The Economics of European Regions: Theory, Empirics, and Policy

Dipartimento di Economia e Management

Co-funded by the Erasmus+ Programme of the European Union

Project funded by
European Commission Erasmus + Programme – Jean Monnet Action
Project number 553280-EPP-1-2015-1-IT-EPPJMO-MODULE

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November 9, 2017

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- In terms of per capita income, Luxembourg is now seven times richer than Romania.
Regional disparities

At the regional level, the difference is even bigger: the richest region is Inner London in the United Kingdom with 325% of the EU's per capita income, while the poorest region is Severozapaden in Bulgaria with 30% of the EU. 

https://en.wikipedia.org/wiki/Economy_of_the_European_Union
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- **EU regional policy** aims to create economic and social cohesion and to **reduce the gap** between the development levels of the various regions.
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Spain and Portugal joined (having applied in 1977) on 1 January 1986 in the third enlargement.
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At the start of 1999 the **euro** as a currency was launched and the European Central Bank was established. On 1 January 2002, notes and coins were put into circulation, replacing the old currencies entirely.
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The seventh enlargement was on July 2013 with the accession of Croatia.
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History of EU regional policy

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In the preamble, the signatories of the Treaty declare that: ”anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the **backwardness** of the less-favoured regions [...]."
Thus, with the Treaty of Rome the **European Social Fund** (ESF) was created with the function of improving job opportunities for workers, rising employment of young people and women, growth in educational attainment and increase in R&D and to raise the standard of living.

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This fund was settled as a part of CAP and structured in two sections: Guarantee and Guidance. The first should be devoted to the general objective of market unity with guaranteed supply and price stability, while the EAGGF-Guidance should have the mission of promoting structural reforms for the development of the primary sector.  
⇒ EAGGF became the *second instrument*. 
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In that period the ERDF could finance three actions, eligible for up to 50% of public expenditure, preferably to be carried out in national state aid areas:

1. investments in small enterprises creating at least 10 new jobs;
2. investments in infrastructure related to point 1, and
3. infrastructure investments in mountainous areas, which had to be eligible under the Agriculture Guidance Fund.
In 1987 *legal foundations* to address economics and social imbalances at Community level were introduced by the *Single European Act* (SEA).
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The SEA established a Community policy of economic and social cohesion to counterbalance the effects of the completion of the internal market on the less developed Member States.

The Community policy was intended as promoting the competitiveness of European regions (Articles 130(f)-130(p), Single European Act, 1987) and, at the same time at reducing disparities between the levels of development of various regions, and the backwardness of the less-favoured regions (Article 130(a), Single European Act, 1987).
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Key principles were introduced, such as focusing on the poorest and most backward regions, multi-annual programming, strategic orientation of investments and the involvement of regional and local partners.
In particular, four principles were introduced to ensure that funds were rationalized and well defined:

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1. **CONCENTRATION**: In order to reach the greatest possible effectiveness of Structural Funds, their application obeyed the principle of concentrating on functional objectives. These objectives were five:

- **Objective 1**: promoting the development and structural adjustment of the less-developed NUTS 2 regions, that is:
  
  (i) regions whose **per capita GDP was lower than 75%** of the Community average, taking the figure for the three last years;
  (ii) Northern Ireland and the French overseas departments;
  (iii) other regions whose per capita GDP was close to that of regions mentioned in (i) and for which particular reasons existed for their inclusion on the list.
Objective 2: converting the regions, border regions, or part regions (including employment areas and urban communities) seriously affected by industrial decline, that is regions were to be designated at NUTS level 3 and had to have:

(i) an average level of unemployment higher than that of the Community during the previous three years;
(ii) industrial employment, as a percentage of employment, in excess of the Community average in any of the previous 15 years;
(iii) and an observable fall in industrial employment relative to the reference year.
Objective 3: combating long-term unemployment, that is people over 25 and out of work twelve months or more, but this minimum period was waived in the case of women returning to work and people with disabilities;
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- **Objective 5**: with a view to reform of the **common agricultural policy**:
  - **Objective 5a**: speeding up the adjustment of **agricultural and fishing sectors**;
  - **Objective 5b**: promoting the development of **rural areas**, that is areas with a below average level of economic development, employment dominated by the agricultural sector and poor level of agricultural incomes.
Therefore, three objectives had a **territorial nature** (objective 1, objective 2 and objective 5b), while three a **horizontal nature** (objective 3, objective 4 and objective 5a).
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The Structural Funds contributed to the attainment of objectives on the basis of the breakdown given below:

- **Objective 1**: ERDF, ESF, EAGGF Guidance Section;
- **Objective 2**: ERDF, ESF;
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- **Objective 5**: EAGGF Guidance Section ESF, ERDF.

Moreover, 10% of the structural funds were reserved for Community Initiatives Programmes (CIP).

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3. ADDITIONALITY: The Structural Funds were not intended to be utilized as a substitute for national funding, but rather to provide additional assistance. The Member States were thus under the obligation to maintain their public expenditure at the level of the beginning of the programming period; the Community assistance were subject to the following limits: maximum 75% of total cost and as a general rule; minimum 50% of public expenditure for measures applied in the regions defined for action under Objective 1; or, minimum 25% of public expenditure for measures applied in other regions.
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4. PARTNERSHIP: close consultation between the different partners (i.e, European Commission, Member States, regional or local authorities concerned) at all the steps in a programme: preparation, negotiation, implementation, monitoring and evaluation.
The Treaty of the European Union,\textsuperscript{2} which came into force in 1993, states as one of main goal of the Union the “promotion of balanced and harmonious development of activities in the whole of the Community, of durable growth [...] of economic and social cohesion and solidarity between the member states” (Art. 2), alongside economic and monetary union and the single market (Art. 3).

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It also established a new instrument, the \textbf{Cohesion Fund} to be set up before 31 December 1993, and a new institution, the \textbf{Committee of the Regions}, as well as the introduction of the \textbf{subsidiarity principle}.

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- **CIP** are slightly redefined;
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- **CIP** are slightly redefined;
- a **Cohesion Fund** of over 15 billions ecus is introduced to aid less-developed Member states, i.e. states with a per capita GDP **below 90%** of EU average, in their effort to attain the convergence criteria that were defined for the introduction of the Monetary Union (only countries in line with the program of convergence to the Monetary Union are indeed eligible). The specific purpose of the Cohesion Fund is to provide financial support for environmental investment projects and for transport infrastructure projects within the **Trans-European Transport Network**.
2000-2006: Enlarging the European Union

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- established that the participation in the area of each initiative has to be financed by a single Fund.
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In November 2002 a new financial instrument, the European Union Solidarity Fund (EUSF), which is not part of Cohesion Policy, was set up to provide urgent aid to regions suffering major catastrophes.
2007-2013: Focus on growth and jobs

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While merging the previous Objectives 2 and 3, the 2006 reform transformed the Interreg initiative within a third objective while integrating other CIP into the main stream programmes.
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- **Regional Competitiveness and Employment**: covers all other EU regions with the aim of strengthening regions’ competitiveness and attractiveness as well as employment; and
2007-2013: Focus on growth and jobs

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- **European Territorial Cooperation**: based on the Interreg initiative, support is available for cross-border, transnational and interregional cooperation as well as for networks.
Total of Structural and Cohesion Funds available:

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- Main beneficiary countries: Poland (67.3 billion), Spain (35.2 billion), Italy (28.8 billion), Czech Republic (26.7 billion), Germany (26.3 billion), Hungary (25.3 billion), Portugal (21.5 billion), and Greece (20.4 billion)

http://ec.europa.eu/regional_policy/sources/docgener/panorama/

2014-2020

Ongoing......

### European Regional Policy

**Programming Period**

**Share of funds on EU GDP**

<table>
<thead>
<tr>
<th>Programming Period</th>
<th>Average $SCF$</th>
<th>St. Dev. of $SCF$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period I (1989-1993)</td>
<td>0.1568</td>
<td>0.0081</td>
</tr>
<tr>
<td>Period II (1994-1999)</td>
<td>0.3767</td>
<td>0.0066</td>
</tr>
<tr>
<td>Period III (2000-2006)</td>
<td>0.2541</td>
<td>0.0069</td>
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**Tabella:** Descriptive statistics on Structural and Cohesion Funds in the three programming periods
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1</td>
<td>67.7</td>
<td>64.6</td>
<td>64.4</td>
</tr>
<tr>
<td>2</td>
<td>8.74</td>
<td>5.11</td>
<td>13.5</td>
</tr>
<tr>
<td>3</td>
<td>-</td>
<td>6.87</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>-</td>
<td>1.25</td>
<td>-</td>
</tr>
<tr>
<td>3 &amp; 4</td>
<td>10.55</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>5.60</td>
<td>2.96</td>
<td>-</td>
</tr>
<tr>
<td>5a Agr.</td>
<td>-</td>
<td>5.37</td>
<td>2.88</td>
</tr>
<tr>
<td>5a Fish.</td>
<td>-</td>
<td>0.88</td>
<td>0.40</td>
</tr>
<tr>
<td>5b</td>
<td>-</td>
<td>3.30</td>
<td>3.57</td>
</tr>
<tr>
<td>6</td>
<td>-</td>
<td>0.40</td>
<td>-</td>
</tr>
<tr>
<td>NL</td>
<td>0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>PIM</td>
<td>0.41</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2 Init.</td>
<td>-</td>
<td>3.12</td>
<td>0.41</td>
</tr>
<tr>
<td>Other Init.</td>
<td>-</td>
<td>1.87</td>
<td>2.57</td>
</tr>
<tr>
<td>Cohesion</td>
<td>2.62</td>
<td>9.85</td>
<td>19.17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Tabella:** Percentage of commitments of funds according to Objectives. “NL”: New Länder in Germany in Period I; “PIM”: regional program in Period I for regions outside Objective 1; “2 Init.”: regional initiatives similar to Objective 2 for period III “Other Init.”
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>All.Obj</td>
<td>35.67</td>
<td>43.35</td>
<td>45.48</td>
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<td>49.90</td>
<td>57.15</td>
<td>55.66</td>
</tr>
<tr>
<td>Ob. 2</td>
<td>0</td>
<td>0</td>
<td>1.52</td>
</tr>
<tr>
<td>Ob. 3 &amp; 4 &amp; 5</td>
<td>3.26</td>
<td>1.62</td>
<td>-</td>
</tr>
<tr>
<td>Ob. 6 &amp; Other</td>
<td>0</td>
<td>23.06</td>
<td>40.95</td>
</tr>
<tr>
<td>Cohesion</td>
<td>55.86</td>
<td>81.21</td>
<td>60.74</td>
</tr>
</tbody>
</table>

**Tabella:** Percentage of total funds given to regions with GDP per worker below 75% of sample mean