# European Economics

# BRIDGING THE GAP: VISION VERSUS REALITY OF EU COHESION POLICY

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*Regional disparities have long been a feature of the European Union. In this paper, Emily Waters evaluates EU cohesion policy to date. She assesses both its objectives and its outcomes and, in doing so, underlines the significant gap that still exists between Europe's rich and poor. She argues that although cohesion policy, in its previous form, has done little to address this divide, its value cannot be wholly discounted.*

## Introduction

EU cohesion policy was established as a means of promoting harmonious European expansion. Its aim was, essentially, to bridge the gap that had emerged between the rich and poor regions of Europe. The success of this policy, however, is much disputed, as discrepancies in both income and unemployment levels still exist in the European Union. Recent reports have shown that Gross Domestic Product (GDP) per capita in 17 member states is currently lower than the EU28 average of 27,300 (Eurostat, 2015). Similarly, unemployment rates in European nations range from 40 per cent to 200 per cent of the EU28 average (Eurostat, 2015). Each process of EU enlargement has resulted in greater regional disparities, with the difference in life expectancy at birth between developed and undeveloped regions having increased substantially since 2004 (Eurostat, 2015).

The paper will examine the extent to which this vision of an economically homogeneous Europe has been realised, by analysing both the geographical dissemination of economic activity in Europe, and the objectives and outcomes of EU cohesion policy. The latest European strategy for reducing regional inequality in the Union will then be explored, followed by an analysis of the unnecessary and potentially distortive nature of EU cohesion policy.

## Cores and Peripheries

It is perhaps beneficial to first discuss the geographical distribution of economic activity in contemporary Europe. Despite its 4.3 million square kilometre reach, Europe's economic operations are highly concentrated in western Germany, France's northeast, the Benelux nations and the southeast of England. The inhabitants of Europe's core regions enjoy both higher incomes and lower unemployment rates than their peripheral counterparts. Recent studies have identified marked national differences, with GDP per capita of member states currently ranging from 30 per cent (Severozapaden, Bulgaria) to 325 per cent (Inner London) of the EU28 average (Eurostat, 2015).

An analysis of employment levels in Europe highlights similar economic discrepancies across the member states. While core regions such as Luxembourg and western Germany boast employment rates some 10 per cent higher than the EU average of 69.2 per cent, aggregate employment in Bulgaria and southern Italy stands at just 55 per cent (Eurostat, 2015). It is important to note that European integration has steadily narrowed income inequality across nations. Economic differences within EU regions, however, have become more pronounced with each process of enlargement (Baldwin and Wyplosz, 2015).

## The Early Years

The objectives and results of EU cohesion policy to date ought first to be considered before assessing the effectiveness of this policy. Income levels in European regions converged to the EU6 average in the 1970s (Puga, 2002). The process of EU enlargement, however, saw the emergence of regional inequalities within Europe. Income per capita in new member states, such as Portugal and Greece, fell to 40 per cent below that of Germany, Luxembourg and Denmark (Commission of the European Communities, 1997). This disparity in income levels across member states saw policy makers set an economically homogeneous Europe as their primary objective. Modernising the regional economy and reducing the incidence of poverty at a European level was the means by which this aim would be achieved (Commission of the European Communities, 1997, 2001).

On the whole, early EU cohesion policy was a moderate success as it led to the improvement of European infrastructure in underdeveloped regions and the narrowing of disparities in income per capita between member states. Pre-crisis EU cohesion policy, however, failed to reduce the poverty rate in Europe with some 15 per cent of its total population at risk of poverty in 2000 (Commission of the European Communities, 2004).

## The Effect of EU Enlargement

When it comes to analysing the social and economic impact of EU cohesion policy on the regions of Europe, the influence of further enlargement and the effect of the 2008 financial crisis must be considered. The advent of ten new member states on 1 May 2004 increased pre-existing disparities in both income and employment in Europe. Not only did GDP per capita in these countries stand at less than half of the European average, employment rates were also some eight per cent lower than those of the EU15 (Commission of the European Communities, 2008). Between 2000 and 2006, EU cohesion policy focused on improving living standards and life expectancies of all member states, in an attempt to bridge the gap that had emerged between the rich and poor regions of Europe. While some convergence took place in areas such as transport infrastructure, discrepancies in employment rates and social wellbeing remained.

These economic differences were exacerbated further by the outbreak of the financial crisis in 2008 (Commission of the European Communities, 2010, 2014). Between 2007 and 2013, EU cohesion policy attempted to combat the devastating economic effects of the crisis, with a focus on the achievement of sustainable economic growth and the development of Europe's peripheral regions. Despite their efforts, however, EU policy makers have created only limited economic and social cohesion in Europe. As of 2014, over one third of all member states had unemployment rates higher than the EU average of 9.8 per cent (European Commission, 2014).

## EU Cohesion Policy, 2014-2020

In an attempt to convert their vision of an economically homogeneous Europe into reality, EU policy makers have adopted an ambitious new strategy that focuses on achieving smart, sustainable and inclusive growth in Europe by 2020. With eleven thematic objectives, ranging from investing in education and skills to strengthening research and technological development, EU cohesion policy for 2014 to 2020 places a greater emphasis on the achievement of results (European Commission, 2014). Its budget of over €351.8 billion exceeds those allocated for previous cohesion policies. This figure, which makes up some one third of total EU expenses for the period in question, is aimed at both advancing harmonious development in the Union and reducing regional disparities in income and employment between member states (Stratfor, 2015).

The extent of regional diversity in the EU requires significantly more than the implementation of a one-size-fits-all programme of reform. Rather, European regions ought to be involved in the construction of such policies and provided with the means to accomplish their own goals (Commission of the European Communities, 2010). EU cohesion policy for 2014 to 2020 is a further move towards this approach as it incites both national and regional participation to combat widespread issues surrounding employment, social inclusion and innovation in Europe. It remains to be seen, however, whether this new strategy will succeed in finally closing the gap that exists between the developed and under-developed regions of Europe.

## A Contradiction in Terms?

It must, however, be noted that that the implementation of EU cohesion policy arguably contradicts one of the fundamental principles of the European Union itself. In the aftermath of the Second World War, European leaders believed that peace between nations could only be accomplished through trade and cooperation of European nations facilitated by the economic process of deregulation. By creating a single market for goods, capital, employment and services, policy makers hoped that trade between states would flourish and tensions in Europe would gradually ease. The European Union is constructed around the idea of the common market, yet Cohesion policy interferes in this market by using money raised from taxes to redistribute wealth amongst the various regions of Europe (Farole, Rodríguez-Pose and Storper, 2011).

Common criticisms of EU cohesion policy focus on its irrelevance, as well its distortive nature. Under the neoclassical growth framework, open markets and competition lead to regional convergence and the equal distribution of productive factors between member states (Pieñkowski and Berkowitz, 2015). Given that such activities are assumed to occur naturally in the economic environment and that the subsequent distribution of regional aid could result in the misallocation of factors, cohesion policy is frequently deemed to be both irrelevant and potentially harmful. However, this assumes the validity of convergence between member states. Where this convergence does not naturally occur, the imperative for cohesion policy to be implemented exists, despite distortionary effects. This kind of redistribution can be seen as essential for the EU to remain politically feasible.

## Conclusion

Through the examination of both the objectives and results of EU cohesion policy to date, this paper has shown that European policymakers have failed to convert past visions for economic and social cohesion in Europe into true reality. While cohesion policy has seen the creation of 594,000 new jobs in Europe between 2007 and 2010, vast disparities in social wellbeing, education standards and income levels across European nations still exist (European Commission, 2014). Despite its contradiction of one of the founding principles of the European Union, it is important not to completely discount the role that cohesion policy plays. Without its funding, even wider discrepancies would likely exist between the EU28.

In an attempt to foster harmonious expansion and to bridge the gap that currently exists between the rich and poor regions of Europe, EU policy makers have developed a new strategy that focuses on achieving sustainable, smart and inclusive growth in Europe by 2020. However, whether this ambitious approach will finally transform their dreams of an economically homogeneous Europe into reality remains to be seen.

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