European Research Studies
Volume IX, Issue (3-4), 2006

"How Effective are the Regional Policies of Convergence in the EU?"

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Abstract

In this paper an attempt is made to examine the impact of the convergence policies on regional development and the economic and social variations inside the EU according to the existing literature. An attempt is also made to look at the outcome of the EU intervention on the administrative and bureaucratic structures in the affected nations. We conclude that despite some advances in administration, monitoring and evaluation, the effect of the convergence policies on growth and efficiency remains restricted.

Keywords: European integration; Regional policy; Regional economics; Structural policies; Economic development.

JEL classification: R11, R58, O1, F15.

1. Introduction

This paper aims to explore whether convergence has taken place in the European regions, examining the success of the regional policies of convergence, their accomplishment, and also the bureaucratic and administrative relationships between Brussels and the nations involved, based on a critical examination of the related literature. The paper consists of these parts: First, theories of convergence and divergence are discussed and the empirical evidence of convergence and divergence in Europe is looked at, next the accomplishment of the European Union (EU) regional policy and especially the Structural Funds, from a political and economic standpoint up to the present time.

2. Theories for convergence and divergence

Economists, economic geographers and regional scientists have suggested different and contrasting explanations of why regions grow at different rates, and what kind of convergence, if any, one might expect from a system of interacting regions. Despite significant differences of approach, there are nevertheless common themes arising from the literature which bring an element of cohesion to a diverse subject matter, namely the relevance for understanding of returns to scale, externalities and catch up mechanisms, and the role of exogenous shocks in real-world turbulence (Fingleton, 2002).

According to classic growth theory, regional integration ought to lead to convergence. According to the neoclassical form of growth theory, rich and poor

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regions will converge. The neo-classical form of growth theory suggests that rich and poor regions will converge. It is the decreasing returns to scale to capital which brings about convergence: A higher marginal product and return to capital is to be expected from countries and regions with low capital stocks and per capita income. As a result of this there should be more capital accumulation and quicker growth in poor regions than in rich ones (Barro and Sala-i-Martin, 1995).

There has been a renewal of interest in the causes of economic convergence since 1985 (Sala-i-Martin, 1996). One reason for this is a revival of interest in the general subject of economic growth. The convergence hypothesis, which differentiates between the two main current approaches to economic growth - namely, the models of endogenous growth and the neoclassical model - has been instrumental in bringing about this revival. It was argued by Romer (1986) and Rebelo (1991) that the lack of convergence across economies worldwide suggests that the theories of endogenous growth are nearer to the reality in comparison to the neoclassical model.

The economists' hopeful forecast has been altered by two important trends in the literature of late: in contrast to the neoclassical paradigm, the "new growth theory" (Romer, 1990; Krugman, 1991c; Matsuyama, 1991) - which emphasizes the role that externalities and non-decreasing returns to scale play in the growth process - does not envisage the only conceivable result as being income convergence between rich and poor regions (Chatterji, 1998). It would appear from the "new economic geography" that regional integration might cause more inequality between regions. It is interesting that the possibility of income divergence, despite the fact that it is not necessary, in these models points to a significant change of approach of economic theory on these matters. In a way, the picture these days is similar to that found in the uneven development literature (Kaldor, 1957; and Myrdal, 1957) of the 1950s and 1960s, which was later followed by the neoclassical growth model.

Endogenous growth and "new economic geography" models question the hopeful outlook of the neoclassical model, as far as convergence is concerned. For example, as the Lucas (1988) story shows, if long term growth is encouraged by the endogenous accumulation of practical experience without decreasing returns over a length of time, trade between regions can mean that one region specializes in industries with a particular advantage (e.g. traditional economic activities), but which offers few opportunities for learning, so that the region might have a lower growth rate, due to trade integration.

A "core-periphery" structure might appear with trade integration according to the "new economic geography" literature headed by Krugman (1991a and 1991b). It is suggested that a result of the reduction in transaction costs could be the spatial concentration of increasing returns to scale industries in the centre of Europe, whilst the periphery would concentrate on constant returns to scale industries (such as, low technology industries and agriculture).

Krugman and Venables (1990) found that the selected spatial unit and the time factor affected the way in which the index of distance from purchasing power and the regional GDP per capita were closely related in a negative manner and altered over time, which is especially important for those making policies.

The welfare loss of specialization in the constant return to scale industries is not obvious and neither is the reason it leads to real income divergence. The decrease in real income and the welfare loss for the poorer region, in the "new economic geography" models, result from the poorer region having to pay transaction costs on the manufacturing sector goods produced in the wealthy region (Martin P., 1998).

According to Faini (1984), regions, which contained elements of both the "new economic geography" and the "new growth" models, were found to have an increasing divergence of growth rates between them as a result of growing returns in the production of non-traded intermediate inputs.

A model such as that of Martin and Ottaviano (1996), which determined growth and geography together and integrated a "new growth" framework to a "new economic geography" model, allowed an exchange between average growth and regional convergence to appear. A more efficient, but also less equal economic geography which makes possible a pattern of high aggregate growth, can thus go hand in hand with increased regional income inequality.

3. Evidence of convergence and divergence

3.1. Evidence of convergence and divergence in Europe

There is controversy surrounding the statistical assessment of convergence. Mostly what is called into question is the level of convergence, i.e. between regions or between countries. In both instances, the stricter analyses of convergence have centered on economic phenomena, ignoring social and quality of life phenomena (Giannias *et al.*, 1999).

Convergence studies were originally based on cross sections and estimated using Ordinary Least Squares (OLS). Following the seminal paper by Barro (1991), such analyses were carried out for a large set of countries (e.g. Barro and Sala-i-Martin, 1991; Levine and Renelt, 1992) as well as regions. Among others, Armstrong, 1995; Molle and Boeckhout, 1995; Neven and Gouyette, 1995; Fagerberg and Verspagen, 1996; Tondl, 1999 and 2001; Martin, 2000, and Vanhoudt *et al.*, 2000, estimated regional convergence in the European Union (EU) in cross-section models. These studies concluded that convergence between EU regions took place, however, at a fairly slow pace reaching 2-3% in the 1960s and 1970s and slowing down to 1.7% after 1975.

On the other hand, panel data convergence studies using (among others) the least squares dummy variable (LSDV) procedure (Islam, 1995; Cuadrado-Roura *et al.*, 1999; Tondl, 1999; de la Fuente, 2002) found extremely fast convergence rates of up to 20%.

The regional convergence after the war found in a very large number of studies (see above), slowly changed to stability or even divergence in the last twenty years of the twentieth century (Canova and Marcet, 1995; Magrini, 1999; Rodriguez-Pose, 1999; Cuadrado-Roura, 2001; Puga, 2002).

Furthermore, there is mounting evidence of the appearance of convergence clubs (Neven and Gouyette, 1995; Quah, 1996) leading to greater polarization and less economic cohesion across Europe (Lopez-Bazo *et al.*, 1999).

In the EC, regional changes were usually slower than those apparent in the U.S. (Neven and Gouyette, 1995). However, the speed of convergence varied greatly between countries, regions and periods even over long periods (Martin P., 1998). Sala-i-Martin (1996) claimed that in the U.S., between 1880 and 1990, the speed of convergence was 1.7%; for European regions the rate was 1.5% between 1950 and 1990. In European countries, on the other hand, the speed varied greatly: 1.6% for French regions, 3% for British regions, 1.4% for German regions, 2.3% for Spanish regions and 1% for Italian regions. Interestingly, according to Martin P. (1998, p. 769), between 1978 and 1992 no convergence between regions within countries was to be found and the convergence rate fell to 1.3% for European regions.

The main problem is that, over the period 1965-1995, the process of regional economic development has shown the existence of both divergence and convergence trends at regional level (Molle and Boeckhout, 1995). As a result, some refer to consecutive periods of divergence and convergence (see, for example, Barro and Sala-i-Martin, 1991). On the other hand, others have chosen to explain the tendencies with the use of a framework which recognizes the likelihood of simultaneous processes of convergence and divergence in different regions (comparatively) over similar time periods (Boltho and Holtham, 1992; Dunford, 1993; Dunford and Hudson, 1996).

Terrasi (2002) tried to evaluate the main results reached in the rich literature that has flourished on the theme of European regional convergence in recent years, with the purpose to establish whether a consolidated knowledge of the problem has been reached. The conclusion is that while some points have been clarified, others remain still confusing due to the different methods of analysis, periods of time, groups of countries and regional units that have been used.

It is clear that more theoretical and empirical work is needed to comprehend the mechanisms of convergence and divergence at different spatial levels.

3.2. The North-South and the centre-periphery divergence in the EU

GDP measures can be of use for the growing differences between north-western and southern regions, in spite of the fact that these measures are not totally reliable (particularly in Southern Europe, where a growing role is played by the informal economy, mostly during times of economic crisis).

For the period 1975-90, Neven and Gouyette (1995) examined convergence in output per head across regions in the EC. They said the indications were that the difference between the north and the south of the EC was probably more significant when analyzing growth patterns than the difference between the centre and the periphery. A first look at the studies on migration suggests that the population of the southern regions reacts much more slowly to wage and unemployment differences. Perhaps this is one reason why southern regions have not converged after 1985. At the other end of Europe, in the North, the regions had a tendency to remain stationary or diverge at the beginning of the eighties, but converge strongly afterwards.

Graham and Hart (1999), noted that the main core-periphery spatial structures which characterized the EU in the 1990s were very similar to those recognized more than 25 years ago at the time of the first enlargement in 1973, in spite of a more complex map of regional inequality.

It can be said that the north and south of Europe had been exposed to different shocks in the mid-eighties and that as a result of a negative shock the southern regions had moved off the transition path. Trade liberalization (see Single European Market) might result in uneven patterns across regions, where strong scale and agglomeration economies were present, damaging southern regions (Krugman and Venables, 1990; Neven and Gouyette, 1995).

The periphery of Europe now includes large parts of Western France, England, Northern and Eastern Germany, and Denmark, as opposed to the old definition of the Mediterranean countries and Ireland. Moreover, within each of the member states spatial polarization can be seen. This means that high level, high-status jobs are centred in metropolitan areas (e.g. Barcelona, Paris and Dublin) around Europe's "core", whilst peripheral areas manage with only low-level jobs (Graham and Hart, 1999).

It is noteworthy that not only were strong regional economies growing stronger and weaker ones growing weaker, but that "new" growth regions were appearing which made the spatial structure even more complicated; examples of this are Friuli Venezia-Giulia and Lazio in Italy. On the whole, then, in general one may conclude that convergence at the broad EU level has been going on, perhaps slowly, whilst, at the same time, at regional level wide variations in economic and social well-being are still in existence (Armstrong, 1995).

It is very hard to analyze the progress towards greater social and economic cohesion within the EU, especially in view of the fact that the process of integration creates tensions of political economy. As MacKay (1995, p. 230) stated: “There is a danger that any single group, including economists, will redefine the problems in such a way that the debate does not address the questions that trouble those intimately involved”.

However, one should not forget that the assessment of EU regional policy has only been considered significant recently. Therefore, the 1994-99 period was likely to be the first programming cycle to come in for a complete evaluation (Bachtler and Michie, 1995).

4. The ec structural funds and the cohesion fund

The European Social Fund (ESF-1958), the European Agriculture Guidance and Guarantee Fund (EAGGF) with separate guarantee and guidance sections and the European Regional Development Fund (ERDF-1975) are the three main Funds of the EC. ESF, ERDF and the EAGGF-Guidance (1964) are commonly grouped together as the 'Structural Funds' and their target is the economic and social cohesion of the member states. The FIFG (Financial Instrument for Fisheries Guidance), which assists in the restructuring of the fisheries sector, was added to the three traditional Structural Funds (ESF, ERDF, EAGGF-Guidance), in 1993 - (Shackleton, 1993). The EC Structural Funds have been reformed in 1988, 1993, 1999 and 2006 targeting always administrative improvements in the domains of additionality (evidence of added value), partnership (collaboration with regional and local actors), subsidiarity (complementarity of the responsibilities between the various social agencies – namely the responsibility is undertaken by the smallest possible administrative or geographical unit), programming, monitoring and assessment.

Also, the Cohesion Fund (1993), which is a macroeconomic adjustment Fund, provides financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure, in countries with a per capita GDP less than 90% of the EU average (CEC, 1997).

Despite the fact that since 1993 the Structural Funds’ relative size has grown at much slower rate and was set to decline until 2006 (CEC, 2001), the money available for development has continued to increase in absolute terms (*Table 1*):

Table 1. **Community expenditure**

Community expenditure Percentages of out-turn in payments	**1980**	**1985**	**1989**	**1993**	**1997**	**2001***
EAGGF guarantee section (CAP)	68.6	68.4	57.7	52.4	49.6	46.1
Development funds:	11.0	12.8	18.8	30.7	32.3	33.2
of which: Cohesion Fund	0	0	0	1.2	2.9	2.6
of which: Structural Funds	11.0	12.8	18.8	29.5	29.4	30.6
Other	20.4	18.7	23.5	17.0	18.1	30.7
Community expenditure as % of Community GDP	0.8	0.92	0.94	1.18	1.12	1.09
Expenditure per capita (EUR)	62.7	105.2	129.5	191.1	217.1	255.2
Development funds on EU GDP	0.09	0.12	0.18	0.36	0.36	0.36

(%)						
Structural Funds per capita (EUR 2000 prices)	13.63	21.09	32.21	69.17	75.80	83.40

* Data for 2001 are provisional. Source: Rodriguez-Pose and Fratesi (2004).

The four Cohesion countries (Greece, Ireland, Portugal and Spain) received by far the highest share of the EU development funds as percentage of their GDP in both periods and, moreover, this share was increasing in all four countries in the second programming period 1994-99 (*Table 2*).

Table 2
Scale of Structural Intervention (1989-1999)

	1989-93 in ECU mn	**1994-99 in ECU mn**	**1989-93 in % of GDP**	**1994-99 in % of GDP**
Portugal	1892	2940	3.07	3.98
Greece	1834	2956	2.65	3.67
Ireland	2374	3608	2.66	2.82
Spain	3017	7066	0.75	1.74
Italy	2374	3608	0.27	0.42
Finland		331		0.40
Sweden		261		0.37
UK	1066	2164	0.13	0.25
France	1387	2491	0.14	0.22
Germany	1680	3622	0.13	0.21
Austria		316		0.19
Belgium	173	349	0.11	0.18
Luxemburg	15	17	0.17	0.15
Netherlands	163	436	0.07	0.15
Denmark	86	140	0.08	0.11
EU-12	14666	27024	0.29	0.45
EU-15		27932		0.51

Source: CEC, 1996.

Between 1989 and 1993, in the four Cohesion countries, fixed investment related to expenditure under Structural and Cohesion Funds came to more than 8% of the total capital formation in these countries. The proportion was 5% in Spain, 13.5% in Portugal, 16% in Greece and 17.5% in Ireland. It is expected that the mean ratio should be 14% of the total for the four countries together, for the period 1994-99 (Martin P., 1998).

5. Assessment of the convergence policies in the EU

5.1. The political dimension

Structural Funds' philosophy was always to develop guidelines and they are not connected with the whole EC social policy. Today, in comparison with the past, it is more difficult to receive financial aid from the ESF; involved agencies must define very clearly what exactly they want and be clearly within the six (now three) Objectives.

There is a clientele oriented to the ESF allocations, namely more specific categories of people (targeting groups) are included at the expense of other categories; so, the Fund becomes less flexible. The latter is also attributable to the concentration of its geographical expansion.

The ERDF has never been sufficient to make a substantial contribution to redressing EC regional imbalances, due to its budgetary inadequacy (Bache, 1999). The Structural Funds represent a small proportion of the overall EC budget (CEC, 1996). The impact of the EC's regional funding was considerably less than that of the regional funding of many member states themselves, although there was a modest increase at EC level (Gudgin, 1998).

On the other hand, the status of the ERDF then in existence, as well as of the Structural Funds as a whole, was unfair, because the contributions (Ardy, 1988; CEC, 1993a) and the funding (Bachtler and Michie, 1999) of the member states were not proportional to their GDP per capita.

Another criticism of the ERDF, which also has to do with the Structural Funds as a whole, is the limited financial aid of the latter to the Objective 2 (declining regions) in all four reforms (very high percentages of funding in Objective 1 areas - see CEC, 1990; CEC, 1993b; CEC, 1999a; Giordano, 2006). Many people have criticized the threshold of 75%, because certain regions marginally above this threshold are also excluded, although they need financial aid [like i.e. South Yorkshire and South Wales in Britain which are granted Objective 1 (less developed regions) status only since 2000 - Eurostat, 2001].

The present function of the Structural Funds has received many criticisms also because all countries contribute to their budget, whereas it would be fairer according to the supporters of this view to transfer money only from the rich, e.g. German, regions to the Portuguese, Spanish or Greek regions.

Criticisms of the rules of the first (1988) and second (1993) reforms of Structural Funds also stress the fact that the member states decided which investments would be financed by the EU, without proper Community control (lack of monitoring and assessment) and this led to the increase of consumption instead of investment, corruption, etc. A big problem was the location of responsibility for the various development projects; it was not clear if the responsible body was the Commission or the national government (Mitsos, 1999).

Horizontal and vertical co-ordination was difficult to meet both technically and politically. Horizontal co-ordination implies that the regional policy would cease to be mainly the concern of a Directorate-General (DG), and become the resultant of common policies. Vertical co-ordination means better co-operation between the Commission departments, governments and the tiers of local government (Lander, regions, local authorities). Each DG in Brussels tends to represent particular lobbies and there was a fragmentation between DGs e.g. DG AGRI promotes agricultural interests. In all Structural Funds, the EC policy process was more or less embryonic and in none was there a clear framework of common goals and values. There were filters which continuously separated Community and national officials (Mitsos, 1994).

In centralized states, like Greece and Portugal, the central governments discussed the eligible projects for finance directly with the EU officials cutting out the regional authorities and the local experts. Given the fact that local governments know better the problems in their areas, this often led to mediocre quality projects and waste of money allocations and deadlines not being met as the evidence shows. However, the involvement of local and regional actors in the policy process during the CSF-3 (2000-06) does not appear to have better results, at least in Greece, in comparison to the past (author's personal experience).

Receipts went directly to the governments, and the clients of the Funds (with the exception of ESF allocations for non-governmental bodies and part of the ERDF infrastructure programme) did not actually receive Community cash in hand (Wishlade, 1999).

In the late 1980s there was an increase in the number of national experts (not EU officials) in Brussels in order to promote the issues of scientific analysis of the projects and co-ordinate better the agencies involved in the complex procedures of the Community's functions. However, the results were not satisfying, because these national experts were influenced more by their own country's interests than by the Commissioners (Mitsos, 1994).

Current budgetary difficulties - following the accession of ten new member states in May 2004 - present a dilemma to the Community; countries are unwilling to concede further budgetary powers or to reform existing policies because of entrenched interests and the unfairness of the present system; yet without further revenue these problems cannot be solved. Furthermore, the territorial concentration in core countries and regions of the benefits of other European policies - and especially of the Common Agricultural Policy (CAP) which represents almost half of the European budget (CEC, 2001, p. 84; de la Fuente and Domenech, 2001, p. 323) - may further dilute the impact of development policies.

The Single European Act exclusively refers to economic topics and competition issues in general, whereas it contains little explicit reference to the social and spatial implications of the Single Market. The Maastricht Treaty (in force since 1993) itself pays little attention to non-economic, non-competition issues in general and to urban and regional issues in particular. Guided by competitive global challenges, EU policies are designed for big industry, banks and large agro-producers, leaving small and medium enterprises (SMEs) and other small-scale productive activities to the Structural Funds (Hadjimichalis, 1994).

Within the Lisbon Agenda (2005), regional policy has been given an important part to play across Europe. In spite of this, the idea of regional policy and its agents are obviously being pressurized. Due to increasing neo-liberal tendencies, all kinds of state aid that could interfere with market forces running their natural course are greatly reduced, while government budgets are suffering cuts. Of late, worldwide political and social developments have led to a change in policy priorities and this has also been influential. Future consensus concerning the aims and objectives of EU regional policy might be threatened by the increasing tendency towards the weakening of interstate solidarity.

5.2. The economic/administrative dimension

Attempts by the EU to encourage convergence through the Structural Funds and the Cohesion Fund can just serve to augment other factors. They need to go hand in hand with national policies in order to create conditions conducive to investment and human capital formation (The Sapir Group, 2005).

In spite of the huge amount of public aids to poor regions, relative movements in the distribution of income, labour productivity and employment rates across European regions show no positive relation with the distribution of the Structural Funds. Specifically, widening employment gaps and a growing positive correlation between productivity levels and employment rates are brought to light. Furthermore, although the distribution of Funds committed by the Commission appears to conform to equity and cohesion principles, once the total cost of projects - which includes the contribution of national authorities - is considered, the image of equity is blurred. This bias in the allocation process may have contributed to the scarce efficiency of EU regional policy carried out during the nineties (Basile *et al.*, 2002).

Allocations are subject to frequent adjustments to the cash ceilings at the beginning of the financial year, a factor inimical to their use (as the Commission intends) in order to influence long-term economic developments. One consequence is that EU expenditure tends perforce to sustain the previously established policies of individual member states, because of the pressure to utilise payment appropriations within the current financial year.

There are several doubts whether the model of regional development which has come to dominate EC regional policy, namely the potential for 'growth from below' (a Europe of many self-regenerating regional economies), is able to give substantial solutions to the Community as a whole. Regarding the indigenous (small firm based) growth for the vast majority of less affluent regions, research has shown that the build-up of a critical mass of new small firms in regions in which such an entrepreneurial tradition is weak is a very costly and time-consuming exercise, offering only limited short- to medium-term rewards (Storey, 1982; Storey and Johnson, 1987). Furthermore, the internal market is much more likely to work to the advantage of more efficient firms in the advanced regions by fostering the formation of greater agglomeration economics in the core (as mentioned before) and leading to the concentration of high value-added scale-intensive activities in a few regions, as well as reduce the build-up of new entrepreneurship in the least favored regions (Begg, 1989a and 1989b; Williams *et al.*, 1991; Brulhart and Torstensson, 1996; Midelfart-Knarvik *et al.*, 2000). The periphery thus becomes increasingly specialized in low value-added manufacturing and non market-oriented services.

Moreover, it has been argued that the excessive concentration placed on competitiveness, in a world of increasing globalization, is leading to increased socio-economic inequalities and unacceptable levels of unaccountable power in multinational corporations (Hadjimichalis, 1994; Krugman, 1996a and 1996b).

The Commission’s White Paper on growth, competitiveness and employment (CEC, 1993c), among other issues, stressed the need to foster regional competitiveness. According to Krugman’s argument, the outcome of this win-lose type of thinking on regional competitiveness will lead to a clear conflict with the objectives and actions of the Cohesion project. In short, the three trajectories of economic globalization, regionalization and real convergence may well be at odds with each other.

While total EU regional policy expenditures were highest in peripheral areas, EU expenditures in support of the productive sector were much more evenly spread across peripheral and lagging regions of the EU. National regional incentives contributed further to an equalization of support levels across large parts of the Union. European and national productive sector supported thus work at cross purposes and were unlikely to contribute to regional convergence (Martin R., 1998). It has been argued by Midelfart-Knarvik and Overman (2002) that national policies aimed at the protection of certain strategic firms or industrial sectors can provoke distortions which in some cases may contribute to counter the cohesive effects of European development policies.

Furthermore, a study of the effects of the development of the trans-European high speed rail network suggests that the trans-European networks (TENs), despite the claims of the Maastricht Treaty to the contrary, might broaden rather than narrow differences in accessibility between central and peripheral regions (Vickerman *et al.*, 1999).

The reduced pace of regional convergence in Europe can also be explained by the fairly low migration across European regions and the slowing down in the change from agricultural to non-agricultural jobs (Cuadrado-Roura *et al.*, 2000).

Harmonization of taxes and action against anti-competitive measures by national governments will further severely constrain the operation of regional policies. As the MacDougall Report argued 28 years ago, the neglect of a system of fiscal transfer at the EU scale – an issue not yet resolved – could well retard or even terminally compromise the project of integration itself (CEC, 1977).

It is surprising that there is no economic calculation about the 'road' to European economic and monetary union; no-one knows its cost and an analytical estimation was never carried out (Mitsos, 1999). No sensible appraisal can be made of the delivery of the Community policies, their cost-effectiveness or their impact on economic development, though some questions had been raised by the Court of Auditors (1981) in several cases, as well as by the DG for Economic and Financial Affairs (CEC, 5654/92, annex), whereas further research has been undertaken since mid 1990s by Pereira (1994), Bradley *et al.* (1995), Christodoulakis and Kalyvitis (1995), Beutel (1996), Cordero (1996), Roerer (1996) – in the context of the Sixth Regular Report on EC Regions (CEC, 1999b) where they are incorporated, as well as in the 10th Annual Report of Structural Funds (CEC, 1998).

The 1960s and 1970s were characterised by active regional policies aimed at drawing industries to less rich regions by means of subsidies. However, these European government policies were later to be queried in terms of their high cost and ability to produce results (Martin P., 1998). Although at the national level the evaluation of regional policies did not come up to expectations, at the European level regional policies in the 1980s were attracting attention again (Martin P., 1998). Now, in comparison to the 1988 reform, every EU country conducted regular evaluations of regional policy (Bachtler and Michie, 1997).

However, as mentioned before, there are still big discrepancies between EU regions [in 2001, in the 48 Objective 1 regions GDP per capita was 64.86% of the EU-15 average (= 100), whereas 88.07% had the 87 regions with a GDP per head more than 75% but less than the EU mean and 121.78% the 71 regions with a GDP per head more than the EU mean; in the above three regional groups the corresponding figures for productivity were 73.74%, 94.85% and 111.37%, whereas for employment rate were 84.64%, 95.86% and 110.53% - Gardiner *et al.*, 2004]**,** whilst nominal convergence (inflation, interest rates, public and budget deficits) does not lead to a real convergence as, initially, it was believed it would. In any case, seventeen years (1989-2005) is probably a short period for the impact to become apparent. The desired results could perhaps appear much later, since the structural change required is a long-term process.

Furthermore, without evidence of convergence of the ‘real economies’ of member states, as documented by increased output and employment growth, productivity and falling unemployment rates, fears exist that monetary union could exacerbate the problems of weak regions in the EU-15 (Baddeley *et al.*, 1998). Arguably, the nature and scale of the shock produced by monetary union, and the continuation of tight fiscal policy through the Growth and Stability Pact agreed in Amsterdam in 1997, could increase regional unemployment disparities by exposing the weaker regions to greater levels of deregulation and flexibility.

With respect to methodological approach, the experience of the 1988-93 programming period and the 1993-94 planning period was that the quality and sophistication of evaluation studies have varied greatly, and comparability between CSFs and Operational Programmes (OPs) was highly problematic. This also reflects major conceptual and methodological problems such as insufficiently precise objectives, inadequate data and difficulties in identifying causality and the counterfactual. Structural Fund operations were evaluated at a variety of levels – project evaluation, programme evaluation, CSF evaluation – which require different approaches and they were difficult to reconcile (Bachtler and Michie, 1997).

The European Commission makes use of the International Labor Office (ILO) definition accrued by the European Labor Force Survey (ELFS) concerning the problem of data at regional level. Despite the fact that internationally accepted questions are asked by the LFS, internationally accepted answers are not forthcoming. The answers are clearly affected by different social security systems in each nation (Fothergill, 1997).

Regarding the Community Initiatives in their entirety, they showed a certain degree of success in reaching their goals of fostering policy innovation and experimentation, also functioning as a significant tool for trans-national co-operation. Because there was a trend in some instances to duplicate interventions existing in the core programmes, a clear added value was not always achievable (Hall, 1997). As a result, the 1999 revision narrowed their influence to four areas, where the added value is easier to be achieved.

Regarding the impact of the training programmes on the labour market, it is still highly questionable if they help match the supply to the demand for labour, given the persistence of high unemployment rates among the EU member states and regions, even during periods of rapid economic growth.

Moreover, the EU enlargement would probably create serious problems, as almost all the initial 15 member states could become net contributors to the regional and social budgets, and perhaps to the EU budget as a whole. This would bring huge obstacles to the Southern European manpower to adapt to the labor market needs; this is one of the main reasons that the human resources (and training in particular) will increase its EU funding share in the CSF-4 (2007-2013).

Finally, concerning the Integrated Mediterranean Programmes (IMPs) - the execution of all of them has finished in 1994 - transparency appeared in principle to be satisfied (Yannopoulos, 1989). But again in practice there were difficulties in establishing how far a particular form of spending would exclusively be channelled to the pursuit of the specific objectives of the IMPs (Plaskovitis, 1994).

6. Concluding remarks

Despite the fact that the effect of Community regional policy was negligible throughout the 1960s, 1970s and 1980s, between 1988 and 2004 EC regional policy set in motion a large quantity of resources and accomplished a greater efficiency in its interventions by means of partnership, focusing on certain objectives, multi-annual programming, synthesis of loans and subsidies, etc. Administrative processes were finer tuned following the 1993 and 1999 revisions. Nevertheless, alterations to the guidelines for the future will result from the continuing lack of development in a number of regions, the demands connected to integration, the expansion in May 2004 with ten CEE/SEE nations and the experience acquired in the first years of the new regional policy.

The nations receiving funding relied on this aid from Brussels (usually up to 70-75% of the total cost of each project) to enable them to pay for the majority of public works in their areas, as a number of projects and other works of great significance for their economic and social advance could not be paid for by their own resources.

Between 1989 and 2004 there was a notable rise in the evaluation of regional policy. As opposed to the situation at the beginning of the 1980s, each EU nation now carries out periodic evaluations of regional policy. This also shows the European Commission's concern with assessment and the pressure on member states to evaluate the effect of EU regional funding, which was spelled out in the reform of the Structural Funds in 1999.

Regional and social policies are the most significant policies instigated by the EU to make for better redistribution of wealth. The way these are done expresses the EU's desire to make the policies contribute to the efficiency regarding distribution. In the EU the aim of social policy is mainly restricted to a re-allocation of funds through the ESF for workers of depressed areas to be retrained or for the unemployed. It is unclear what the impact of the ERDF on the reduction in the regional inequalities is. The impact of European integration generally is not well documented.

The question of whether the EU has aided the reduction in inequality in national wealth and causes inequality in regional wealth is still under discussion, but it would seem that the EU has accomplished this aim to a certain degree (Ireland is an extreme instance, but monetary support from the Community is just one factor leading to the fast economic growth in Ireland). Assessments of the impacts of both the regional and social policies are quite critical. Despite the fact that the redistribution impact in budgetary terms is definite, the effect on growth and efficiency is restricted since 43 of the original 44 regions eligible for Objective 1 in 1989 were still there 16 years after the reform (Rodriguez-Pose and Fratesi, 2004). It should not be forgotten that from 1989-2002 the Cohesion nations grew more quickly than even the USA (Dunford, 2005), whilst Ireland (from the early 1990s onwards) and Greece (from 2000 onwards) have the highest average GDP growth in the EU-15 (Eurostat). Furthermore, it is noteworthy that according to the official data of Eurostat which will be released by the autumn 2007, following the revision of the Greek GDP by the Greek authorities by about 26% (ECOFIN, 5 June 2007), Greek GDP per capita is between 100-101% of the EU mean. For this reason Greece not only will contribute retrospectively to the Community budget from 1994, but Greece's payments to the EU budget will be higher than it was until today from now onwards.

At the same time as the European Commission is correctly showing particular interest in the productive performance and competitiveness of the EU and its regions, and the integration of the new enlargement states into the Union, it would appear that the role, effectiveness and funding of regional policy are being subjected to a more critical appraisal and re-evaluation (e.g. Boldrin and Canova, 2001; Puga, 2002; Sapir *et al.*, 2003; Gardiner *et al.*, 2004).

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