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# EUROPEAN COHESION: FACING THE PROBLEM OF GROWING REGIONAL DISPARITIES

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RAFAL RIEDEL

*Through the cohesion policy, the EU performs its redistributive functions. The more redistribution, the less free the market. Therefore the extent, objectives and form of cohesion policy also answer the question on the economic and social model of Europe. The model that the European Union promotes. It is neo-liberals against regulated capitalism.*

After the 2004 wave of European Union enlargement, Commissioner Péter Balázs stated: “One of the main, common objectives of an enlarged EU should be the reduction of the «wealth gap». The best tool to achieve this is a reinforced cohesion policy. (...)”<sup>1</sup> Such a conclusion is certainly true—after 1 May 2004, the economic development gap expressed in GDP per capita between the 10% of the population living in the most prosperous regions and the same percentage living in the least prosperous ones has more than doubled, compared with the situation in the EU 15.

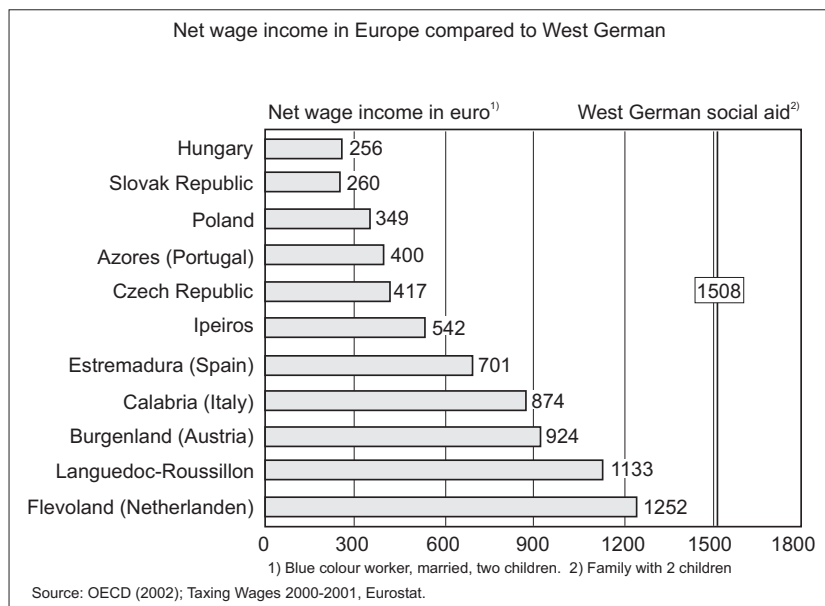
But when looking for the best method of achieving set goals in reinforcing cohesion policy, it is clearly shown that the undertakings in this field so far have been estimated as highly imperfect.

The accession of ten new member states, representing on average of less than 50% of GDP per capita<sup>2</sup> of the EU 15, has brought new challenges for the integration process, especially for the cohesion goals. The “Third Cohesion Report” presented by the Commission at the beginning of 2004 included elements that summarized and formulated adjusted goals; however, the dynamics of politics and the scale of the problems seems to be much more challenging than was expected when presenting those objectives.

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<sup>1</sup> P. Balázs: “Commission strengthens cohesion policy in the enlarged European Union”, European Voice, Brussels 15.07.2004

<sup>2</sup> Expressed in purchasing power parity



In 2005, Europe was confronted with an EU constitution ratification crisis as well as a deadlock in budgetary talks.<sup>3</sup> Those circumstances were the worst imaginable atmosphere for searching for new, long-term solutions to the idea of cohesion in Europe. And the need is growing, if the EU still seriously treats the principle of solidarity as one of its fundamental values. Throughout their history, European Communities have shown the ability of their participants to overcome deep crises and emerge with new projects. Equally often, repeated waves of enlargement have been seen as the stimulator to finding new solutions. For the good of the future of Europe, the fresh blood pumped into the EU system in 2004 should also work as a pressure for being innovative, creative and reaching consensus.

Cohesion policy refers to the set of policies to “achieve greater equality in economic and social disparities between Member States, regions and social groups” (as defined in the First Report on Economic and Social Cohesion 1996, p.15).

This broad definition has no legal basis in the treaties, which define cohesion policy much more narrowly as “aimed at reducing disparities between the levels

<sup>3</sup> Among other matters of course, as many other elements should be taken into account, such as the elections in Germany.

of development of various regions and the backwardness of the least favored regions, including rural areas” (TEU, XIV, Art 130a).

It was the Single European Act (1987) that reflected EC’s role in promoting cohesion.

The Maastricht Treaty took the commitment one step further and included economic and social cohesion as one of the EU’s priorities.<sup>4</sup>

Apart from formal understanding of the cohesion policy, cohesion as a rule is defined on the basis of characteristics of cohesion countries:

- The lack of physical technologies: scant financial resources have not allowed the accumulation of a strong knowledge base, either in the academic or productive systems. This is reflected in terms of insufficient infrastructure, a lack of R&D laboratories and limitations in the educational system.
- They differ from their trading partners in terms of social technologies: for the accession countries, the historic lack of stability in the macroeconomic and financial environment and the political regime led to behaviors of mistrust and nurtured the informal economy. Economic, political and other actors perform in short-term considerations (...).<sup>5</sup>

Following those legal and non-formal ways of understanding, cohesion reveals how many different phenomena are taken into account when discussing cohesion. This is why it is crucial to construct indicators which can assess the level of cohesion.

No universally agreed criteria for determining “cohesion” are available in order to suggest an easy answer to this question. According to one account, cohesion policy simply seeks to achieve an acceptable degree of real disparities.<sup>6</sup>

Until now, cohesion policy has been organized in primarily territorial terms, mainly at the regional level (since 1988), but new concern for sub-regional policy responses is increasingly apparent. Looking at the content of cohesion policy,

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<sup>4</sup> Convergence of economic performance for the purposes of EMU.

<sup>5</sup> L. J. Tsipouri, Innovation for European competitiveness and cohesion: opportunities and difficulties of co-evolution. Economy and society, XII 2004

<sup>6</sup> S. De Rynck and P. McAleavey, The cohesion deficit in Structural Fund policy. Journal of European Public Policy, VIII 2001

one finds that the European Commission is promoting a focus on the micro-level as a result of its aim to increase targeting.<sup>7</sup>

Around 70 % of the Structural Fund budget was allocated to regions with a GDP per capita of less than 75% of the EU average.

GDP measures the total value of all market and public sector goods and services that those working in a particular area produce. Differences in GDP per head are expected to be attributed to differences in productivity and employment rate.

GDP per capita as a measurement of disparity contains an obvious flaw related to the geographical unit of analysis at the so-called NUTs levels. The NUTs categories correspond to administrative rather than economic entities, leading to policy anomalies.<sup>8</sup>

The figures for areas such as Hamburg and Brussels tend to be overestimated owing to the large number of commuters who contribute to gross production in these areas.

There is a strong difference in reducing inequality among individuals and reducing disparities across regions.

Since most regions contain a mix of poor and better-off people, a programme aimed at redistributing resources to a region whose average income is low may simply result in an increase in the number of well paid jobs for the middle class<sup>9</sup>.

The “clients” are mostly national or regional public administrations, training and development agencies, other governmental or semi-governmental bodies at sub-national level involved in economic development, research institutes and businesses in the eligible areas.<sup>10</sup>

The European Commission has paid surprisingly little attention to the question of how cohesion policy promotes redistribution within eligible regions.<sup>11</sup>

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<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> G. Majone, *Regulating Europe*. Routledge, London 1996

<sup>10</sup> S. De Rynck and P. McAleavey, *The cohesion deficit in Structural Fund policy*. Journal of European Public Policy, VIII 2001

<sup>11</sup> Ibid.

Cohesion is, of course, quite a multidimensional phenomenon—it has its social, political, economic and many other perspectives. If we just follow one of its aspects—within social cohesion, the welfare state—it is clearly seen how different countries measure the level of welfare state commitment in cohesion. Social welfare systems—health, family, retirement—in many European countries have been extended to the entire population. Both the implementation of an ambitious European system of social protection and the creation of a harmonized system of national welfare systems have always been found to be impossible.<sup>12</sup> This is primarily because of the comparison of disparities and resources available, secondly, for political reasons, and, last but not least, thirdly because of difficulties in comparing the welfare systems in member states. Some examine the social system cohesion purely through traditional GDP per capita, while others look at the share of social expenditures in GDP.

This situation clearly shows that so far the Commission has not worked out a satisfactory system of indicators allowing effective allocation of cohesion funds. There is a remarkable difference between the policy goals and the parameters taken into account when deciding how to target cohesion.

The “cohesion situation” after EU enlargement is considerably more challenging than when the EU policy was launched in 1998.<sup>13</sup>

The “cheap enlargement” (an asymmetrical situation in the negotiations in favour of the EU) cost 0.15% of EU GDP between 2004 and 2006, about 25 EUROS for each EU citizen.

It means that for example in a year Hungary receives 0.7% of its GDP from UE transfers, whereas cohesion states have received 3-5% of GDP from UE assistance.<sup>14</sup>

Accession is not an end in itself but represents a starting point for further integration efforts (which should allow—in time—the populations of all Member States to enjoy comparable social, economic and environmental conditions.)

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<sup>12</sup> D. Bougt, *Convergence in the Social Welfare Systems in the Europe: From Goal to Reality*. Social Policy & Administration, nr 6, XII 2003

<sup>13</sup> D. Bailey, L. Propriis, *EU Structural Funds, Regional Capabilities and Enlargement: Towards Multilevel Governance*. European Integration, nr 4, 2002

<sup>14</sup> L. Hooghe, *UE Cohesion Policy and Competing Models of European Capitalism*. Journal of Common Market Studies, XII 1998

The Eastern European countries have entered into close relationships with Western Europe and especially with Germany and Austria. This will yield gain from trade and specialisation for all and it will bring internal peace and general prosperity to Europe.<sup>15</sup>

But there will also be problems because of the migration processes to be expected. Although migration is good in principle, this is only true if it meets with flexible labour markets and if it is not artificially induced by gifts of the welfare state.<sup>16</sup> This explains the necessity to develop a way of handling the welfare state disparities among members, which is a part of the problem of European cohesion in general.

The Europe of Six in 1958 was homogeneous in its productive structure and remained so after the first enlargement. Considerable diversity first emerged following the accession of the southern countries and the 2004 enlargement further increased the lack of homogeneity.<sup>17</sup>

When on January 1, 1973, after 20 years of its existence, the European Community had its first wave of enlargement, many expected the system to succumb to its new weight, short of institutional capacity, and either to disintegrate or be reduced to a customs union.<sup>18</sup>

Brussels' repeated warning rhetoric that "widening" would necessarily be at the cost of deepening, has been contradicted each time by the facts.

The truth is that territorial expansion has proved to be a sure recipe for unblocking the gridlock besetting the EU as a dominant bureaucratic entity.<sup>19</sup> The "fresh blood" smashes the traditional, well established way of functioning, bringing new challenges.

Fortunately, from empirical knowledge we know that—according to the economic theory of integration—the abolition of trade barriers and the expansion of markets result in a general increase of wealth. There is empirical

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<sup>15</sup> H. W. Sinn, *EU Enlargement, Migration and the New Constitution*. CESifo Economic Studies, nr 4, 2004

<sup>16</sup> *Ibid.*

<sup>17</sup> L. J. Tsipouri, *Innovation for European competitiveness and cohesion: opportunities and difficulties of co-evolution*. Economy and society, XII 2004

<sup>18</sup> EU enlargement and government, by "The Board". *Legal Issues of Economic Integration* 31 (3) 2004, Kluwer Law International, Netherlands, 2004

<sup>19</sup> *Ibid.*

evidence to prove the fact that trade openness and economic growth are in a positive relationship with each other. There is also evidence that trade openness affects income disparities.<sup>20</sup>

Serious thinking about social and economic cohesion requires some level of political unity. The choice between single market and political union is oversimplified. Even an effective single-market requires some political integration. On the other hand the people of Europe increasingly question the need for supra-nationalism.<sup>21</sup>

The truth is that the first transnational experiment on joint law-making is following a unique institutional pattern of its own. Its is simultaneously supranational and intergovernmental. It has been memorably described by former Prime Minister Giuliano Amato as an “unidentified flying object.”<sup>22</sup>

Although forerunning generations talked freely about the United States of Europe and made frequent comparisons with the USA, current discussions make no reference to such a model. Even the word “federalism” is unpalatable.<sup>23</sup>

For political Community you need a mutually compatible set of values. And this set of values seems to have departed together with Helmut Kohl’s generation. The most powerful driving force behind integration right up to Helmut Kohl’s generation was the desire to put an end to the history of bloody wars in Europe.<sup>24</sup>

The new generation of political elites is weighted much more toward a game of economic interests, however much in his brilliant speech on May 28 2001, the French Prime Minister Lionel Jospin referred to this “European way of life” as the core of the political project.” Until very recently, the efforts of the EU focused on the creation of monetary and economic union. ... Today, we need a wider perspective going beyond this, otherwise Europe will become simply just another market which will disintegrate under the effects of globalization. After

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<sup>20</sup> K. E. O. Alho, V. Kaitila, M. Widgren, Speed of Convergence and Relocation, New EU member states Catching up with the Old. Working Paper nr 34, IV 2005

<sup>21</sup> Lord Howe of Aberavon, Europe: single market o political union?, Economic Affairs, XII 1999, Oxford Publishers 1999

<sup>22</sup> EU enlargement and government, by “The Board”. Legal Issues of Economic Integration 31 (3) 2004, Kluwer Law International, Netherlands, 2004

<sup>23</sup> J. Habermas, Toward a European Political Community. Society, July, August 2002

<sup>24</sup> Ibid.

all, Europe is much more than a market. It symbolises a social model whose growth has historical dimensions.”<sup>25</sup>

When one discusses political cohesion and unity within the EU, he cannot forget one quite important imperfection of the European system. The dense layers of European decision making, the lack of transparency as to how such decisions come about and the absence of opportunity for European citizens to get involved in the decision-making process create mistrust among the people.<sup>26</sup>

What is lacking is the collective singular known as people. There is no “DEMO thesis”.

A nation of citizens should not be confused with a community bound together by a common fate unconnected with politics and characterized by shared origins, language and history.

The public space in Europe is simply mainly national.

This is why it is so crucial to generate many more EU activities to intensify this common public space by creating some kind of a Common European Communication Area.<sup>27</sup>

The key word for good common governance is partnership.

And cohesion policy is more and more embedded in a context of intergovernmental bargaining on budgetary allocations that structures the core of the policy around the yardstick of GDP per capita<sup>28</sup>.

For a full understanding of cohesion policy, it is essential to look at how the budgetary envelope is agreed. Decisions concerning financial redistribution between member states are taken at the level of the European Council, according to a compensatory logic of intergovernmental package deals<sup>29</sup>.

It is through cohesion policy (among other factors), that the EU performs its redistributive functions.

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<sup>25</sup> Cited after: J. Habermas, *Toward a European Political Community*. Society, July, August 2002

<sup>26</sup> Ibid.

<sup>27</sup> L. Hooghe, *EU Cohesion Policy and Competing Models of European Capitalism*. *Journal of Common Market Studies*, XII 1998

<sup>28</sup> S. De Rynck and P. McAleavey, *The cohesion deficit in Structural Fund policy*. *Journal of European Public Policy*, VIII 2001

<sup>29</sup> Ibid.



The more redistribution, the less free the market. Therefore the extent, objectives and form of cohesion policy also answer the question on the economic and social model of Europe; the model that the European Union promotes. It is neo-liberals against regulated capitalism.

The struggle between competing models of European capitalism has only begun.<sup>30</sup>

It is also a question of the role of the public actors (state, supra-national organizations) in the economy. Some analysts typify these tensions as being between the neo-American model and social democracy model<sup>31</sup>, the Anglo-Saxon vs. the Rhine social market economy<sup>32</sup>

Proponents of regulated capitalism—which seems to be winning in Europe—want to create a European liberal democracy capable of regulating markets, redistributing resources, and shaping partnership between the public and private sectors. They contend that the single market works more efficiently if political actors provide collective goods such as European transport or communication infrastructure, research and development. Redistributive policies empower weaker actors so that they can compete in a liberalised economy.<sup>33</sup> And here is the space for cohesion policy projects.

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<sup>30</sup> L. Hooghe, EU Cohesion Policy and Competing Models of European Capitalism. *Journal of Common Market Studies*, XII 1998

<sup>31</sup> S. Wilks, Regulatory Compliance and Capitalist Diversity in Europe. *Journal of European Public Policy*, nr 4, 1996

<sup>32</sup> M. Rhodes, B. van Appeldorn, Capitalism versus Capitalism in Western Europe, in: M. Rhodes, P. Heywood, V. Wright, *Developments in the West European Politics*, New York 1997

<sup>33</sup> L. Hooghe, EU Cohesion Policy and Competing Models of European Capitalism. *Journal of Common Market Studies*, XII 1998