



Regional policies

Class overview

1. Data
2. Justifications
3. Theories
4. Evaluation



- Slides are largely based on Baldwin-Wyplosz's ones (textbook)

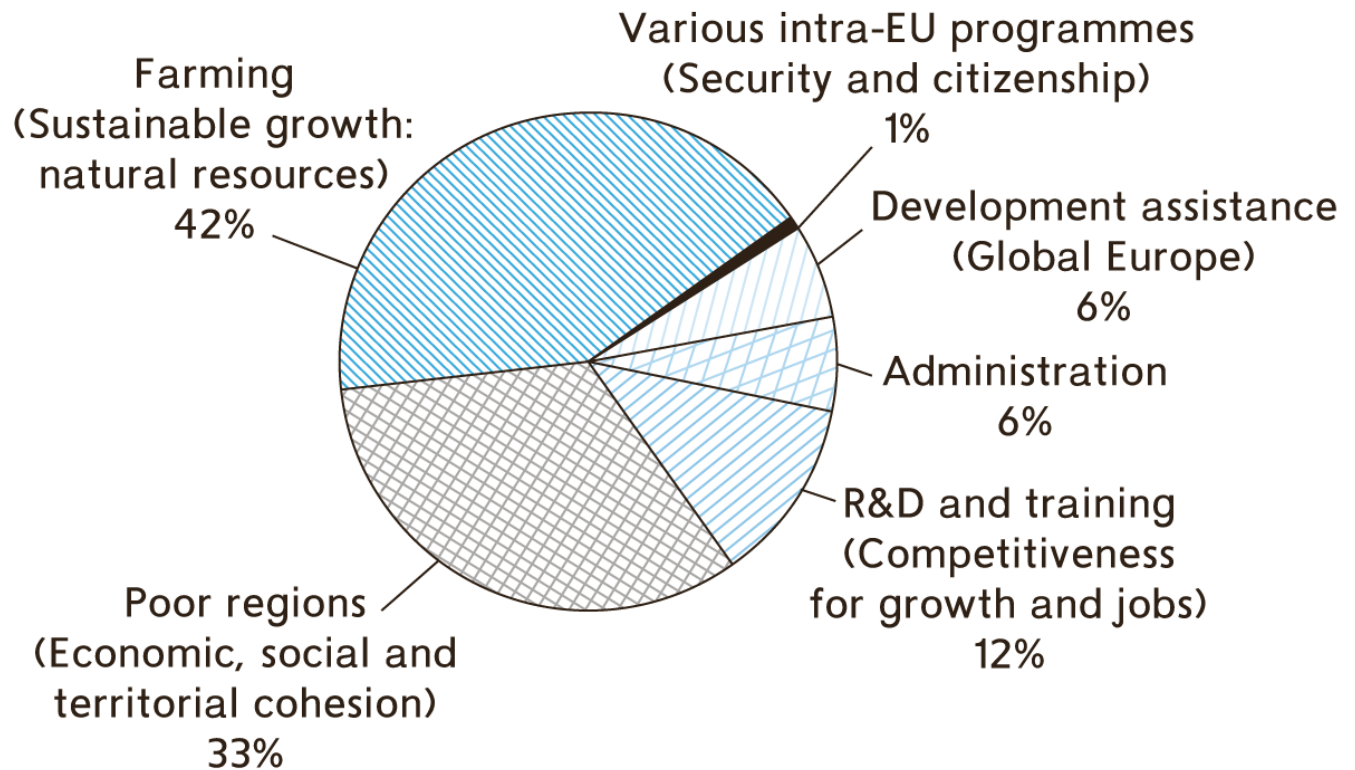


EU regional policy

- Concern for Europe's disadvantaged regions has always been part of EU priorities (i.e., part of Treaty of Rome preamble).
- Still, major EU funding for less-favored regions was introduced only when the first 'poor' member, Ireland, joined in 1973: the European Regional Development Fund (ERDF) was set up to redistribute money to the poorest regions, but its budget was minor.
- The situation changed in the 1980s when Greece, Spain and Portugal joined: these nations were substantially poorer and did not benefit from CAP funding. The voting power of Greece, Spain, Portugal produced a major realignment of EU spending priorities.



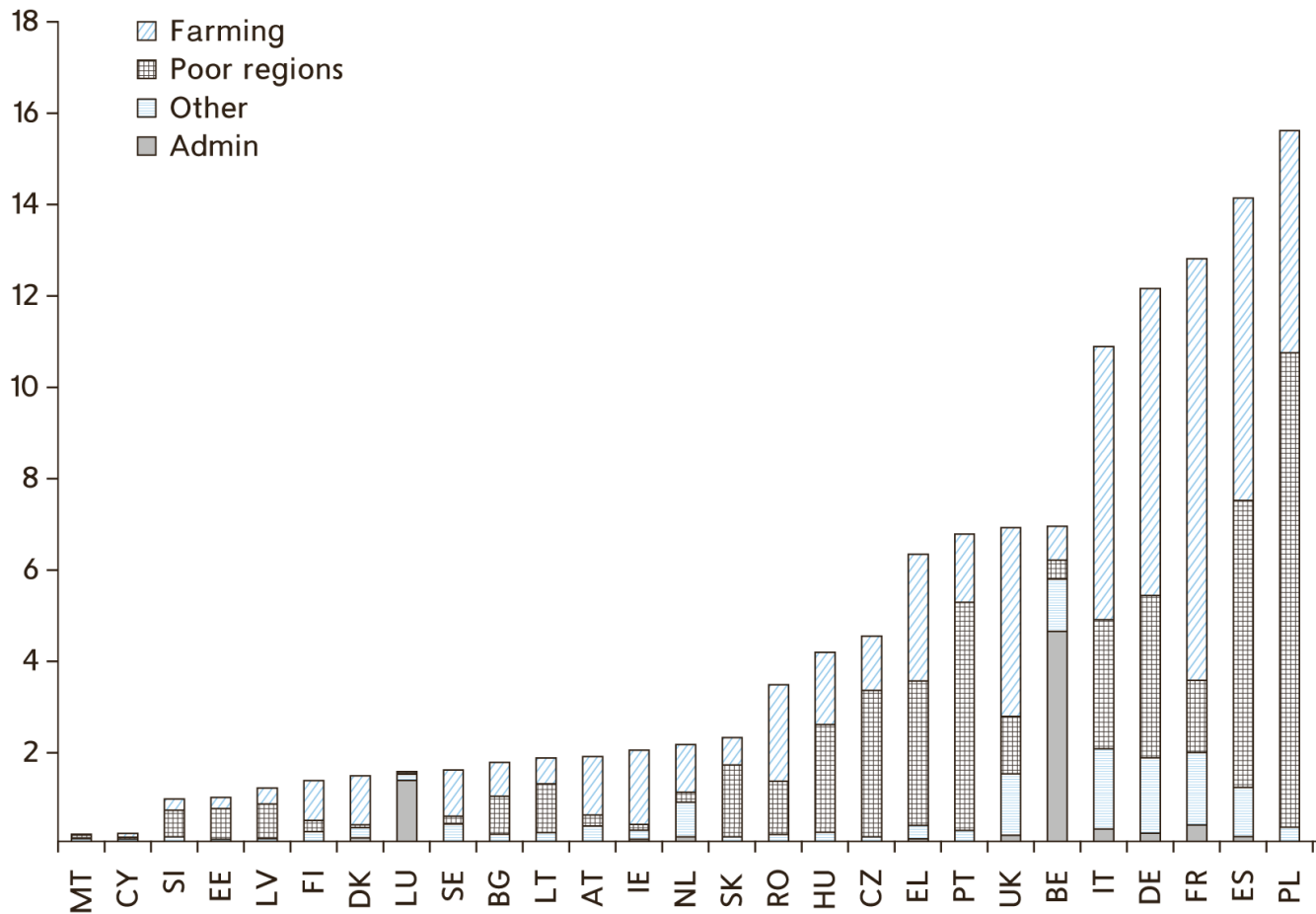
The budget: Expenditures



Source: http://ec.europa.eu/budget/figures/2014/2014_en.cfm



Evolution of spending (level)

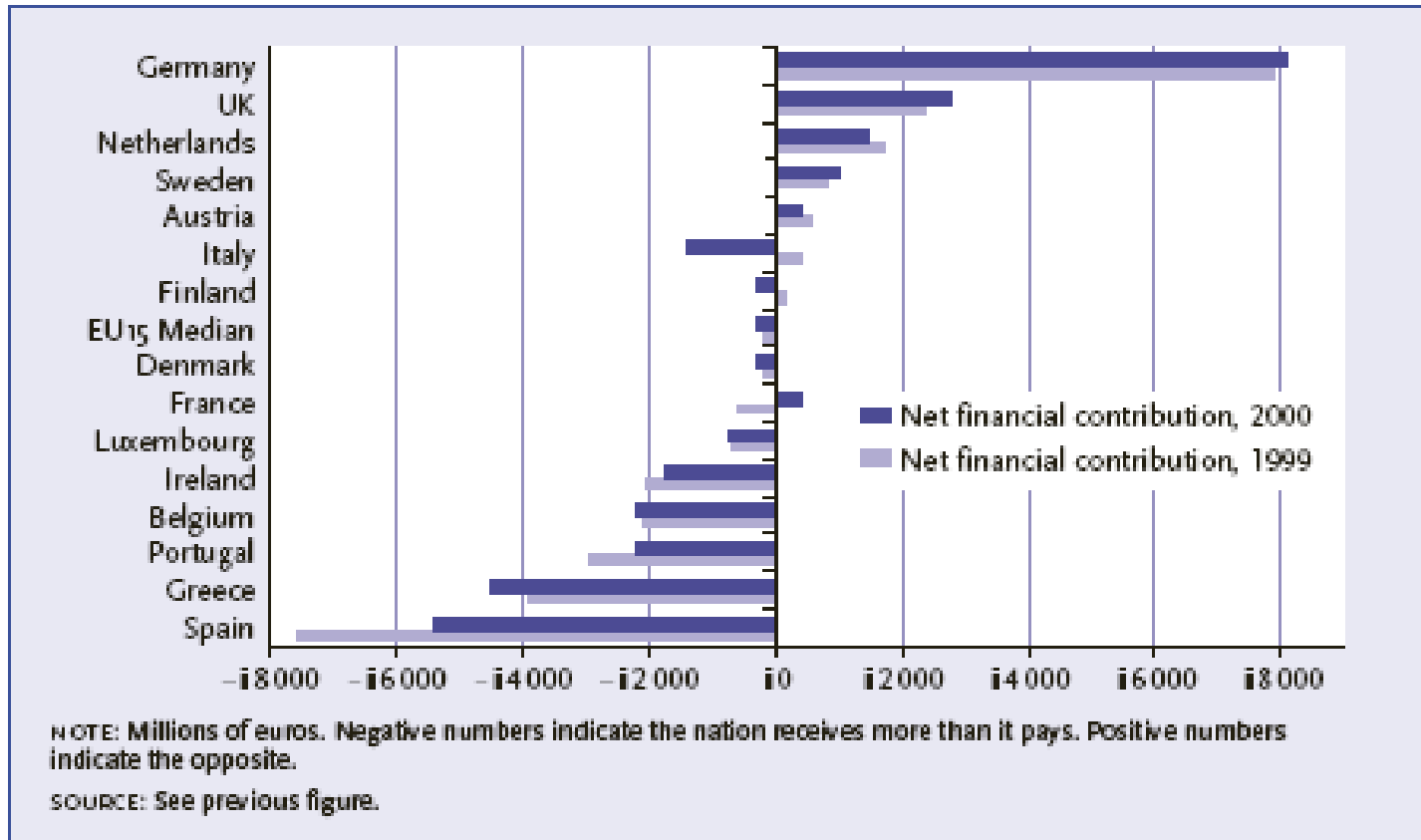


Note: Malta MT, Cyprus CY, Slovenia SI, Estonia EE, Latvia LV, Finland FI, Denmark DK, Luxembourg LU, Sweden SE, Bulgaria BG, Lithuania LT, Austria AT, Ireland IE, Netherlands NL, Slovak Republic SK, Romania RO, Hungary HU, Czech Republic CZ, Greece EL, Portugal PT, United Kingdom UK, Belgium BE, Italy IT, Germany DE, France FR, Spain ES and Poland PL.

Source: Data compiled by the authors from http://ec.europa.eu/budget/library/biblio/documents/2012/fin_report_2012_data.xls



Net contribution by member

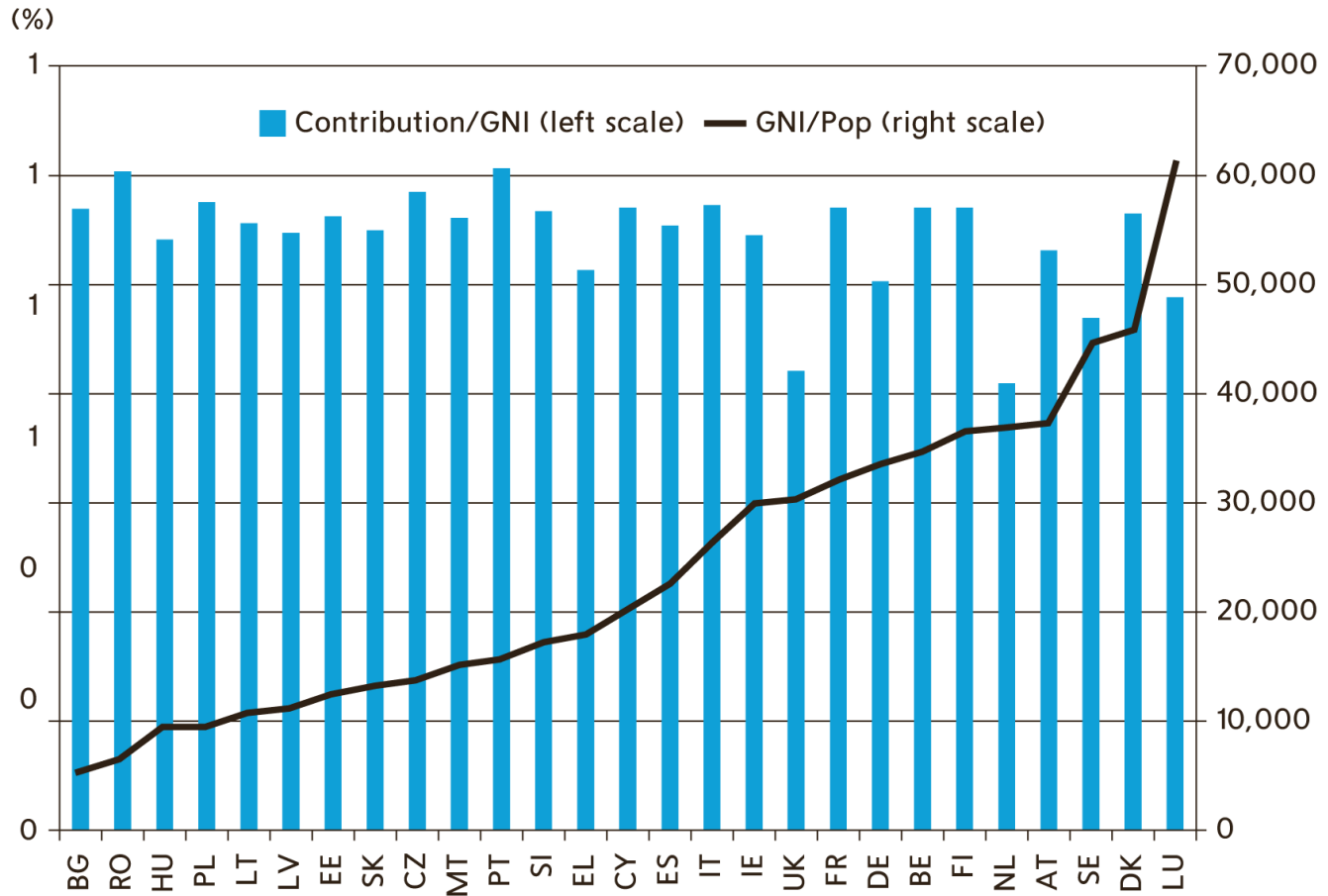


Not updated.



Contribution versus GDP (2012)

EU funding amounts to 1% of each member's GDP, not progressive as in most nations (i.e., richest nation pays less of its GDP than the poorest nation).



Note: See Figure 2.10 for the country abbreviations.

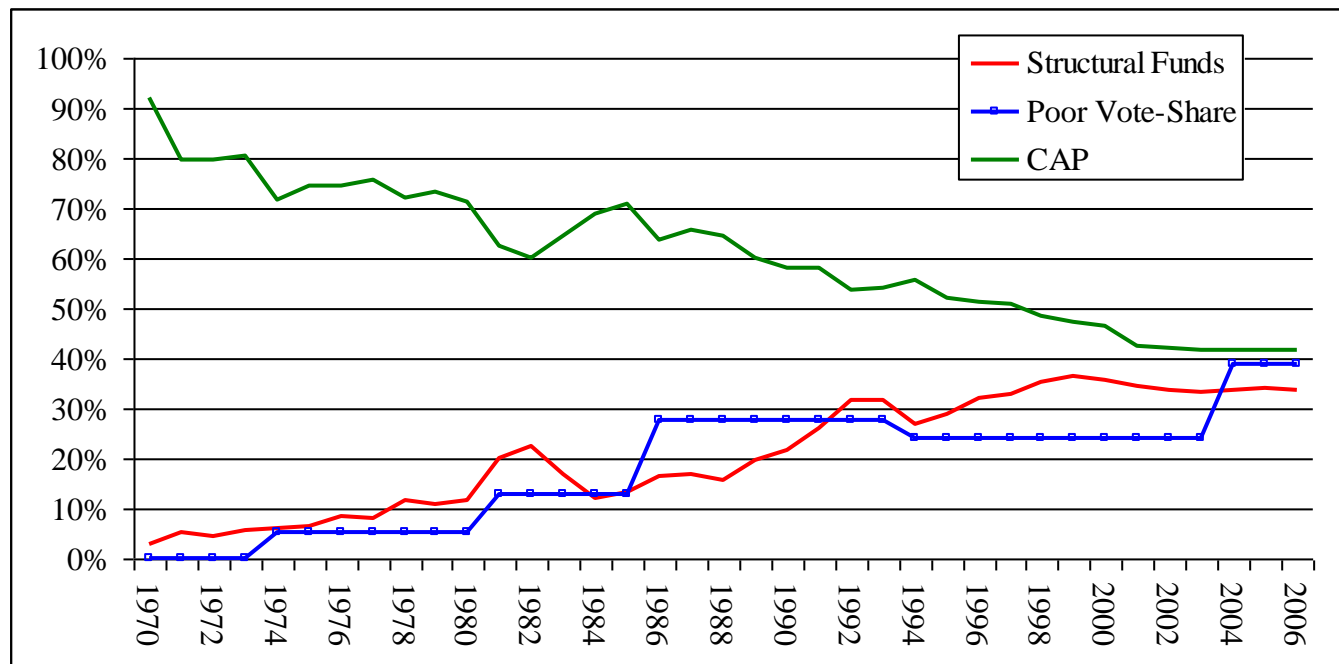
Source: Based on data from DG budget website (http://ec.europa.eu/budget/index_en.cfm)



EU Regional policy

- For historical reasons, EU has five “Funds”,
 - four “Structural Funds”,
 - Spent in any qualified region.
 - “Cohesion Fund”.
 - Spent only in poor-4 (Spain, Portugal, Greece and Ireland).
- 5 Funds work together under overall strategy.
- Many programs, initiatives, and objectives, BUT over 90% is spent on three priority “objectives.”

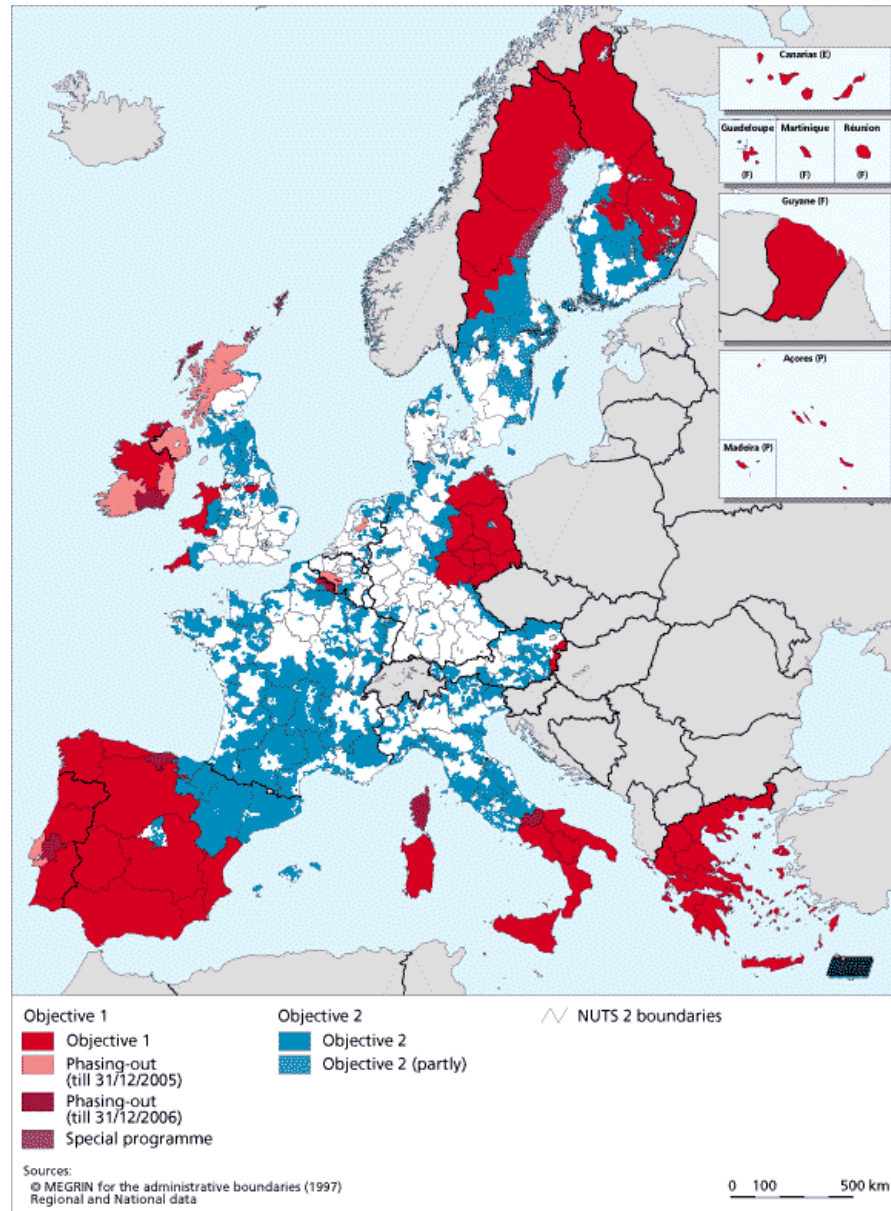
EU Regional policy: Votes and priorities



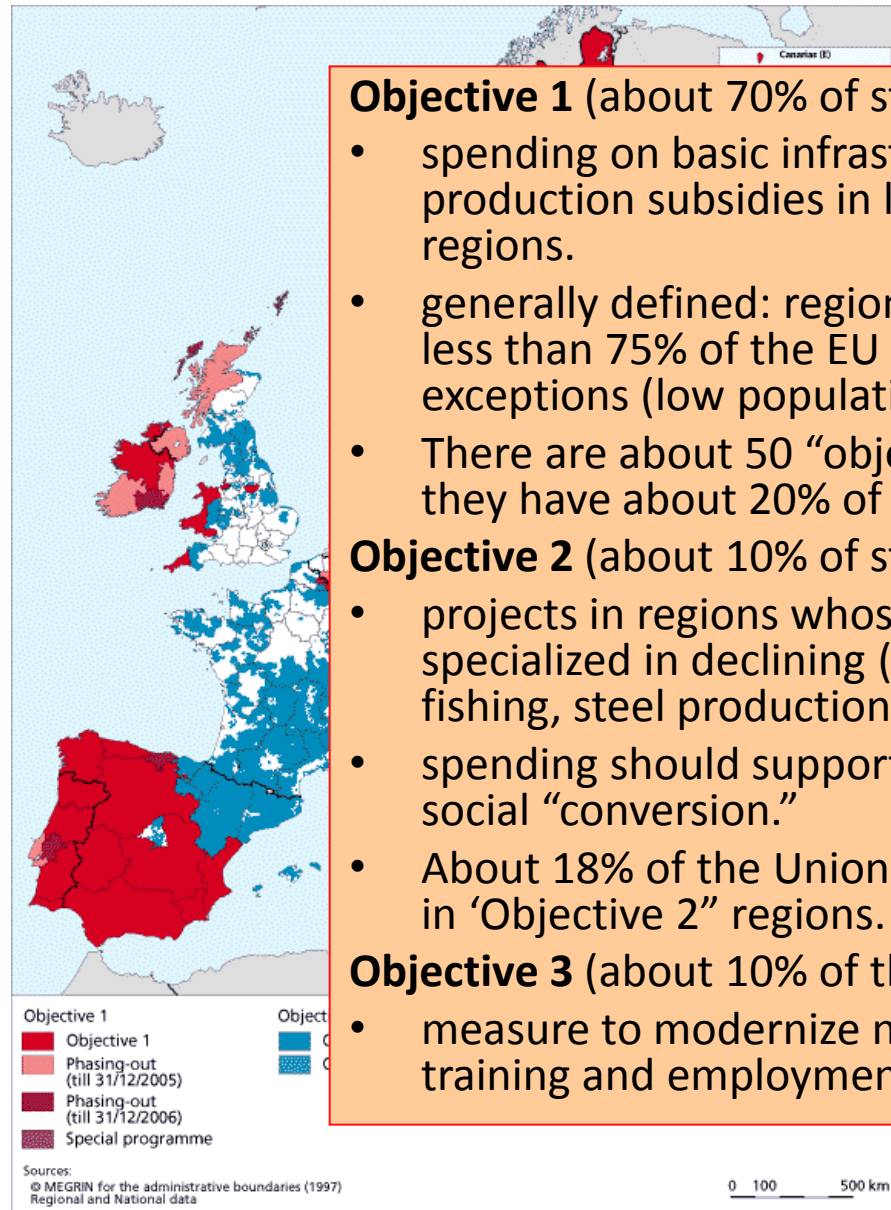
- EU always had poor regions (Mezzogiorno, etc.): much spending on poor EU regions, but very little by EU (pre 1986).
- 1973, Ireland (poor at the time joined); 1981, Greece joined but no major reorientation of EU spending priorities.
- In 1986, Iberian enlargement shifted power in Council and spending priorities changed.



The three objectives of the funds



The three objectives of the funds

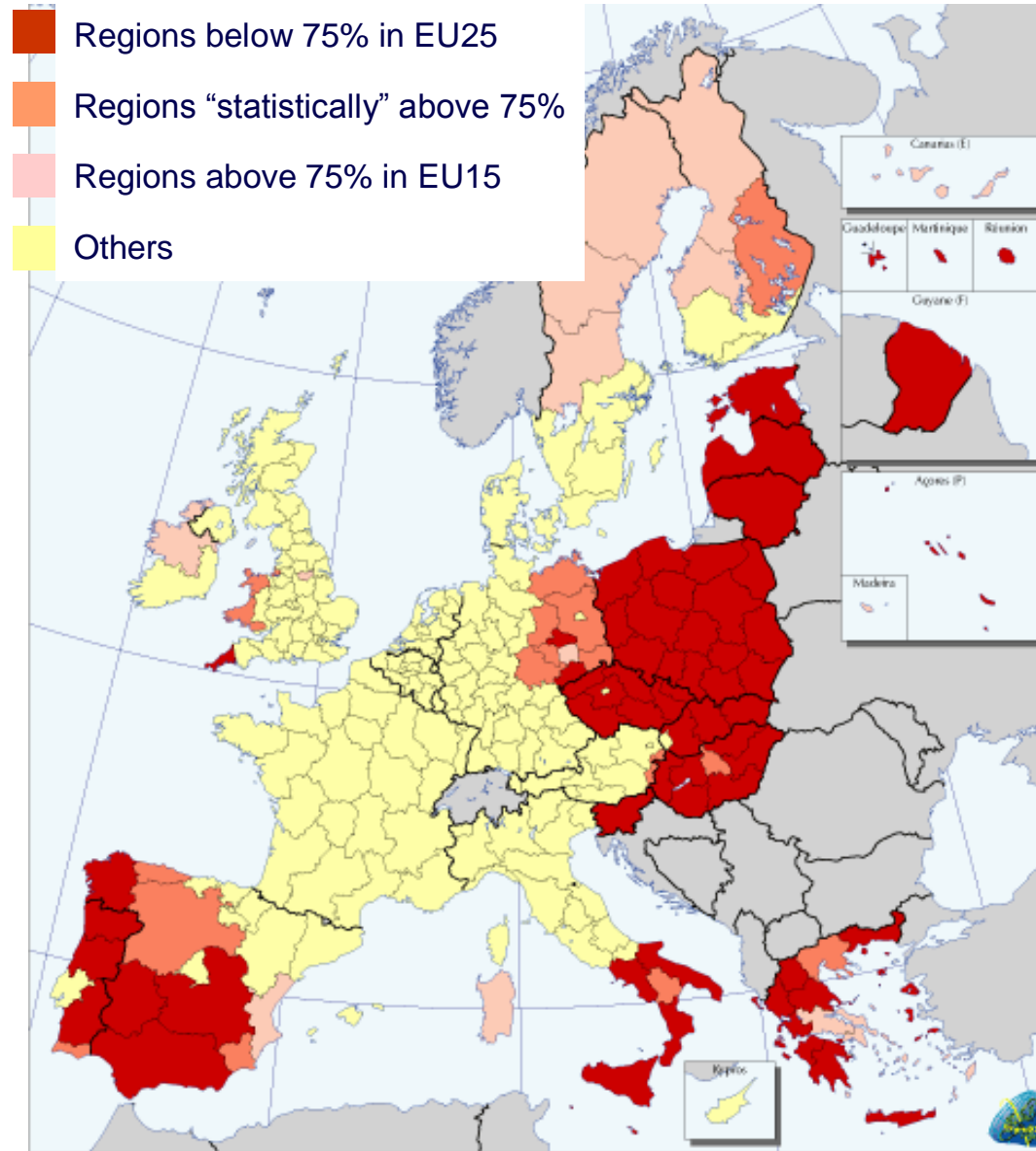




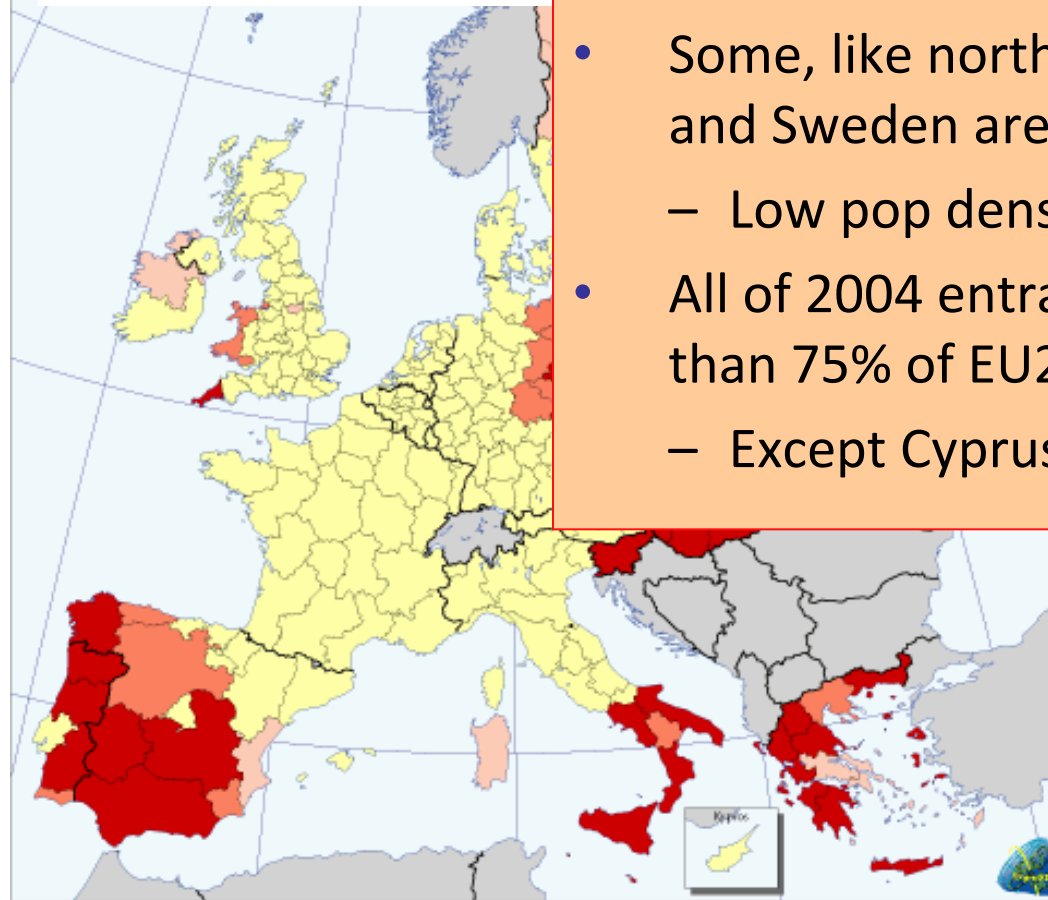
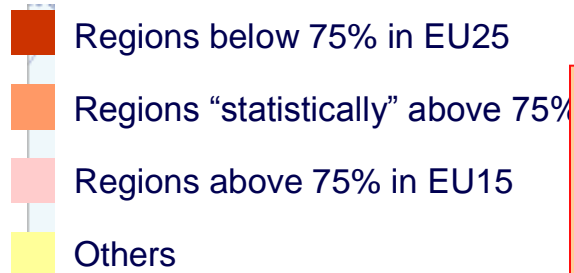
Impact of 2004 enlargement

- The effect of enlargement
 - Average GDP per capita falls 12%
 - 20-25% increase in objective 1 population
- Old member regions drop out
- 75 million people in objective 1 in new members. New members are much poorer than EU15.
- Difficulties:
 - Cost of structural spending could rise substantially,
 - 10 new poor nations make some poor regions in EU15 look relatively rich.
 - Pushes them above 75% of EU25 average.
- Political power in Council likely to shift spending priorities.

A graphical representation



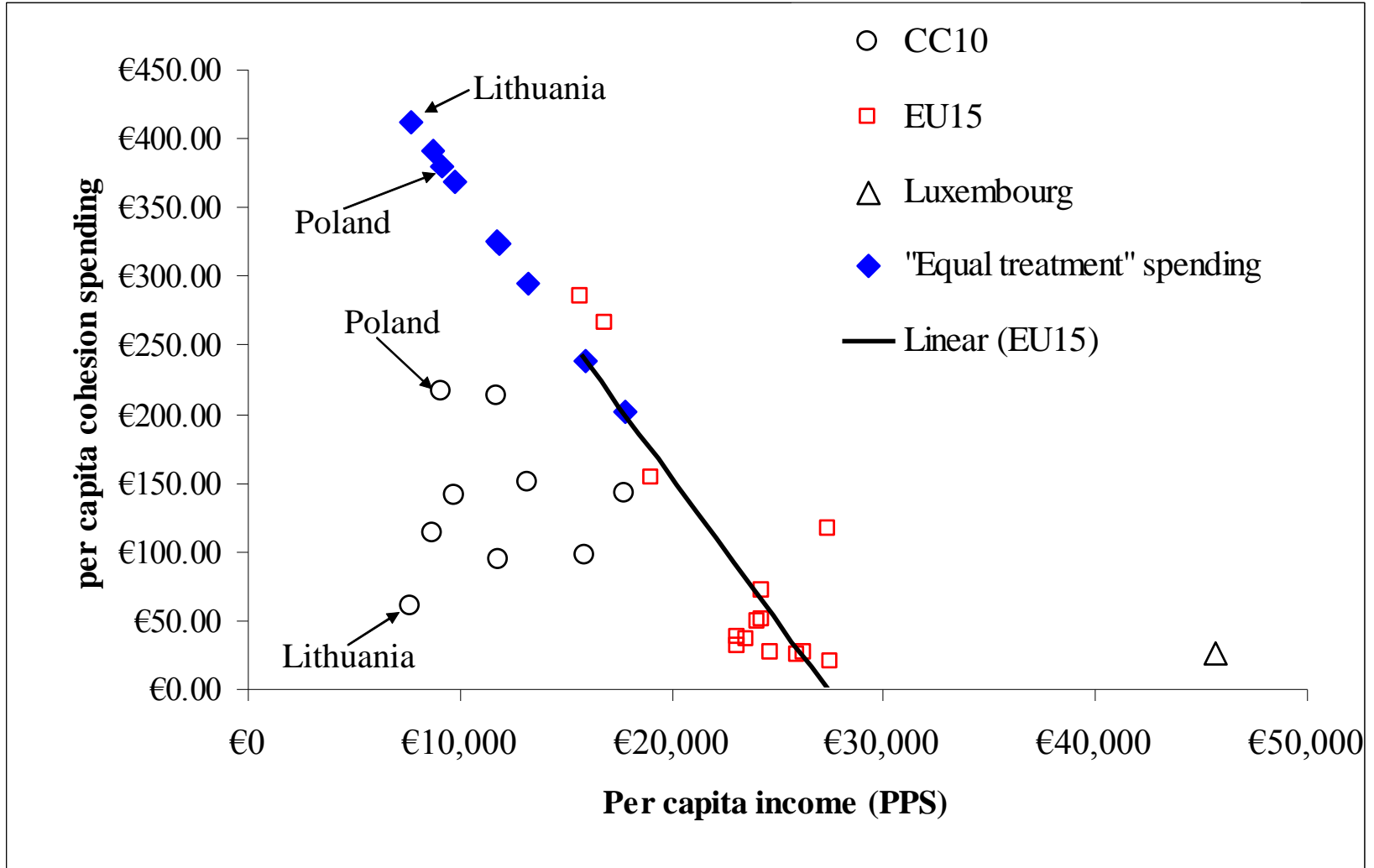
A graphical representation



- Some regions that will be pushed above 75% of average will lose Objective 1 status.
- Some, like northern Finland and Sweden, are unaffected.
 - Low population density criteria.
- All of 2004 entrants have less than 75% of EU25 average.
 - Except Cyprus.



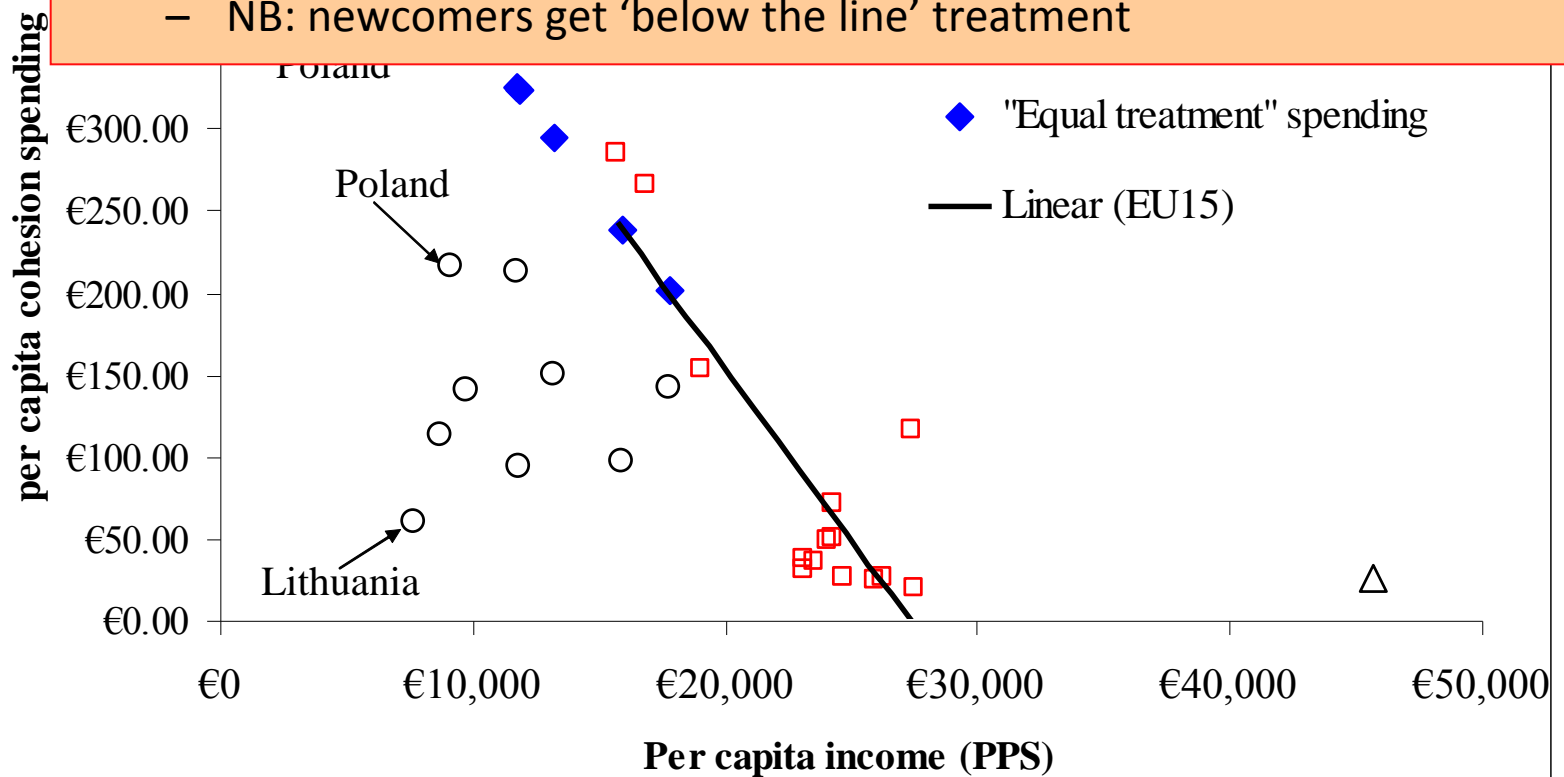
Allocation for Newcomers





Allocation for Newcomers

- EU allocated structural spending for newcomers up to 2006.
- Can predict spending/pop based on income using EU15 numbers
 - “linear” line in figure;
 - NB: newcomers get ‘below the line’ treatment





Regional policy 2006-2013

- Adoption of draft regulations 14th July 2004 = 3 priorities:
 1. Convergence (objective 1) 78.54%
 - Less developed regions
 - Less developed countries (cohesion fund)
 - Regions affected by “statistical effect” of enlargement
 2. Regional competitiveness & employment (objective 3?) 17.22%
 3. Territorial cooperation 3.94%



Europe's 2020 Strategy

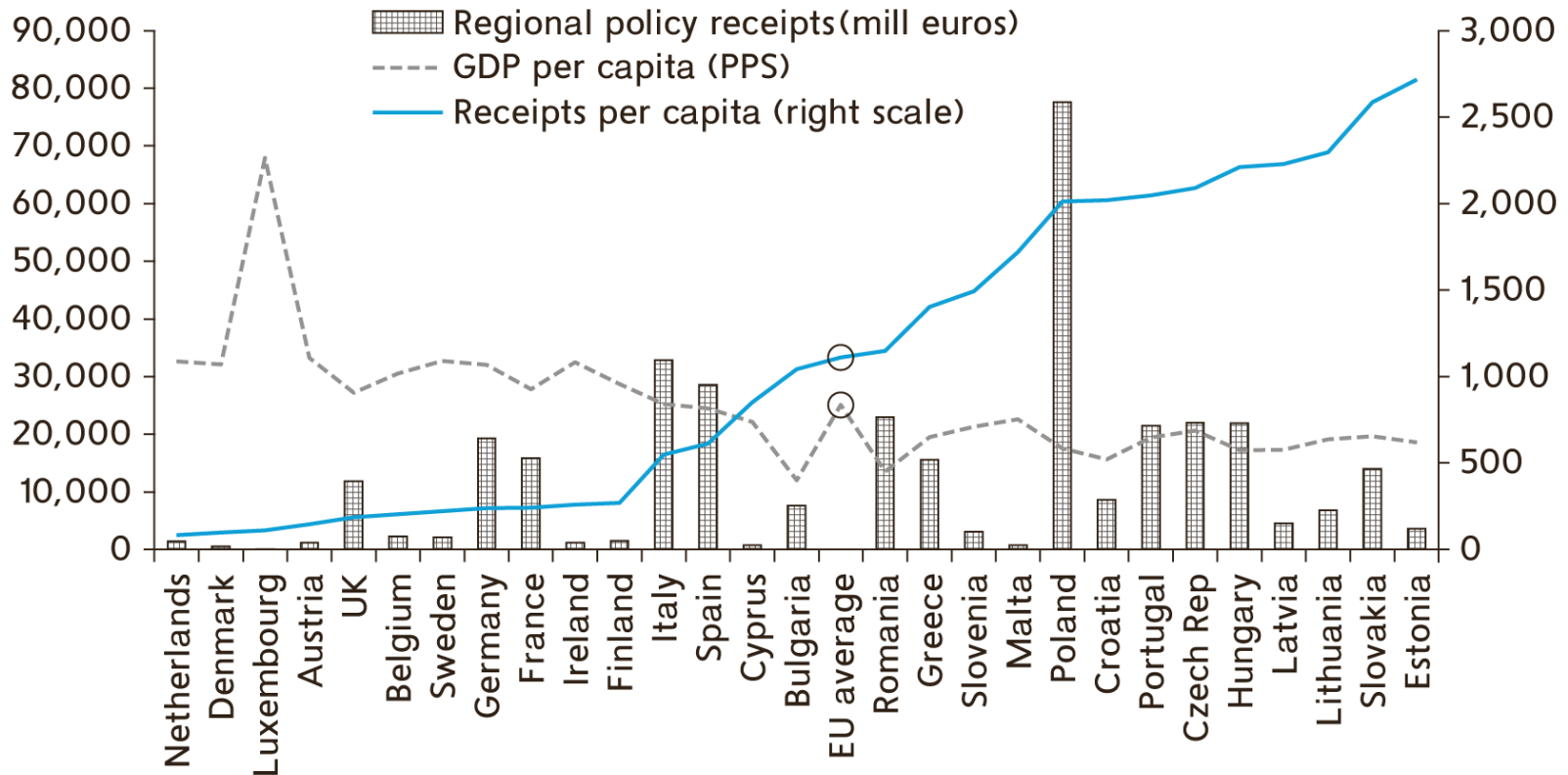
- Europe's 2020 Strategy for smart, sustainable and inclusive growth

Smart growth	
1	Strengthening research, technological development and innovation
2	Enhancing access to, and use and quality of, information and communication technologies
3	Enhancing the competitiveness of small and medium-sized enterprises (SMEs)
Sustainable growth	
4	Supporting the shift towards a low-carbon economy in all sectors
5	Promoting climate change adaptation, risk prevention and management
6	Preserving and protecting the environment, and promoting resource efficiency
7	Promoting sustainable transport and removing bottlenecks in key network infrastructures
Inclusive growth	
8	Promoting employment and supporting labour mobility
9	Promoting social inclusion, combating poverty and countering discrimination
10	Investing in education, skills and lifelong learning
11	Enhancing institutional capacity of public authorities and stakeholders, and promoting efficient public administration



EU regional policy

- EU allocation of cohesion spending by nation, 2014 - 2020:



Source: Multiannual Financial Framework and Eurostat for population and income data



Justification (EU policies)

1. Vested interests argument [Germans want to sort out Spain problem]
 - equity spillovers; efficiency spillovers; non-economic spillovers (social cohesion)
2. Financial targeting argument
 - If we accept arguments for regional policy (above), want to target the poorest regions
 - German poorest lot richer than Spanish
3. Coordination argument
 - supra-national coordination
4. Effects of integration argument
 - Share aggregate gains
5. Effect of other EU policies



Justification (EU policies)

1. Vested interests argument [Germans want to sort out Spain problem] \Rightarrow **tenuous**
 - equity spillovers; efficiency spillovers; non-economic spillovers (social cohesion)
2. Financial targeting argument \Rightarrow **ok: we need regional policy**
 - If we accept arguments for regional policy (above), want to target the poorest regions
 - German poorest lot richer than Spanish
3. Coordination argument \Rightarrow **ok: no zero sum game**
 - supra-national coordination
4. Effects of integration argument \Rightarrow **ok: compensation wishes**
 - Share aggregate gains
5. Effect of other EU policies \Rightarrow **tenuous**



Justification: Three theories

- Theories
 - New priority: poor-regions → funds are needed to achieve the target
 - Bureaucracy end of CAP (mechanization) new spending target → poor-regions are justification to obtain funds
 - Integration strategy: EU policies vs. national policies. Local authorities are financed by the EU institution rather than national government



Assessment of EU regional policy

- Justification
 - Equity arguments \Rightarrow OK
 - Efficiency arguments \Rightarrow not good evidence
- Failures
 - No convergence
 - Over-reliance on infrastructure improvements relative to human capital
 - Business support for “high tech”/ “high value” added activities”