

# INCREASING REGIONAL INEQUALITIES WITHIN THE EUROPEAN UNION

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### —Abstract —

The most important long-term objective of the EU's regional policy has always been the reduction of unprovoked inequalities and differences between the NUTS 2 regions. Channelling the financial sources available for this purpose has also been a difficult task for the policy makers since their introduction.

In our study we intend to prove that despite the great amount of funds allocated for regional policy and development during the recent years, the differences between the regions have not diminished. Moreover, the recent enlargements of the Union have doubled the differences between the regional GDPs, thus in long-term the Union is expected to face serious challenges.

**Key Words:** *Regional policy, regional development, economic inequalities, recent enlargements, regions lagging behind*

**JEL Classification:** R12, R11

## 1. INTRODUCTION

It was the **Treaty of Rome in 1957** which already set as a target to ensure the harmonized development of the economies within the Community through reducing the differences between the members and also preventing the falling behind of some territorial units. Since that time, regional policy and cohesion measures have received increasing financial allocations, meaning that the convergence of the regions have always been an important issue in Europe. However, we should examine whether those funds have been challenged to the right regions or member states, resulting in generating power in the economic growth, employment etc. It is extremely difficult task for the researchers, but more and more attention must be paid on the examination of the reason for the increasing differences between the regions of the Union and try to draw consequences from the tendencies of the past and list up recommendations for the future policies.

### 1.1. Regionalism and the related policy objectives

The *long-term objectives of the regional policy* (see below) serve as a good basis for the efficient developments throughout the Union, but without well-established and prepared concrete measures they are not enough to achieve the long-term goals.

- Creating jobs and reducing unemployment.
- Reducing the demographic pressure imposed on the overpopulated cities.
- Efficient utilization of the national resources.
- Reducing the unprovoked inequalities between the regions.
- Maintaining and protecting the regional cultures and identity, with special emphasis on the territories inhabited by minorities.
- Preserving the balance between the population and the environment (Faragó,1987:15).

**Regionalism** has become an increasingly significant issue in the economic development of the old and especially of the new member states. In the case of the latter ones it is because of a significant increase in the regional disparities which developed during the transition period, primarily due to their instant accession procedure. After having become member states, those countries also have access to considerable financial sources from the Structural and Cohesion Funds which they can use for their economic and social development.

**Regional disparities result from a number of economic, social and geographical factors**, but regional developments aim at only the improvement of the first two ones, considering, of course, the geographical characteristics, because while we can have influence on the economic and social aspects, we cannot change the geographical endowments. The only thing we can do is to take them into account and develop the regions according to the geographical and climate features.

## **2. THE PHENOMENON OF THE REGIONAL INEQUALITIES IN THE EU**

The picture of the EU undoubtedly changed with the recent enlargements of 2004 and 2007. The accession of 12 new member states not only entails the integration of countries with generally lower GDP and higher unemployment levels, but also causes an increase in the diversity in terms of e.g. social structures, institutional profiles, urban-rural relationships and environmental challenges. Embracing this diversity however implies a need to adapt analytical approaches to social, economic and environmental phenomena correspondingly.

In consequence, the main representations of the European territory primarily highlight the contrast between the old and the new member states. These simplistic dichotomies not only lead to the stigmatization of the new member states, but at the same time, mask persistent regional and spatial challenges within the old member states.

This does not, however, imply that the European-level ambition of territorial cohesion must be abandoned. On the contrary, numerous reports and other policy documents highlight the increasingly acute need for regulatory measures to promote a more territorially coherent economic and social development (EP,2007:4).

**Structural Funds regulations** assess regional disparities in the EU by comparing the level of regional development with the EU average, using the ***GDP per capita indicator***. The question here is whether this approach addresses the issue of territorial cohesion. If the perspective is to reach a balanced development in which all regions can be socially, economically and environmentally sustainable, scales – other than the European one – are relevant.

## 2.1. The relationship between the spatial cohesion and the European policies

Since the turn of the millennium, the policies of the EU have essentially revolved around three overarching objectives: economic competitiveness, promoted by the *Lisbon Strategy*; sustainable development, supported by the *Gothenburg Strategy*; and territorial cohesion.

There is, however, an implicit but effective hierarchy between the three objectives. *Lisbon and Gothenburg* provide widely consensual political objectives, centered on the notions of economic growth, competitiveness and sustainability. Moreover, these two strategies are rather future-oriented, aiming at helping Europe to embrace the global challenges of the 21<sup>st</sup> century. In comparison, territorial cohesion seems to be less fashionable.

The overall ambition of territorial cohesion as stated in the European Commission's *Third Cohesion Report* is the provision of equal chances for all Europeans, *wherever they happen to live or work in the Union*, or that **“people should not be disadvantaged by wherever they happen to live or work in the Union”** (Third Cohesion Report,2004).

The main instrument of territorial cohesion is not merely regional policy as such, rather than the “coordination of a wide range of sectoral policies and initiatives, making, both sectoral policies which have a spatial impact and regional policy, more coherent”. The ‘success’ of territorial cohesion is not only measured by its capacity to make the European territory more balanced, but also its capacity to efficiently coordinate spatial policies in the European regions.

In order to turn into a more *future-oriented, proactive* policy objective, territorial cohesion ought to be thought of as a framework within which the principles of the *Lisbon agenda* are adapted to the spatial and regional configuration of Europe. This implies acknowledging that regions have a significant role to play the improvements of productivity and competitiveness, by developing appropriate context for business development and functional labour markets. In a similar way, the regional and local perspectives on the *Gothenburg agenda* makes it possible to concretely envisage ways of combining economic, social and ecological sustainability, for example in the context of a city, a metropolitan labour market or a depopulating rural area (EP,2007:2).

## 2.2. Territorial cohesion and the Regional and Cohesion policies of the EU

When **territorial cohesion** is interpreted as the construction of a solid regional framework, allowing all parts of the European territory to prosper on the basis of their individual strengths, **it becomes a generic policy principle rather than an individualized and marginal policy.**

Until now the problem of territorial cohesion has been dealt with within the framework of **Regional policy**. Indeed, **Regional policy in the only European policy that explicitly sets the goal of territorial cohesion as an overarching one.**

The focus of the **Cohesion policy** is rather on identifying potential threats to European integration, such as excessive territorial contrast in wealth, productivity and insufficient transport infrastructure endowments within and between some regions. As such, the **Cohesion policy** has had an important symbolic role to play in the story of European integration besides its purely financial, redistributive effects. The new programming period 2007-2013 has, however, witnessed a change in the policy thinking on regional development more generally, as Regional policy is increasingly seen as a policy for all regions, while all policies are now considered as having a regional and/or territorial impact, even though they may not be 'regional' in their initial or primary stated objectives. The move of Regional policy from a purely redistributive perspective to a contributory one, re-brands it as the new focal point of the raft of once disparate European policies that have territorial impact.

The latest EU enlargements of 2004 and 2007 have made the challenges to regional development and European integration more acute, due to the large increase in regional disparities they engendered. The main concern here is not with the objectives of Regional policy in themselves, but rather with the means it has at its disposal.

**Indeed, even if the Cohesion policy is the EU's second largest policy in term of budgetary allocations for the 2007-2013 programming period, it has seen only a slight increase of its total budget in comparison with the previous programming period and in the light of the challenges ahead. Consequently, the main concern of European policy makers is how to prioritize their objectives in order to optimize the use of the limited funding available.** This however entails possession of a detailed understanding of the specific challenges faced by each territory in order that appropriate responses can be developed. The latter is strongly connected to the capacity to build the scientific tools and methodology able to provide an objective and relevant picture of regional disparities in Europe.

### 3. MATERIAL AND METHOD

#### 3.1. Recent changes in the NUTS

Due to the Maastricht Treaty, several changes have been carried out in the system of institutions and instruments of the regional policy. Thus the so-called NUTS (Nomenclature des Unités Territoriales Statistique, Nomenclature of Territorial Units of Statistics) was created by Eurostat more than 30 years ago, which provides a single uniform breakdown of territorial units for the production of regional statistics.

Though, the system has undergone some changes due to the recent enlargements. It has been used in Community legislation since 1988 (EEC, 2052/88), but it was only in 2003 (EC, 1059/2003) that a Regulation of the European Parliament and of the Council on the NUTS was adopted. From 1 May 2004, the regions in the 10 new member states were added and from 1 January 2007 the regions of Bulgaria and Romania. The **first 3-yearly review of NUTS for the EU25**, under the NUTS Regulation, was carried out in 2006 and has been put into effect from 1 January 2008 (EC, 105/2007).

**Table-1: Categories of the NUTS-system**

Level	Typology	Population (min-max)
NUTS 0.	Country	
NUTS 1.	Macro region	3 million-7 million
NUTS 2.	Region	800.000-3 million
NUTS 3.	County	150.000-800.000
LAU* 1.	Micro region, district	
LAU 2.	Municipality	

\*Local Administrative Unit

Source: Eurostat

The most important category and the main target of the structural sources is the NUTS 2, i. e. the region. Due to the enlargements, not only new NUTS 2 regions have become new members of the Union, but there have also been some changes, modifications in the old ones.

For example, in the statistics of 2005, **Slovenia** is divided into 2 regions, while it was one NUTS 2 region earlier; **3 German regions** have been united into one region and 5 NUTS 2 regions have been formed in **Denmark**, which used to be one region (EC, Ramon, 2008).

In order to take efficient development measures on the regions of the Union, it is required to work with the most suitable statistical methods and to collect the necessary data for all of the regions so that they could be compared with each other.

In our study we have examined the period of 1999-2005. During that time significant changes have happened in the statistical system. In **1999**, there were **213 regions in the EU15**. The next phase was in **2004**, when 10 countries joined the EU and the Union was built up from **254 regions**. At the next enlargement in **2007**, the number of member states increased to 27 and that of the NUTS 2 regions to **268**. After that, according to the latest regulations, **271 NUTS 2 regions** have been formed in the European Union.

### **3.2. Regional income indicators in the Union between 1999-2005**

In our research we have primarily focused on the **GDP per capita** indicators of the member states and the regions, since thus far, the main criterion used for attributing the Structural and Cohesion Funds has concentrated on economic development measures embodied by the indicator of GDP per capita. The main method used has been comparisons of the level of each region to the European average level, with **“75% of EU-average”** as the paradigmatic threshold. The result of this approach led to the agreement on the Objectives of the 2007-2013 programming period, as agreed by the member states in December 2005.

In our research we have examined both intra-national and interregional disparities in the Union, because – due to the recent accession of less-developed regions – the absolute difference between the ‘richest’ and the ‘poorest’ regions has sharply increased, but we wanted to see how much the regions in each member state have come closer or gone even farther from each other. The fact that statistics have been available also for the 10 new countries since 1999 (when they were not member states yet) in addition to the EU 15, and that their data were also calculated on EU25 basis, allowed a good and easy comparison of the regions’ data.

It was also important for us to see which regions have achieved **the highest and the lowest GDP per capita growth** in the examined period. We wanted to know if the beneficiaries of the structural and cohesion funds could achieve good results in their growth or not.

Based on the GDP per capita indicators we have calculated **dual indices for every year between 1999 and 2005** in order to see how big the difference has been between the regions of the European Union. We have calculated indices which compare the GDP per capita of the 1, 10 and 25 ‘richest’ and 1, 10 and 25 ‘poorest’ regions.

**In 1999, GDP per inhabitant** ranged from **266,4%** of the EU25 average in **Inner-London (UK)** to **31,9%** **Lubelskie (PL)**, while **in 2005**, the highest figure was **302,7%** of the EU27 average in **Inner-London (UK)** and the lowest was **24,2%** in **Nord-Est (RO)**.

Inner-London (UK) has long been far the richest region of the Community. It is usually followed by core regions, metropolises, capital cities of other member states, but the difference between them is quite significant. For example, in 1999 **Brussels (BE)** was on the second place with **240,3%**, **Luxemburg (LX)** was the third one with **207,8%**, followed by **Hamburg (DE)** with **192,1%** and **Ile de France (FR)** with **178%**.

In 2005, the order of the first 5 regions has changed a bit: **Luxemburg (LX)** became the second richest region with **264,3%** of the EU27 average, it was followed by **Brussels (BE)** with **240,5%**, **Hamburg (DE)** **202,1%** and **Vienna (AT)** **177,6%**.

**Table-2: The proportion of regions with GDP per capita over the EU average and under the 75% threshold**

Year	Number of total NUTS 2 regions	Number of regions over EU average GDP per capita	Number of regions under 75% of EU average GDP per capita
<b>1999 (EU25)</b>	254	114 (44% of total)	67 (26% of total)
<b>2005 (EU27)</b>	271	129 (47% of total)	69 (25% of total)

Source: own calculation based on Eurostat data

In Table 2 it can be seen that over the examined period more and more regions have reached higher GDP per capita, thus becoming the member of the group over the average. **In 2005, 47% of the regions had higher GDP per capita than 100% of the average.**

Since only those regions are eligible for Structural Funds, whose GDP per capita is under 75% of the EU average, it is very important to see what percentage of regions belong to this group and whether their number has increased or decreased recently. **Unfortunately, one in every four region still belongs to this group, having GDP per capita lower than the 75% threshold.**

The **growth of GDP per capita** has showed various picture in the examined period. It is obvious that it is more difficult to reach sharp rise in the GDP per capita in those regions which have already high GDP figure, while the increase is more possible in the less-developed regions, since they have more potential to develop significantly. Comparing the figures of 2005 and 1999, **Attiki (EL)** region had a surprisingly **high GDP per capita growth, namely 61,25%**. While in 1999 the region's GDP per capita was only 81,3% of the EU25 average, the figure was 131,1% of the EU27 average in 2005.

**Among the first ten best-performing regions mostly regions of new member states are represented**, e.g. Latvia (LT) with 45,91%, Bratislavsky (SK) with 43,87%, Lithuania (LV) with 41,11%, Közép-Magyarország (HU) with 32,12% and Stredny Cechy (CZ) 29,36%.

The **sharpest decrease in the GDP per capita** could be experienced in **Guyane (FR)** region, where the figure has fallen by **20,47%** even if the EU average has automatically decreased due to the accession of Bulgaria and Romania. The **ten worst-performing regions** include mainly **Portuguese regions as well as Aland (FIN)** region, with an average of **10% reduction** in the GDP per inhabitant in each region.

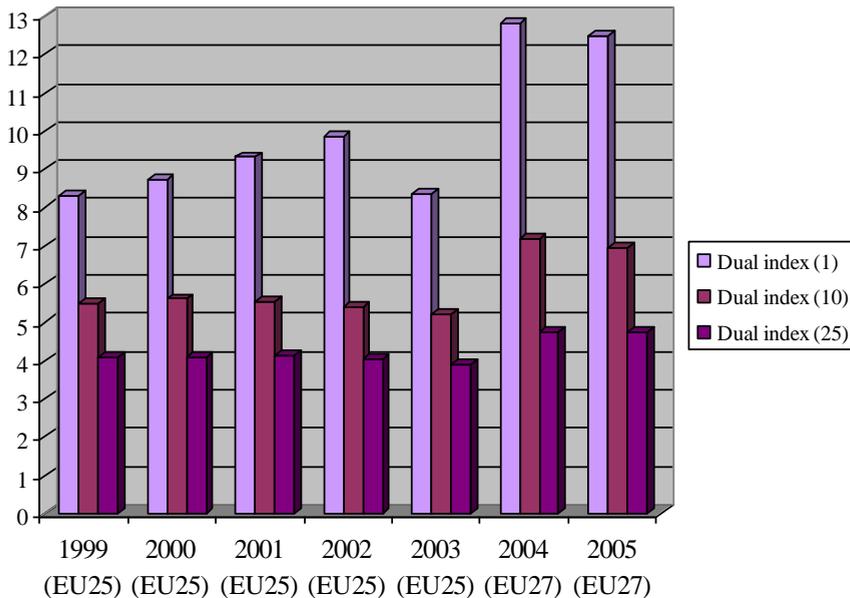
**Table-3: Dual indicators of the EU25 and EU27**

	1999 (EU25)	2000 (EU25)	2001 (EU25)	2002 (EU25)	2003 (EU25)	2004 (EU27)	2005 (EU27)
<b>Dual index (1)</b>	8,31	8,75	9,32	9,84	8,36	12,83	12,5
<b>Dual index (10)</b>	5,5	5,61	5,52	5,38	5,19	7,17	6,96
<b>Dual index (25)</b>	4,08	4,09	4,14	4,02	3,89	4,75	4,74

Source: own calculation based on data from Eurostat database

After having examined the figures of the 7-year period, we can see that the biggest difference was between the first and last EU region, i. e. the richest region had **more than 8 times more GDP per capita in 1999**, while in 2005 this difference grew to more than 12. However, we can see continuous increase in the case of all types of calculations.

**Figure-1: The three types of dual indicators**



Source: own calculations based on the data of Eurostat

Since the European Union consisted of 254 and 271 regions in 1999 and 2005, respectively, we can get a clearer picture about the real situation if we involve more than one region into the calculations. Therefore, we have also calculated with 10 and 25 regions.

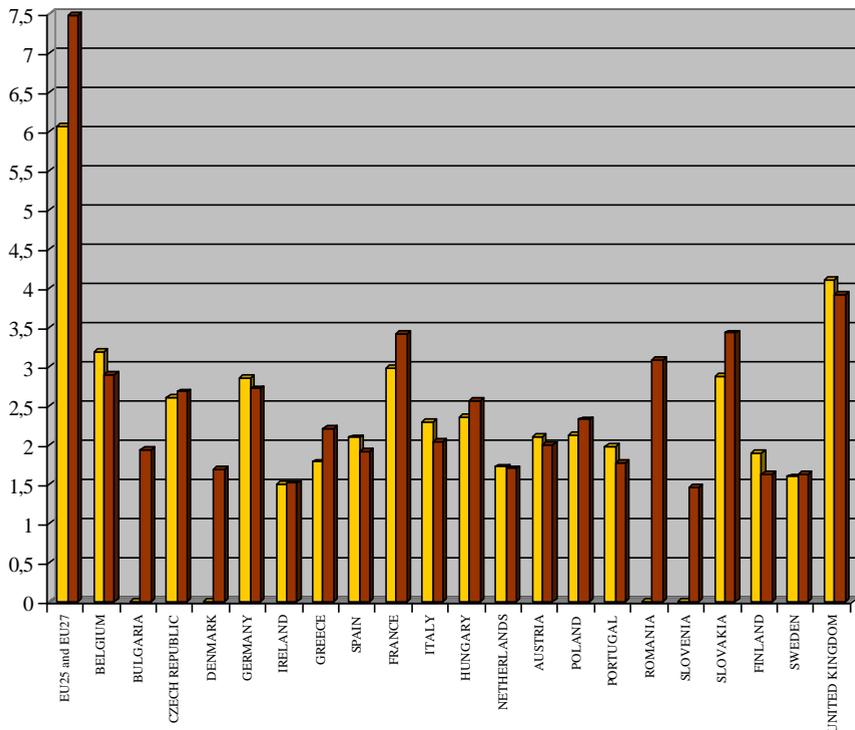
Table 3 and Figure 1 both reflect that the inequalities were quite significant between the European regions before 2004, which increased even further due to two reasons: the enlargement in 2004 and the involvement of Bulgaria and Romania into the statistics. Unfortunately, **the regional imbalances did not shrink in the past few years** even if there were increasing amounts of structural funds allocated to the regions lagging behind.

### 3.3. Intra-national income indicators in the Union between 1999-2005

Based on the abovementioned, we can state that the territorial disparities have steadily grown within the Union until 2005. It is partly because **the leaders could increase their performance even further, while there were many – already poor – regions which underperformed due to several structural reasons.**

The policy-makers must find solutions for these structural problems soon so that they can be stopped from falling behind. In addition, we have examined the situation of the regions within each country, because it can clearly show whether **the territorial disparities exist and increase only between the old and new member states or they also exist and grow at intra-national scale too.**

**Figure-2: Dual indices of the regions of member states for 1999-2005**



Source: own calculations based on data from Eurostat

Table 4 and Figure 2 show that how much the regions of each member state have come closer to each other or have gone far away from the other regions between 1999 and 2005. Since data was not available for the two newest member states for the year 1999, we could not involve their figures. There are also six countries **missing from this calculation**, because **they are built up from single one NUTS 2 region**, e.g. Latvia, Lithuania, Luxemburg, Cyprus etc., so it makes no sense to calculate difference between their only one NUTS region.

**Table-4: The tendency of the countries' dual indices between 1999 and 2005**

<b>COUNTRIES</b>	<b>1999</b>	<b>2005</b>
<i>EU25 and EU27</i>	<i>6,07</i>	<i>7,48</i>
<b>BELGIUM</b>	<b>3,19</b>	<b>2,9</b>
BULGARIA	n.a.	1,94
CZECH REPUBLIC	2,61	2,68
DENMARK	-	1,69
<b>GERMANY</b>	<b>2,85</b>	<b>2,72</b>
IRELAND	1,5	1,51
GREECE	1,78	2,21
<b>SPAIN</b>	<b>2,09</b>	<b>1,92</b>
FRANCE	2,98	3,41
<b>ITALY</b>	<b>2,29</b>	<b>2,04</b>
HUNGARY	2,35	2,56
<b>NETHERLANDS</b>	<b>1,72</b>	<b>1,7</b>
<b>AUSTRIA</b>	<b>2,1</b>	<b>2</b>
POLAND	2,13	2,32
<b>PORTUGAL</b>	<b>1,98</b>	<b>1,77</b>
ROMANIA	n.a.	3,09
SLOVENIA	-	1,46
SLOVAKIA	2,88	3,43
<b>FINLAND</b>	<b>1,89</b>	<b>1,63</b>
SWEDEN	1,59	1,63
<b>UNITED KINGDOM</b>	<b>4,11</b>	<b>3,91</b>

Source: own calculations based on the data from Eurostat

The picture is quite various regarding the tendency of the dual indicators. There are several countries (indicated with red in the table) where **the difference between the regions has reduced** by 2005, namely in Belgium, Germany, Spain, Italy, Netherlands, Austria, Portugal, Finland and United Kingdom (having the biggest difference between the regions). Though, it must be stated that among these countries there are not only the “traditionally wealthy” Western-European countries, but also **two Cohesion countries (Spain and Portugal)**.

As it can be clearly seen from other parts of this study, the regional inequalities have increased within both the EU 25 and 27 and there were **12 countries where the gap between the regional GDPs per capita has widened** during the 7-year period. These member states include e.g. **Sweden** (which can be a big surprise) and primarily the **Eastern member states**.

The fact that the highest GDP per capita was in **Luxemburg (LX)** both 1999 and 2005 proves that only **slight changes have happened regarding the order of the richest countries**. However, even if the lowest data was in one of the new member states in both years, some changes could be experienced with the rank, namely that **Latvia (LT)** was the last country in 1999 while **Bulgaria (BL)** had the same position in 2005.

### 3. CONCLUSION

The **regional differences** between the regions are partly due to the simple fact that two enlargements happened in the past few years and which is even more important is that the Union was joined by much less-developed countries. Therefore, the most important macroeconomic indicator used by the Union, i.e. the GDP per capita, is calculated and compared to the EU average, which automatically decreased due to the poorer countries' indicators. So the differences between the regions have increased significantly, primarily after the accession of Bulgaria and Romania, but it was not only because of the advanced economic developments of some regions and the falling behind of other regions.

EU regional policies have been mostly acted at **funding infrastructure investments**, following the idea that infrastructure gaps represent one of the main causes of regional disparities. The impact of public infrastructures on regional growth has been analyzed and the evidence shows that the **infrastructure endowment has a positive influence on regional productivity**, but unfortunately exerts no direct effect on e.g. the employment rate.

There have been several infrastructure investments in the less-developed regions of the Union until now, due to primarily the Cohesion Funds, but unfortunately in many cases they only tried to replace missing basic infrastructure and not create infrastructure that could generate economic growth. That can be the reason why the **efficient utilization of Structural and Cohesion funds** could not be reached in many regions.

Despite limited financial resources, Cohesion **policy could have a substantial impact on catching-up** – but only if a number of conditions are met: stronger spatial concentration, improved thematic concentration and implementation approaches that better safeguard cohesion goals.

- **Spatial concentration** means focusing Structural Funds on those regions and member states most in need – while ensuring that this selection process works with, rather than against market forces.
- **Thematic concentration** means choosing, in each case, an effective investment mix – based on sound analysis of existing infrastructure endowment, human resource requirements and limits on aid to the productive sector.
- **Effective implementation** requires that the management of Structural Funds be further simplified, and that the new member states complete the building of necessary administrative capacity. In short, the contribution of EU Cohesion policy to real convergence will depend above all on the commitment of policy-makers in member states to coherent national and regional policies – ensuring that the environment, in which Structural Funds are utilized, is characterized by macroeconomic stability, continuing structural reforms and good governance.

Finally, the collection of better datasets should also be improved, which can be carried out in several ways:

- with a wider range of indicators at the NUTS 3 level,
- with the enlargement of data collecting exercise to include EU neighbouring countries,
- with the collection of data at local levels and
- with the development of longer time-series.

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