

## **Lecture 8b RELOCE 2010**

**Trans-national regional policy: The EU becomes a major player.**

**To be updated**

## Trans-national regional policy: The EU becomes a major player.

### What is the EU?

A customs union is one of several types of economic integration –

- |   |                             |
|---|-----------------------------|
| (1) <i>Preferential Tariff Area;</i>    | (2) <i>Free Trade Area;</i> |
| (3) <i>Customs Union;</i>               | (4) <i>Common Market;</i>   |
| (5) <i>Economic and Monetary Union.</i> |                             |

**Common Market - Free movement of capital and labour and common external trade policies with non-members.**

EMU - common market plus **fiscal and monetary policy is dominated by a central authority or co-ordinated rather than by individual states** and possibly a single currency. For the majority of countries that make up the European Union, Western Europe has already become an effective economic and monetary union. The UK and a small number of others still remain outside having failed to embrace a single currency. There can be little doubt that in the future the UK will become a full member of the EMU.

There are 3 processes taking place simultaneously:

1. The remaining non-tariff barriers are slowly being removed to achieve a genuine single European market in which there is an unhindered exchange of goods, services, capital and labour. The EU is well on its way but has not yet implemented all the legislation and is not yet a full common market.
2. Progressive widening of the boundaries to incorporate other countries, Spain and Portugal in 1986, East Germany in 1990, Austria, Finland and Sweden in 1996, the 5<sup>th</sup> or eastern enlargement (Poland etc) from 2002 onwards. The new entrants pose particular problems for regional policy
3. Monetary union the adoption of a single currency due to commence in 11 of the 15 in 2002.

It was argued that dismantling non-tariff barriers would lead to:

- lower prices for goods and services;
- lower inflation;
- more jobs;
- improved balance of payments;
- and lower member state public sector deficits.

### *The Regional Problem*

However it is also recognised that such changes would set off both *Allocation* (specialisation) and *Accumulation* (growth of capital stock) effects

It was recognised that the benefits **are not spread evenly across all countries or all regions. Central or core regions benefited most from agglomeration** whilst peripheral regions suffered –poor location; inadequate infrastructure; low skill labour forces; etc. Thus it was recognised that the Community would **need an active regional policy to attempt to redress the balance.**

In 1975 the European Regional Development Fund (ERDF) was set-up: “**to contribute to the correction of the principal regional imbalances within the Community through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining regions**”. – Article 3 of Council Regulation No. 1787/84, which replaces 724/75.

Alden (1996) suggests that the EU is caught on the horns of a classic dilemma whilst in regional terms it wishes to a) increase competitiveness b) move toward sustainable economic development it also needs to reduce disparities and achieve economic and social cohesion.

### *Arguments for European Regional Policy include:*

- **The EU can ensure that regional policy spending by member states is more closely matched to the severity of the problem faced.** *Recognises that individual countries may not have the resources to tackle their own regional imbalances. Mixture of financial transfers (from rich to poor) and legal controls (on the amount richer nations spend on regional policy)*
- **The EU can greatly improve the co-ordination of regional policy.** *This has the benefit of ensuring that policies both within and across national boundaries are complementary and not conflicting. It gets over the problem that individual nations see little benefit in co-operating with one another instead adopting an every man for himself policy.*

- **The EU has a legitimate duty to ensure that regional disparities are reduced given that regional and national economies are very open economies and economic actions in various member countries have wide-reaching impacts.** *Benefits and costs spill over to other states/regions and as member states are unlikely to become involved in solving the problems in another state's regions. Thus the need for EU involvement. Ways that regional policy helps utility (i.e. others benefit from decreased unemployment); leakages (open economies); fiscal clawback (fall in unemployment payments rise in tax revenue); social, cultural and environmental.*
- **Further integration is preconditioned on the necessity of having a EU regional policy, given the impact on the periphery of the integration process itself.** *Prove in a practical way that integration is worthwhile.*

Michie and Fitzgerald in Bachter and Turok (1997) suggest a similar set of reasons:

This does **not mean** that the EU should replace member states in the provision of regional policy. Reasons for resisting over-centralisation of regional policy include:

- The danger from trying to use a uniform approach to solving problems, which by their nature differ from one region and or one country to another. There is also an advantage to using local knowledge and expertise to formulate effective programmes.
- Over centralisation stifles innovation in the development of policy instruments (need for diversity and experimentation).
- Centralisation discourages local participation and makes policymakers less accountable.

### **Principles of regional policy - there are six**

#### **Concentration of Assistance;**

Structural funds allow the EU to concentrate funding on the most disadvantaged regions, in addition they provide a mechanism by which resources can be switched from richer nations with few disadvantaged regions to poorer nations with many disadvantaged regions.

#### **Co-ordination;**

The EU co-ordinates the resources from a number of funding areas to spread the load of financing regional development and support projects, as well as the four overt structural funds ERDF, ESF, EAGGF, FIFG, these included; European Investment Bank and the European Coal and Steel Community. In addition the activities of the Cohesion fund are also co-ordinated with the structural funds.

#### **Partnership;**

The EU and member states have to work in partnership if they are to make regional policy a success. The EU does not have the financial clout to be able to run regional policy on its own or in isolation from the most powerful EU member states. The changing system of governance means that a greater role is assigned to regional and local economic development organisations.

#### **Subsidiarity;**

This is the devolution of power to the lowest tier of government, which has the ability to efficiently deliver policy. It is viewed as shifting power back to member states, or in the case of regional policy back to the regions themselves.

#### **Programming;**

Multi-annual, multi-project, multi-partner contract designed as a co-ordinated attack on regional problems, rather than the traditional method of assistance to an individual project. Typically a 6 or 3 year programme based on a common format, which includes economic and social analysis, a clear strategy, a set of targets and an environmental impact assessment. See Table 11.5 in Armstrong and Taylor (2000) for an example of a programme for Yorkshire & Humberside for 1bn ecu.

#### **Additionality;**

This is a key principle where EU funding complements public expenditure from the member state. Despite it being important it has proved difficult to attain. Member states (including the UK) have used the increased availability of EU funding as an opportunity to cut back their own funding for regional programmes. To counter this problem the EU introduced more monitoring of programmes and has limited the amount it provides to specific programmes and projects.

### **Funding for EU Regional Policy**

The **European Regional Development Fund (ERDF)** was established in 1975. Its assistance is limited to less favoured regions and is focused mainly *on productive investment, infrastructure and SME development*:

The **European Social Fund (ESF)** concentrates on vocational training and employment aids:

The **European Agricultural Guidance and Guarantee Fund (EAGGF)**, Guidance Section promotes adjustment of agricultural structures and rural development measures:

The **Financial Instrument for Fisheries Guidance (FIFG)** promotes structural measures in that sector

**Evaluation of Regional policy to 1999**

Throughout the 1994-1999 programming period, the European Regional Development Fund (ERDF) concentrates assistance on 4 priority Objectives corresponding to 4 kinds of regions. They are:

1. **Objective 1:**  
promoting the development and structural adjustment of regions whose development is lagging behind. *Regional GDP <75% of Community average*
2. **Objective 2:**  
converting the regions or parts of regions seriously affected by industrial decline. *The unemployment rate is above the Community average, industrial employment rate above community average.*
3. **Objective 5b:**  
facilitating the development and structural adjustment of rural areas. *There is a high dependency on agricultural employment, low-level of agricultural income, low per capita GDP.*
4. **Objective 6:**  
development and structural adjustment of regions with an extremely low population density (*Not applicable to the UK - Sweden and Finland only*).

To make the structural funds operational, a map of areas eligible for assistance was drawn up in 1988 to cover the 1989 – 93 period. This was subsequently updated for the 1993-1999 period.

There were also 13 Community Initiatives for the 1994-1999 programming period with a total budget which amounts to 9% (ECU 13.45 billion) of the total financial allocation to the Structural Funds.

**Where did the funding come from?**

The EU earmarked 71bn ECU for structural policy in 1989-1993 period and 153bn ECU for the period 1994 – 1999 (1994 prices). It is the second most important policy sphere after agriculture accounting for one third of EU expenditure. The total EU structural funds make up 36% of all funding for EU regional policy projects, 30% come from the national governments of member countries and 23% from private sources, a residual 11% is in the form of loans mainly from the European Investment Bank (EIB).

Structural funding for projects in the UK amounted to 18billion ECU (39%). This was a slightly larger proportion than the EU average and because for many programmes there is a requirement that EU funding is matched by funding from the host nation a similar proportion was provided from UK public funds. The UK private sector contribution was significantly lower at 12% than the EU average.

**Where the money was spent?**

In the case of the EU 57% was spent in Objective 1 areas, the corresponding figure for the UK was 16%. However in the UK a higher proportion was directed to Objective 2 areas and at objectives 3 and 4 (these are outside the assisted areas and relate to long-term and youth unemployment).

	EU			UK			
	Total inc loans	% of total	Leverage	Total inc loans	% of total	Leverage	
Objective 1	369652	56.8%	1.30	Objective 1	8142	16.5%	1.36
Objective 2	78898	12.1%	<b>2.15</b>	Objective 2	21236	<b>42.9%</b>	<b>1.65</b>
Objectives 3 & 4	51847	8.0%	<b>1.37</b>	Objectives 3 & 4	9005	<b>18.2%</b>	<b>0.85</b>
Objective 5a (Agri.)	34458	5.3%	2.93	Objective 5a (Agri)	1994	4.0%	2.97
Objective 5a (Fish)	5154	0.8%	<b>2.53</b>	Objective 5a (Fish)	399	0.8%	<b>1.71</b>
Objective 5b	39695	6.1%	2.84	Objective 5b	2587	5.2%	1.45
Objective 6	1921	0.3%	1.75	Objective 6			
Cohesion	18547	2.9%	0.16	Others	2006	4.1%	0.78
Other outside Objective 1	5911	0.9%	2.26	Other Objective 1	796	1.6%	0.78
Community initiatives	44316	6.8%	<b>1.30</b>	Community initiatives	3314	6.7%	<b>0.59</b>
<b>Total</b>	<b>650399</b>	<b>100.0%</b>	<b>1.44</b>	<b>Total</b>	<b>49479</b>	<b>100.0%</b>	<b>1.25</b>

Source: *The Impact of Structural Policies on Economic and Social Cohesion in the Union 89-99*

**In which generic areas were monies spent?**

The vast majority of expenditure by the EU on regional projects in the UK between 1989-99 was expended on human resources (training and support for the unemployed) and the productive environment (aid to businesses, tourism etc).

**What were the outputs in the UK?**

As can be seen the major impacts were in support for SMEs (including farms), Training, and land reclamation.

	1989-93	1993-99	1989-99
<b>Productive Environment</b>			
No. of SMEs supported	260,554	405,773	666,327
Floorspace upgraded/constructed	3,688	6,107	9,795
No. of innovation or research centres supported	130	214	344
No. of farms modernised/diversified	25,186	27,770	52,956
No. of tourism facilities improved/provided	413	1,049	1,462
<b>Economic Infrastructure</b>			
Km of primary roads	94	215	309
Km of rail line	65	260	325
Km of electricity cable installed	64	70	134
Km of water main installed/improved	243		243
Ha of land cleared, reclaimed or conserved	9,481	14,895	24,376
<b>Human Resources</b>			
No. trained in/for business	80,301	84,698	164,999
No. other trainees	1,587,072	2,288,000	3,875,072

Source: *The Impact of Structural Policies on Economic and Social Cohesion in the Union 89-99*

Clearly the EU has been and will a major force in UK regional policy.

**Agenda 2000 Reform of the structural funds (The Theory)**

The "Agenda 2000" programme presented by the European Commission in July 1997 considered how to promote growth, competitiveness and employment in Europe, and developed a strategy for modernising the main EU policy areas with a view to future eastern enlargement of the Union. The general theme running through the proposals was for more: **Concentration, Simplification, Decentralisation and Improving efficiency.**

This is to be achieved by:

- Channelling resources more towards poorer regions.
- Simplified management with further decentralisation and clearer remits.
- Improved transparency and reduce red tape.
- Limit the role of the EU to setting development priorities; approving programmes; independent evaluation and control. Programmes delegated to member governments or the regions.
- Set up a performance reserve - 10% of funds would be retained and only allocated after a positive assessment of the programming.

**What is the actual shape of EU regional policy in the post 2000 era?**

As with previous rounds the map of eligibility has been redrawn to reflect changed circumstances and to ensure that the most disadvantaged regions benefit the most. In addition, the number of objectives has been reduced from 7 to 3. The number of Community initiatives has also been slashed from 13 to 4 and the proportion of the population covered by initiatives has fallen from 50% to 41%

In terms of Community regional policy, the UK benefits from a budgetary allocation of 16.596 billion EURO for the 2000-2006 period. This represents a 19.5% increase on the budgetary allocation for the 1994-1999 period, which was set at 13.893 billion EURO.

**Objective 1: Regions whose development is lagging behind**

Objective 1 aims to promote development and structural adjustment of regions whose development is lagging behind. Regions with a GDP per capita of less than 75% of the Community average are eligible for Objective 1 funding.

**Objective 2: Regions undergoing economic and social conversion**

Objective 2 (which comprises Objective 2 and Objective 5b from the 1994-1999 period) aims to support the economic and social conversion of areas with structural problems. For the 2000-2006 period, areas with structural difficulties have been divided into four distinctive categories: **industrial, rural, urban, and fisheries-dependent zones.**

**Objective 3: Education, training and employment**

Objective 3 aims to support the adaptation and modernisation of education, training and employment policies and systems. It comprises the former Objectives 3 and 4.

**Fisheries**

The FIGG, the financial instrument for fisheries guidance, funds complementary actions taken under the Common Fisheries Policy.

**Community Initiatives**

In addition, the existing 13 Community Initiatives were reduced to four thematic areas, for which altogether 5.35% of Structural Fund assistance (about 10.5bn EURO) for the period 2000-2006. The four thematic areas are:

**INTERREG:** cross-border, transnational and interregional co-operation to encourage balanced development and spatial planning (funding: ERDF) (1-1.5bn EURO)

**URBAN:** urban regeneration (funding: ERDF)

**LEADER:** rural development (funding: EAGGF-Guidance)

**EQUAL:** transnational co-operation on new ways to combat discrimination and inequality in the labour market (funding: ESF)

**Cohesion Fund (not applicable to the UK)**

The Cohesion Fund is a separate fund, which was set up in addition to the existing Structural Funds when Spain and Portugal joined the Community. It is to be kept and will receive about 18bn EURO a yearly appropriation of 2.57bn EURO.

A major change in the *new regional programme is the question of additionality member states will no longer be able to use EU funds to substitute for public or other equivalent structural expenditure*. This was a practice used widely in previous years in particular during the period of the Thatcher government.

**Where will the money go in the UK after 2000?**

For the 2000-2006 period, in the UK, South Yorkshire, West Wales and the Valleys, Cornwall and the Isles of Scilly will become eligible for **Objective 1 funding** for the first time. The Merseyside region also remains eligible for Objective 1. Apart from Finland, the UK is the only country where there has been a rise in the number of people eligible for Objective 1 funding. As a result, 8.6% of the total UK population will become eligible for Objective 1 funding, compared with 5.9% for the 1994-1999 period.

**Objective 1.**

The 2000-2006 budget for Objective 1 is 6.251 billion EURO (£3.765 billion) compared to 2.572 billion EURO for the 1994-1999 period.

- **4.685 billion EURO** is allocated to South Yorkshire, West Wales and the Valleys, Cornwall and Isles of Scilly, and Merseyside;
- **400 million EURO** will go towards a programme aiming to support the peace process in Northern Ireland (PEACE);
- **1.166 billion EURO** will make up the transitional funding which Northern Ireland, the Highlands and Islands will receive.

**Objective 2.**

The European Commission has fixed a ceiling for the number of people in each Member State eligible for Objective 2 Funding. For the UK, this ceiling was set at 13.836 million inhabitants, or 24% of the total British population (this was previously 31%). In total 75 local authority areas (or parts of them are eligible for funding). Within this framework, the UK receives 4.695 billion EURO (1999 prices) or £2.828 billion. This budget is divided into two elements:

- **3.989 billion EURO** is for eligible Objective 2 zones;
- **706 million EURO** is for transitional support (for areas which were eligible to Objective 2 and 5b funds in 1994-1999 but which are now no longer eligible).

**Objective 3.**

Objective 3 funds are not allocated to designated zones basis but rather are shared by all regions in the EU except for those regions covered by Objective 1. For the period 2000-2006, the UK will receive under Objective 3 a total of **4.568 billion EURO** (1999 prices), about £2.571 billion. This compares to 3.680 billion EURO for the period 1994-1999.

### **Fisheries**

In Objective 1 regions, the FIFG funds are integrated into other regional development programmes. In areas situated outside Objective 1 regions, a budget of 121 million EURO, or £72.879 million, has been allocated to FIFG in the UK for the period 2000–2006.

### **Community Initiatives**

Alongside these three priority objectives, European Structural Funds also finance four **Community Initiatives** for the period 2000–2006. The total budget for these initiatives in the United Kingdom for the period 2000–2006 will be **961 million EURO** (£579 million), with the following breakdown:

**INTERREG:** 362 million EURO

**URBAN:** 117million EURO

**LEADER:** 106 million EURO

**EQUAL:** 376 million EURO

### **Future shape of policy**

Enlargement of the EU from the east means that there will be less available for regional development in the previous club of 15 member states. Policy is still being fleshed out but it is anticipated that the reform of policy will continue with more attention paid to accountability and transparency. There will still be three main objective but the focus will shift to ensuring that new member states become more competitive. For all the reasons previous stated it is in the interest of existing members that this should occur and that disparities should reduce.

For more details about current and future EU regional policy visit

[http://europa.eu.int/comm/regional\\_policy/funds/2007/index\\_en.htm](http://europa.eu.int/comm/regional_policy/funds/2007/index_en.htm)

### **Reading**

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- 📖 European Commission, (1996) *Social and Economic inclusion through regional development: The community economic development priority in European Structural Funds programmes in Great Britain*, ISBN 92-827-8050-3 (**Frewen Library EC4 09 SOC**)
- 📖 For up-to-date information on the European Policy, initiatives, budgets and funding streams see the European Documentation Centre @ Frewen Library
- 📖 See also Eurostat for statistical evidence – Frewen Library. Eurostat data is also available at <http://europa.eu.int/comm/eurostat/newcronos/reference/display.do?screen=welcomeref&close=/strind/socohe&language=en&product=STRIND&root=STRIND&scrollto=0>
- 📖 Rodriguez-Pose & Fratesi, (2004), *Between Development and Social Policies: The Impact of European Structural Funds in Objective 1 Regions*, *Regional Studies* Vol. 38.1, pp 97-113