domestic unemployment. The fall of international migration took an analogous affect in internal migration. Obviously, this evolution cannot be accounted for the restrictive stance of immigration policies. Moreover, in context of the EU, the immigration policies can no longer impose any restrictions on mobility from Southern Europe.

[21 & 22] Branerhjelm, P. et al. (2000) *Integration and the Regions of Europe: How the right policies can prevent polarization* (printed in UK, CEPR)

The fall in intra-national labour flows was clear also in other then just southern countries e.g. in Germany the regional migration flows declined from 18,4 per thousand people in 1979, to 10,5 in 1988, or in France where the inter-regional flows declined steadily from 18 per thousand in 1970's to 16 in 1985-1990. In the United Kingdom labour movements does not show a clear trend, though it seems to be relatively more affected by the cyclical position of the economy. Inter-regional flow declines during the recession, but recovers markedly when the economy picks up and aggregate unemployment falls. Spain also shows a similar cyclical pattern (see Bentlila and Dolado, 1991).[22]

The declining trend in European migration is unmistakable. Obsfeld and Peri (1998) have compiled some information on net inter-regional migration. They found out that the migration flows are much lower in European countries than in United States and Canada. While US net migration rate is about 0,87 per cent of population, the EU countries scores between 0,2 – 0,4 per cent of regional population with Italy on the top and United Kingdom at the bottom of the scale.

Economists say that if the production factors do not move it is because the do not have incentives to do so. Than the absence of substantial migration flows could simply reflect the lack of incentives to move.[23] Lets look what says theory about the possible incentives to move. The behaviour of unemployment and wage differentials between sending and receiving regions can explain neither the relatively low level of mobility nor the falling trend in migration. The response of European migration to wage and unemployment differences is less evident than in the United States (Eichengreen, 1992). Perhaps it is because the differences in income and even more strikingly in unemployment levels are larger among European countries than among states in the US.

For explaining why the European labour is not highly mobile should be considered demographic and cultural explanations. Europeans are less mobile because cultural and linguistic differences. Demographic explanations emphasize the recent role of ageing and female labour force participations in Europe in comparison with the situation during 1950's and 1960's.

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[23] Obsfeld and Peri (1998) argues that behind the small size of European migration flows lies the fact that even unemployed workers in Europe are largely unwilling to move indicates the lack of mobility rather than the limited size of idiosyncratic shocks.

More promising line of argumentation emphasizes that the levels, rather than the differentials, of wages and unemployment rates affect the migration decision. Bertolila and Donato (1991) argued that the rising unemployment levels are responsible for the fall in mobility in Germany, France and Spain. An example of depressing impact of migration lack shows behaviour of Southern Italian unemployed workers that were unwilling to migrate during 1970's. Higher wage level may also have depressing effect on the propensity to migrate.

Higher economic welfare in recent years in turn means that potential migrants put increased emphasis on the non-monetary costs of migration. They are, therefore, less willing to afford the loss of social relation ships, the need to adapt to new living environment and the difficulties arising from the different cultural, religious and linguistic traditions. In other words, an increase in home income should be associated with a fall in the propensity to migrate. Also regional and labour market policies act to discourage mobility. Unemployment benefits and housing ownership play inconsiderable role.

Labour mobility in the European Union

The recent development in the EU labour markets suggests a great need of migrants. The reason for this statement lies within the demographic changes in most European regions. In Portugal, Spain, Italy, Greece, UK, France, Sweden and Germany the working population is actually shrinking, combined with the trend of an ageing population. These developments have serious consequences, as changing demographics can lead to the collapse of the social security system and to decreasing or even negative growth rates. From this perspective, the EU not only profits from increasing labour migration, it virtually depends on it.

By ratifying the Single European Act in 1986, the EU members enforced the freedom of labour movements within the EU Member State. The initial idea behind creation of free movement of labour originally stem from the 1960's. Some European countries, above all Germany, were desperately lacking of labour force and therefore loosened their legal frameworks for migrants (Pelkmans, 2001). The situation changed when,20 years later, Greece, Spain and Portugal joined the EU. Unemployment rates increased and the "old" Member States feared from migration wave. Rigorous restrictions were installed: workers from Greece, for example, had to wait 6 years before they could freely choose their working place in EU countries. Analogous fear

from migration wave appeared before the EU enlargement for CEEC and has similar consequence restriction of free movement of CEEC workers for first few years after Eastern enlargement.

In spite of a favourable legal and political environment which encourages the free movement of people, there is low transitional mobility among EU members. A labour market analysis by European Commission shows that geographic mobility is high only among highly skilled and young employees. In the European Union as a whole, only 0,1 per cent of EU population changed their residence country and only 0,3 per cent of EU population are people working in other country than is their origin.

Why is labour mobility in European Union so low?

The reasons are twofold. On the one hand, there are factors preventing migration, which encourage people to stay in their country. Factors preventing migration include risk aversion of people and the fact that certain knowledge, experience and skills are not transferable as well as the danger of "hidden or open discrimination" or work which is strongly connected to one certain region (e.g. coal industry). The more workers are culturally and economically embedded in a region, the less probably they will migrate into another region. Also the increasing convergence concerning incomes and wages within the EU decreases workers incentives to migrate.

On the other hand, there are various obstacles complicating the migration process. Already mentioned, people with an academic education have fewer problems find a job, they are more flexible and open-minded (e.g. they are more willing and able to learn foreign languages). Unskilled workers, therefore, might be discouraged from even trying to migrate and rest in their domestic labour market. Furthermore, Europe is still far away from being a homogenous cultural zone. Many barriers like different traditions, religions and resentment still remain. Also the fact that there are twenty official languages within the EU goes in line with this argumentation. Furthermore, qualification standards concerning recognition of diplomas still complicate the migration process as well as other regulatory barriers relating to social security, income and pension regulations that differ from one state to another. Finally, administrative problems might pose a problem on migrants, as common rules in respect to, for example working permits and driving licenses still lacking (Pelkmans, 2001). Furthermore, the "free movement" is under host country control, what implies

that workers are subjected to national labour market regulations, including minimum wages. Consequently, workers cannot compete on low wages, at least not legally. This issue is evenly intensified by the prevailing policies setting quite high minimum wages to ensure social protection.

Finally, the accession countries have to accept some additional barriers, namely restrictions imposed by some of EU15 countries in order to prevent the waves of incoming workers decreasing their wage levels. Those measures are in form of limited wok permits and are allowed during an adjustment period of seven years. That means that only after 2011 there will be totally free movement of labour in European Union.

Opinion on labour migration is mixed in many of western EU Member States. On one hand, labour migration offers a lot of advantages as potential reduction of political and economical tension. Moreover, it can help to offset the negative effects of ageing population on social security system in many western EU countries. On the other hand, extensive labour migration of highly educated and young workers can have dramatic consequences on regional development and social security system. Evidence shows that labour migration within the EU did not yet appeared extensively. Although there is public doubt concerning EU enlargement and freedom of movement, labour migration will increase in the future.

Certainly, the eastern enlargement will have some effects on labour market on the EU. However, it seems that the size of the effects is not as high as feared by many opponents of the enlargement. In practice the trade flows between the new and old Member States are too small to affect wages in general. If there appear minor effects, they are concentrating in the border regions. Otherwise, people are deterred from the migration due to remaining barriers to labour mobility.

With regard to increasing wages in the new Member States the process in income convergence will not take a place in the short run but in the long run. That means that complete convergence will not even be achieved in 2030. In total only the border countries can feel some consequences in the labour market after enlargement and the effects are no extremely different from those of the past enlargements.

5. CAN REGIONAL POLICY FOSTER CONVERGENCE?

Any assessment of EU regional policy has to be taken into account that EU regional policy intends to improve the competitiveness and hence the long term growth prospects of the supported regions. Despite the official denial that EU regional policy is about redistribution, however, its redistributive effects are significant and comparatively easy to identify whereas the identification of long-run changes in the competitiveness of supported regions is a much more difficult task. This chapter shed the light on what is the impact of EU regional policy on convergence. It does so by exploring the theoretical basis of the relation between regional policy and convergence, and by comprehensively reviewing previous evaluations of this impact.

5.1. Regional Policy should foster convergence

Economic theory leaves scope for a positive role for regional policy. There are three different stands within them EU support may foster convergence.

- First, the Solow growth model predicts that, if region spends a continuous stream of cohesion support on productive public investment, then its steady state level of per capita GDP increases. This argument hinges on the positive impact of public investment on production. Empirical evidence suggests that this impact is substantial (see Hakfoort and Rietveld, 2002).

- Second, the technological gap perspective suggest that, if region spends the cohesion support on promoting indigenous technological progress or capacity to utilise existing technological potential, then its productivity converge more rapidly to levels of more advanced regions. In other words, the less favoured regions can imitate the inventions of technological leaders and exploit the knowledge obtained in richer countries to catch up. There is no consensus in the literature about exactly what factors contribute to bridging the technological gap.

- Third, the agglomeration forces prevalent in the new economic geography literature bring about a clustering of economic activity that affects the dispersion

of income across regions. In this case, cohesion support for regions outside the agglomeration is probably insufficiently potent to tip the balance in favour of these lagging regions and to reverse the agglomeration dynamics that prevail at present. Nevertheless, it could retard the process of clustering or support equilibrium with a more equal distribution of economic activity.[24]

5.2. Feasible fails of regional policy

Regional policy is not necessarily effective in fostering the regional convergence The data show that a necessary condition for its efficiency is satisfied: it redistributes funds from developed regions to regions lagging behind. However, even the richer regions receive some support. This obviously weakens the impact on convergence. Moreover, the redistribution is weakened further if the differences in national regional policies of Member States are taken into account. The rich Member States tend be relatively active in supporting the regions that are relatively poor from only national perspective (Martin, 1998).

Other argument infirming the regional policy effect is the relatively low rate of return of projects financed by the EU. It is can be caused by use of distorted the cost-benefit analysis of projects where the regions consider full benefits of a project and only their own costs of funds. The ones provided by EU remain left out. Thus, at the margin the social rate of these projects is rather low. To the certain extent this is what cohesion policy is supposed to achieve. Otherwise the projects would not be undertaken to support from EU funds. Nevertheless, European regional policy induces rent seeking, what provides an incentive to propose projects that are most likely to attract support rather than projects with the social returns.

Regional policy has the potential to foster regional convergence within the EU. Crowding out, weak redistributive efficiency, and rent seeking may, however dampen or even dissolve its positive effect. Many evaluation studies attempted to identify the extent to which regional policy indeed reduce differences in welfare between regions. Overall, econometric studies do not support a strong impact of EU regional policy on convergence.

[24] Ederveen, S. et.al (2002) *Funds and games: The economics of European cohesion policy* (The Hague: CBP Netherland's Bureau for Economic Policy Analysis)

The evidence of the regional support impact on narrowing the income and unemployment gaps is, however, mixed. The estimated impact of regional policy on absolute regional convergence is substantial if it is kept in mind that each region growths toward its own steady state. The estimated impact is, however, negligible or even negative if one presupposes that regions within one Member State, respectively within the EU, will converge to the same steady state level of per capita GDP. In other words, the more optimistic one is about convergence, the less effective regional policy appears to be.

5.3. Does EU Regional Policy reduce regional disparities?

According to above provided analysis data shown trend of reduction in regional disparities within the whole European Union during the fifty years of European integration. But the situation of regional disparities at state level is less favourable.

The trend of reducing regional disparity at state level was significant in all Community countries during the 1950-1970. This result just confirm the reality that in this time the regional policy was not necessary. More interesting from this point of view should be the following 1970-1991 period when the Southern less developed countries entered the Community. The data analysis shown that the trend in reduction of regional disparities at national level is mixed. There is evident that 4 Community founding countries smoothly increased regional disparities. The regional disparities at national level increase markedly just in Belgium (+40) through the smart progress in best performing region. Similar are the results in Spain and Portugal, that also shown clear increase in regional disparities. The missing data about how the EU financial support was allocated in between Spain, Portugal and Greece, break the possibility to evaluate the impact of EU regional policy on trend in reduction of regional disparities. That is the reason why for the final evaluation is considered just 1995-2002 perid for which consistent and comparable data are available

The trend in decreasing the regional disparities is in this period evident only in five Member States. Germany and Austria reduced its dispersion in regional income mostly through the decline of income per capita in the best performing regions. Surprisingly, in this 1995-2002 period, Greece should be evaluated as the "best"

performing country. Regional disparity in Greece decreased for 8 points in income index score through the increase of least developed regions. Unsatisfactory progress show the Netherlands, Spain, Sweden and Portugal whose regional disparity enhanced during 1995-2002. The largest increase in regional disparity scored Ireland, UK and Finland. The regional gap widened through the rise of best performing regions. Moreover, in UK the widening income gap is caused by distinctive decline of income levels in slightly lagging regions such Merseyside, West Wales or Highlands.

Following table provide a review of potential impact of European regional policy on reduction of the regional disparities in EU. The first column present approximation of expenditures on EU regional policy during 1995-2002. Second and third column shows the results of above made analysis of income and unemployment regional disparities. The data shows that there is no clear connection between the amount of allocated resources from Structural Funds and the changes in regional income disparity in EU countries. Neither for unemployment changes there is no clear connection.

Table 5: EU support vs. change in regional disparities

	Amount of structural assistance provided in 1995-2002	Change in regional disparity between 1995 and 2002[25]	Change in unemployment rate between 1995 and 2002
	In mil. EUR (in 1999 prices)	In index score of pre capita GDP	In %
Belgium	2 557	-2	1,2
Denmark	1 032		-2,1
Finland	2 190	21	5
Ireland	6 454	23	-10,4
Italy	19 300	-2	-2
Luxemburg	121		3,1
Germany	30 576	-10	4,6
France	18951	0	-1,8
The Netherlands	3 346	12	-3,9
Portugal	20 962	1	1,9
Austria	1 964	-12	1,8
Greece	22 046	-6	3,8
Spain	47 765	9	-6,4
Sweden	19 923	9	4,8
UK	17 855	20	-2,7

Source: Eurostat and own calculations

[25] Change in regional disparity is expressed as different of the best and worst performing region within one country in time 1 compared to the different of the best and worst performing region within one country in time 2. Denmark and Luxemburg are NUTS II regions, so there is no inter-regional disparity.

6. CONCLUSION

This paper was written in order to take a closer look at present European regional policy and real income convergence within the European Union. From the first Chapter can be realized how broad the ways and means of European regional policy support are. At present, the biggest task for EU regional policy is the Eastern Enlargement. It highlights the key role that the regional policy plays in the process of European integration. Nearly all new Member States the regions are lagging behind of average EU15 and even EU25, in terms of income level. The share of EU population covered by the EU regional policy increases to 51 per cent in prospective period. Therefore the reform of regional policy is desirable.

The main part of this study, embodied in third and fourth Chapter, introduces the comparative analysis of regional income levels throughout all EU NUTS II regions. Because regional policy and its instruments are of such importance, in general it should be expected that its presence leads toward narrowing the gap between the rich and poor. Even though it is not clear whether the economies tend to converge or diverge in long run and that we can find a serious debate on this in recent economic literature. Representatives of both mechanisms measure convergence and majority of empirical studies suggest, that convergence is the most likely outcome.

In this paper I provide the analysis of regional income convergence in European Union over fifty years. The aim of this chapter was to undertake a systematic analysis of the changes in the income disparities at regional level within the whole EU and later within each Member State.

According to the aim of this paper the examined data shows that the real convergence measured by the regional income disparities in per capita GDP takes place within the European Union. So, I can say, that EU NUTS II regions converge to EU long run steady state. Of course, it has to kept in mind that every enlargement of EU drawn down the jump and widen the income gap.

The closer look at situation in each Member State melt down the positive/optimistic result obtained for whole EU. The regional income disparities slightly increase in most of the countries during past 30 years. It means that the real income diverge from it's national steady state. The only positive result of decreased regional disparities in EU Member States during the first two decades since the EC formation.

This findings suggest that better co-ordination between EU regional policy and national regional policy should substantially improve efficiency and foster the real effect of European Regional policy.

The last goal of this paper was the EU regional policy evaluation with respect of its impact on convergence, in accordance with the reduction of regional income and unemployment rate disparities. Generally, the EU regional policy should foster convergence. It is not clear from my study to what extent it should be, but it is obvious that the EU regional policy can have certain conditional impact on the real convergence of income levels in EU.

The question, whether EU regional policy contributes to the decrease in regional disparities in EU, was examined on seven years long period 1995-2002 which allowed to find consistent data for EU regional policy expenditures. The final comparison did not show any dependency between the change in regional income gap and amount of allocated financial means through EU Structural Funds.

Despite the fact that financial means for European Regional Policy are constantly increasing, the process of removing regional disproportions is still very slow. It's obvious that the past period is too short for a complete evaluation of the effects of EU Regional Policy . Despite overall positive trends, the real effects of regional policy can only appear much later. I believe against to all pessimistic forecasts that it is possible to create a homogenous European economic system without huge income disparities among the countries, a more or less homogenous core without periphery.

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8. APPENDIX:

Table 1: European Regional policy Objectives:

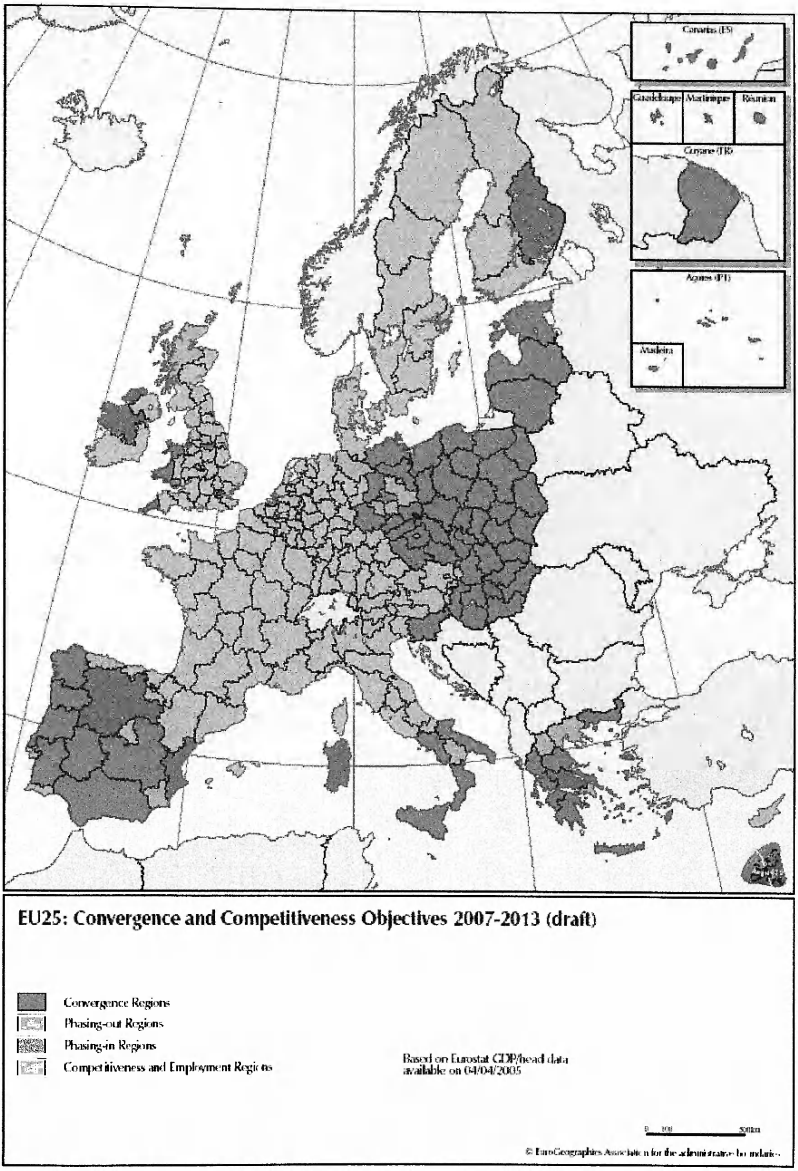
1989-1993 Period
1. Development and structural adjustment of lagging regions 2. Conversion of regions or parts of regions seriously affected by industrial decline 3. Combating long-term unemployment 4. Occupational integration of young people 5a. Speeding up the adjustment of agricultural structures 5b. Development of rural areas
1994-1999 Period
1. Not altered 2. Not altered 3. Combines former Objectives 3 and 4 4. Facilitating structural changes 5a. As before but aid to the fisheries sector included 5b. Development and structural adjustment of rural areas 6. Development and adjustment of areas with very low population density (Nordic regions)
2000-2006 Period
1. Combines former Objectives 1 and 6 2. Combines former Objectives 2 and 5b plus urban areas in difficulty and depressed areas dependent on fisheries 3. Combines former Objectives 3, 4 and 5a plus support for the participation of women in the labour market
2007-2013 Period (Commission proposal)
"Convergence" current Objective 1 and Cohesion Fund "Competitiveness" current Objectives 2 and 3 "Cooperation" current Four Community Initiatives

Table 2: Regional policy 2007–13 (EUR 336.1 billion)

Programmes and instruments	Eligibility	Priorities	Allocations
Convergence objective including the special programme for the outermost regions			**78.5 % (EUR 264 billion)**
National and regional programmes (ERDF, ESF)	Regions with per capita GDP < 75 % of EU-25 average	• Innovation • Environment/risk prevention • Accessibility • Infrastructures • Human resources • Administrative capacity	67.34 % = EUR 177.8 billion
	Statistical effect: regions with per capita GDP < 75 % of EU-15 and > 75 % of EU-25		8.38 % = EUR 22.14 billion
Cohesion Fund Statistical effect: regions with	Member States with per capita GNI < 90 % of Community average	• Transport networks (TEN-T) • Sustainable transport • Environment • Renewable energy	23.86 % = EUR 62.99 billion
Regional competitiveness and employment objective			**17.2 % (EUR 57.9 billion)**
Regional programmes (ERDF) and national programmes (ESF)	The Member States propose a list of regions (NUTS1 or NUTS2)	• Innovation • Environment/ risk prevention • Accessibility • European employment strategy	83.44 % = EUR 48.31 billion
	'Phasing in' regions covered by Objective 1 between 2000 and 2006 and not covered by the convergence objective		16.56 % = EUR 9.58 billion
European territorial cooperation objective			**3.94 % (EUR 13.2 billion)**
Cross-border and transnational programmes and networks (ERDF)	Border regions and large transnational cooperation regions	• Innovation • Environment/risk prevention • Accessibility • Culture, education	35.61 % cross-border cooperation 12.12 % European neighbourhood and partnership instrument 47.73 % transnational cooperation 4.54 % networks

Source: Cohesion policy: the 2007 watershed, Factsheed 2004, EC, http://europa.eu.int/comm/regional_policy/

Map 1: Regions eligible for Objectives Convergence and Competitiveness 2007-2013



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Název práce	Evropská regionální politika a její vliv na snižování regionálních rozdílů
Podnázev práce	
Anglický překlad	European regional policy: Reduction of regional disparities in EU
Typ práce	diplomová práce
Autor/ka:	Petra Vančurová
Rok zpracování	2005
Vedoucí práce	Prof. RNDr. Ing. František Turnovec CSc.
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Specializace	Evropská ekonomická integrace
Abstrakt česky	Tato práce se zaměřuje na Regionální Politiku Evropské Unie, krátce popisuje její historii, cíle, nástroje a dosavadní výdaje a hlavně hodnotí jejího dopad na snižování regionálních příjmových rozdílů. Cílem práce je prozkoumat míru konvergence v EU na úrovni regionů NUTS II. Pro tento účel jsem použila komparativní analýzu regionálních příjmových rozdílů Analýza posuzuje míru regionální konvergence příjmů a eventuální vliv regionální politiky na změny v rozdílech. Použitá data pokrývají období 50-ti let, od vzniku Evropského Společenství až do roku 2002.
Abstract in English	This study is focused on Regional Policy of European Union, mainly on EU regional policy evaluation with respect of its impact on convergence, in accordance with the reduction of regional income and unemployment rate disparities. The Aim of this study is to examine the convergence within the European Union at regional level. I focus on a measure of regional income disparities in per capita GDP in European Union. For this purpose I chose a comparative analysis of income regional disparities based on the "core-periphery" theory. The data used for this analysis covers fifty years of European Communities since the foundation of EC till present EU25.