European Union

First Report on Economic and Social Cohesion 1996

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Executive Summary

As provided for under Article 130B of the Treaty, the Commission presents its first cohesion report 'on the progress made towards achieving economic and social cohesion and on the manner in which the various means provided for in this article have contributed to it'. The report aims to answer four major questions:

- have economic and social disparities between Member States, regions and social groups narrowed over time, leading to an improvement in 'the overall harmonious development' of the Union?
- what has been the role and the achievements of Member States' policies in this respect?
- how have the Union's non-structural policies responded to the Treaty obligation to take account of cohesion objectives?
- what has been the effect of the Union's structural policies?

In so doing, the Report attempts to draw out the implications for policy at both the Member State and Union levels.

Social and economic fortunes

Over the past decade, economic growth in the Union has averaged just over 2% a year, while employment has grown at 0.5% a year. Some 7 million jobs have been created in net terms since 1983.

Disparities in income per head between Member States have narrowed significantly over the same period. This is largely due to a catching up on the part of the cohesion countries — Spain, Portugal, Greece and Ireland — with income per head increasing from 66% to 74% of the Community average. Ireland has had the most remarkable performance with an average growth rate of 4.5% a year between 1983 and 1995, followed by Spain with 3% and Portugal with 2.6%. On the other hand, Sweden and Finland lost ground compared to the rest.

The experience across the Union with regard to employment was more mixed. In the country with the highest economic growth, Ireland, employment grew by a mere 0.2% over the period 1983–93, although growth has accelerated more recently. Similar growth rates were recorded in many other Member States while the deep recession in Finland and Sweden led to an absolute decline in employment. Countries such as the Netherlands, Germany, Greece and Spain, succeeded in creating jobs at a higher rate than the average.

In Portugal, Belgium, West Germany, the Netherlands and the UK employment creation, while variable, has nevertheless been sufficient to reduce the unemployment. In most other countries there have been increases in unemployment rates. These are most dramatic in Finland and Sweden as well as in two of the cohesion countries, Spain and Greece. In Spain, more than one in five of the work force is now unemployed.

Income disparities between the regions of the Union have remained largely unchanged over time: in the 25 best-off regions income per head rose marginally from 140% of the Union average to 142% while there it increased in the 25 poorest regions from 53 to 55%. Nevertheless, the poorest — 'Objective 1' — regions as a group improved their average level of income per head by $2^1/_2$ percentage points from 64.6% to 67.2%.

Over the past decade, regional income disparities widened in all Member States, in which they are measured, with the exception of the Netherlands. Similarly, regional differences in unemployment rates also increased *within* many Member States, with the UK as a notable exception. In France, Germany (West) and other countries this has gone hand-in-hand with a more unequal distribution of personal income and a fall in the share of wages in total income.

Across the Union as a whole, the incidence of unemployment has become much more uneven. While over the ten years, 1983 to 1993, the 25 regions with the lowest rates of unemployment were able to reduce their average rate even further from 4.8% to 4.6%, there has been a dramatic increase from 17.2% to 22.4% in the 25 regions with the highest rates.

Moreover, unemployment tends to have the most serious effects on weaker social groups. Some 5 million young people, or 21% of the total, are without a job. The proportion of women in paid employment has increased largely due to the expansion of service employment and part-time working. On the other hand, the rate of unemployment of women remains, at 12½%, considerably higher than that for men at 9½%.

People without qualifications are particularly vulnerable to long-term unemployment. Nearly half (49%) of the unemployed have been without a job for more than a year. In view of this, it is unsurprising that many people live below the poverty line. In several Member States their number has been rising, especially in the UK, Italy and France.

Socio-economic trends are clearly not the only determinants of the quality of life of the Union's people. The preservation of peace and respect for fundamental rights are real even if they are generally taken for granted. Nevertheless, they are an essential basis for the success of efforts aimed at the promotion of harmonious development.

Years of work on indicators to measure quality of life in the broader sense, and the more recent reflections in the Union on the 'greening' of national accounts, have identified the limitations of conventional income measures such as GDP, even if as yet there is no operationally viable alternative. Overcoming these limitations would allow due account to be taken of environmental effects, and more broadly of the sustainability of economic development.

Role and achievements of Member State policies

Member State policies are the Union's primary instruments for achieving cohesion. In that sense, 'solidarity in the Union begins at home'. Moreover, Member States have the means at their disposal. Public spending accounts for between 40% and 60% of national GDP compared to the Community Budget of about 1.2% of Union GDP.

The measures undertaken by the Member States to strengthen cohesion have generally gone in the right direction. Macro-economic policies have brought about significant progress in nominal convergence. Inflation rates have decreased to levels which are among the lowest in 30 years. In Portugal, Spain, Italy and Greece, inflation has come down but remains above the Community average. Interest rates have also declined and the differences between Member States have narrowed, thus improving the general climate for investment and growth. Public deficits and debt, however, remain a major cause for concern. Over the last decade the financial burden of debt repayment has increased on average by 1.2 percentage points of GDP, and in Greece, Finland and Italy the rises has been even more dramatic.

Through Member States' public expenditure and taxation, interregional transfers of resources take place. According to a specially commissioned study of seven countries (containing over 80% of the Union population) net transfers amount to 4% of the GDP of donor regions and 8% of that of recipient regions. These transfers have a significant cohesion effect within Member States, reducing regional income disparities by 20–40%. A major explanation for this redistributive effect is the fact that Member States spend about 50–70% of total public expenditure on education, health, social security and welfare, housing and cultural activities.

Expenditure on employment policies, regional policies, and RTD accounts for between 6 and 14% of the total. RTD spending is highest in relation to GDP in the more prosperous countries and is concentrated in the richest regions in all countries for which regional data exist.

So far as employment policies are concerned, Member States have made a concerted effort to bring about improvements, concentrating on the five priority areas agreed at the Essen Summit in 1994: improving labour skills, promoting more employment intensive growth, reducing non-wage labour costs, improving the effectiveness of labour market policies and assisting those hardest hit by unemployment.

The regional policies operated by Member States themselves cover some 46.7% of the Union's total population. Around half cover the least developed regions (in the sense of Art. 92.3.a of the Treaty). For these, the maximum aid levels vary between 30% and 75% of eligible investment expenditure. For national regional aids authorised under Art. 92.3.c of the Treaty the maximum aid limits vary between 10–30%, only Finland and Sweden being permitted to go up to 35% for a small percentage of their population.

These results in terms of population coverage and aid intensity are the outcome of actions by the Commission under competition rules to control population coverage and aid intensities applying to national aid schemes for regional purposes.

The variation of aid intensities has helped the least favoured regions to compete for new investment, although, richer Member States can afford to use more public money to support new investment than poorer ones. Consequently, between 1989–93, national regional state aid per capita was on average much higher in Eastern Germany and the Mezzogiorno in Italy than in the cohesion countries, with the result that two thirds of the total amount of regional national state aid in the Union is spent in Germany and Italy.

The contribution of Community policies

Due to their specific nature and objectives there are wide differences in the contribution which Community policies make to the attainment of cohesion objectives. Important examples are considered below.

Social policies, education and vocational training

Social policies favour by their nature the process of integration and cohesion. Their impact has been particularly important in labour law, health and security at work, free movement of people and equal opportunities for men and women. Beyond this and through, for example, the social dialogue, the Union has acted as a catalyst for the promotion of basic social rights and values. Support for education and vocational training plays, with modest but well targeted spending, a similar role as catalyst for stimulating the free movement of people, for raising competitiveness and for enhancing the opportunities of individuals.

Environmental policies

By promoting the notion of sustainable development, environmental policy is also directly relevant for cohesion. The starting position of the cohesion countries is a favourable one and pollution is less in relation to both population and GDP than in the richer Member States. On the other hand, expenditure on environmental protection is lower than anywhere else in the Union. The cohesion countries are faced with the huge task of implementing many environmental policy measures, covering for example, fuel quality standards, lower vehicle emissions, nitrates and water quality. Investment needs up to the year 2005 have been estimated to amount to 17 billion ECU for the four countries together. Expert studies come to the conclusion that environmental objectives can be met, with possible gains in GDP and employment, by introducing an appropriate package of fiscal measures, charges and public expenditure.

RTD

The RTD policy of the EU is aimed at promoting European competitiveness through scientific excellence. RTD programmes have sought to exploit European potential in technology and innovation. This has meant a greater concentration of research activities in the major specialist centres most of which are in the North where a limited number of RTD-islands stand out. To counteract this, efforts have been made to integrate less-developed and more peripheral regions. Research programmes have developed research capabilities in weaker Member States and as a consequence, their institutes are becoming more involved, strengthening the scientific and technological base of these countries and accelerating innovation and economic development in the regions over the longer term.

Internal Market and trade policy

The most far-reaching of the Union's framework policies to raise competitiveness has been the Single Market Programme (SMP) which has swept away many of the obstacles to trade and created a genuinely integrated European economy. Fears that this would overwhelm the poorer countries have not been borne out in practice. Spain and Portugal appear to have been the most successful in taking advantage of increased opportunities for exporting to their partners. Ireland also appears to have benefited but the impact has been marginal for Greece and Southern Italy.

There is a wide consensus on the positive effects of trade on growth and also, therefore, on employment. But the reduction of external protection needs to be accompanied by internal economic adjustment. High tariff industries account for almost half of industrial employment in Portugal and Greece, and the four cohesion countries are generally more vulnerable to trade liberalisation. All have trade deficits in services which is one of the sectors expected to benefit from the recent Uruguay Round liberalisation.

Competition policy

In applying rules on state aids for regional purposes, the Commission's objectives have been two-fold: ensuring that aid is concentrated on the most disadvantaged regions and maintaining a differential in aid intensity between regions, to enable the poorest ones to compensate for their structural weaknesses.

Network policies

The net cohesion effect of EU transport, telecommunication and energy policy is difficult to assess. In all three areas, liberalisation is likely to reduce overall costs, leading to greater competitiveness and increased growth and employment. The effects on the periphery depend largely on the extent of the reduction in transport or transmission costs brought about. In transport policy, cohesion countries stand to gain in absolute terms from trans-European networks but not necessarily in relative terms. With regard to telecommunications policy, advanced services essential to the Information Society are not common in poorer regions because of their inferior infrastructure. There is, therefore, a risk of creating an Info-rich/Info-poor divide — with negative effects on the innovative capacity of the whole economy. Since the cohesion countries have relatively little domestic energy supply, however, they stand to benefit from energy liberalisation and better access to energy sources.

The CAP and fisheries policy

The Common Agricultural Policy (CAP) accounts for about 50% of the Community budget and involves a significant redistribution of income between both regions and individuals as a result of supporting farmers indirectly through market prices and directly through subsidies. According to estimates, the 1992 reform had a positive cohesion effect, with more cohesion countries receiving net transfers after than before. A detailed description of the situation and of possible explanations are provided in the report.

Within many Member States, it is possible to discern a positive effect of the CAP on regional income distribution and this has increased after the 1992 reform; nevertheless, the pattern of net transfers is highly differentiated. Before the reform, some estimates indicated that 80% of transfers went to the 20% most profitable farms; after the reform, gaps have been reduced, but not by as much as if the Commission's proposal to put ceilings on direct aids had been fully accepted.

Although fishing is a relatively small sector of activity and employs comparatively few people, it can be very important in some of the less developed regions where alternative job opportunities are scarce. Fisheries policy, by supporting the restructuring of the industry in the face of limited fish stocks, will help to increase competitiveness and maintain jobs in the regions concerned over the medium-term.

Effects of EU structural policies

The main features of present EU structural policies are summarised in the Box. The 1988 reform of the Structural Funds has significantly increased their redistributive effect in favour of the less prosperous Member States and regions. The main reason for this

EU structural policies: main features

The Union has six major financial instruments with which to implement its structural policies: the Regional Development Fund, the Social Fund, the EAGGF-Guidance, the financial instrument for fisheries guidance, the Cohesion Fund and loans from the European Investment Bank (EIB). The Cohesion Fund and the EIB are based on a project financing approach and are governed by their own specific rules. The Structural Funds operate within a common framework based on the basic principles of concentration, programming, partnership and additionality.

The resources for EU structural policies have increased substantially from 3.7 billion ECU in 1985 to 18.3 billion ECU in 1992 and to 33 billion ECU in 1999. For the period of 1994–99, around 170 billion ECU is available from the Community's budget for structural policies. This represents about a third of total Community spending and 0.45% of Community GDP. Over the decade 1989–99, spending amounts cumulatively to 6.5% of annual Community GDP. A comparison makes its importance clear: Marshall aid to post-war Europe was equivalent to 1% of US GDP per year and amounted cumulatively (1948–51) to 4% of US GDP.

The interventions of the Structural Funds are concentrated on four regional policy Objectives which account for 85% of the funding:

- Objective 1, for regions where development is lagging behind (about 70%);
- Objective 2, for the adjustment of regions worst affected by industrial decline (11%);
- Objective 5b, for structural adjustment in rural areas (4%);
- Objective 6, for adjustment of sparsely populated areas (0.5%).

Three objectives apply Community-wide, having no geographical limitations. They receive 15% of the funding:

- Objective 3 focuses on long-term and youth unemployment;
- Objective 4 assists the adaptation of workers to industrial change;
- Objective 5a promotes adjustment in the agricultural and fisheries sectors.

90% of the total volume of finance is decided upon at the initiative of Member States. For the period of 1994–99 more than 300 programmes were agreed in partnership between the Member States and the Commission, about half of them for Objective 1. Some 9% of the finance is reserved for Community Initiatives. Under 13 different themes, there exist about 400 Community Initiative programmes. Some 1% of the finance is reserved for technical assistance and innovative measures. Most of this is decided by the Commission after calls for tender.

Three broad areas of intervention are covered by the Union's structural policies; infrastructure, human resources and productive investment. Some 30% of the Structural Funds is spend on infrastructure investment in, for example, transport, telecommunications, energy, water supply and environmental protection. A further 30% is devoted to strengthening education and training systems and supporting labour market policies. The remaining 40% of total funding goes mainly on productive investment, much of it aimed at building a dynamic business environment and supporting investment aid schemes for industry, in particular, for small and medium-sized enterprises.

was the creation of Objective 1 which was effectively designed to ensure that resources are concentrated on the regions with the lowest GDP per head. Under Objective 2, there is almost no equalisation effect for the period 1994–99 towards the regions worst affected by industrial decline. In the revisions to the regulations in 1993, less weight was attached to these criteria compared to the previous period.

In the first programming period, 1989–1993, an overall income equalisation (in terms of GDP per head) of 3% was achieved with transfers of 0.3% of EU GDP. For the current programming period, funding equivalent of 0.45% of EU GDP is estimated to result in an equalisation effect of 5%. The equalisation effect is, therefore, about 10 times the original amount of public finance. This is similar to the income redistribution effect achieved by the "Finanzausgleich" in Germany in 1990 or, alternatively, twice as high as that for specific purpose grants in the USA.

The primary purpose of Community transfers is not to redistribute money. Instead they are intended, through investment, to strengthen the economic base in recipient regions, including human capital formation. Union structural policies have contributed to a significant narrowing of the gaps between poorer and richer Member States. Structural Funds assistance in the 1989–93 programming period, are estimated to have increased growth by 0.5% a year in the four cohesion countries, from 1.7% to 2.2%. Given the increase in assistance in the present programming period (1994–99), the increase in growth may be even greater on average than 0.5% per year. The number of jobs created or maintained during the first programming period is estimated at over 500,000, ie 2.5% of the total.

In Objective 1 regions, structural policies have brought about a general improvement in basic infrastructure and helped to modernise their economic base. Concrete examples are numerous: in Greece, the number of towns with a waste water treatment system will more than double by 1999, thus serving 71% of the population. In Portugal, firms assisted by the Union have achieved productivity increases of around 5% per year and employment growth of 2.5% per year. In total, more than 7,000 industrial projects have been undertaken with Union aid. In Ireland 50% of the students in post-compulsory secondary vocational education have received Community assistance. Some 14,000 km of major roads will have been built or upgraded in Spain by 1999.

But it is not only the poorest Member States which have benefited. Estimates show that around 30–40% of all funding that flows into the poorest Member States returns to the richer ones in the form of purchase of know-how or capital equipment.

Moreover, encouraging results have also been recorded for other Objectives. The poorer regions and social groups in many of the richer Member States have, with the help of the Union's structural policies, been encouraged to exploit economic opportunities. In Objective 2 regions, for example, estimates suggest that the programmes created or maintained 530,000 jobs in net terms in the period 1989–93. For Objective 5b, the figure is an estimated 500,000 jobs for the period 1989–99. Objective 3 has financed between 2% and 15% of Member States' active labour market policies with a specific focus on reducing exclusion.

In addition, through specific Community Initiatives, although with varying degrees of success, the Union has helped to target European problems, to identify new opportunities and to improve interregional and cross-border relations in order to tackle common problems.

Part of the added value of EU policies relates to the emphasis on innovation linked to the specific qualities of the delivery system itself. It has helped Member States to target resources on the worst-affected areas and problems. Solutions are organised to regional and social problems through medium-term programmes which are focused on investment and innovation. The specific features of Community interventions have in some cases enhanced policy changes and the development of new structures. An example of this is Objective 4's preventative approach to unemployment resulting from industrial change. The devolution of responsibilities is encouraged, in particular through partnerships formed with those who benefit most from the programmes. Additional financial resources are levered from public and private sources. A Europe-wide framework of opportunity has been created through co-operation across borders.

Outlook

The Union faces major challenges including globalisation, rapid technological change, EMU and enlargement. The European model of society remains the most appropriate framework for confronting them. Market forces and entrepreneurial initiative are necessary for seizing new opportunities. Solidarity and mutual support are an equally important basis for progress, not only for social reasons but also for optimising overall economic benefits since there is ample evidence of the detrimental effects of inequality on growth.

Cohesion must therefore be further strengthened. Nevertheless, the report at this stage avoids making concrete proposals for change. Rather, a number of themes are identified as a basis for further discussion and common reflection. Their proper treatment, respecting fully of the principle of subsidiarity, should lead to better policy-making for enhanced cohesion in the future.

For many Member States, the emergence of greater internal regional and social disparities will be a matter of concern. While the need for sound public finances is indisputable, major questions for policy-making arise:

- how to secure sufficient investment, including in human resource development;
- how to favour job creation;
- how to make national structural and social programmes more effective in coping with widening disparities.

For EU non-structural policies several themes need to be addressed, including:

- for the CAP, how to put into practice the intention to continue reform in such a way that environmental and social benefits are further developed in the context of a more integrated rural development policy;
- for state aid policy, how to combine administrative simplification with stricter control on state aid expenditure;
- for network policies, how to develop public service contracts/universal service obligations in parallel with progress on liberalisation of markets, and
- more generally, how to seize the opportunities for synergy between policies, including structural policies.

For EU structural policies, it is recognised that there is scope for improvements in effectiveness, for greater performance orientation and for enhancing their policy relevance. The main questions to be addressed to make structural policies more effective are:

- how to target scarce resources better on the most serious problems;
- how to optimise the use of grants and loans and public and private funding;
- how to simplify procedures;
- how to strengthen subsidiarity by clarifying the respective roles of Member States and the Union, to broaden participation at regional and local level and to involve with the social partners;
- how to maintain sufficient flexibility to respond to new opportunities and challenges.

Orientating structural policies towards increasing performance depends on effective monitoring, control and evaluation. It requires further examination of the additionality of EU transfers, absorptive capacities of the Member States, built-in incentives to promote quality and competition for scarce resources.

Enhancing policy relevance is an ongoing process which has already begun with the preparation of new Objective 2 Programmes for 1997–99 and which will be followed by the mid-term review, in particular for Objective 1. This will provide the basis for strategic thinking on future priorities.

Finally, the general climate of financial rigour in Member States has implications for the Union's policies. A major theme will be how to combine, in a balanced way, fiscal discipline with solidarity both with the poorest Member States and regions and with the most disadvantaged regions and people in the more prosperous Member States.

Chapter 1
What do we mean by cohesion?

The first Cohesion Report is presented in accordance with Article 130b of the Treaty on European Union. The Treaty calls on the Commission to 'submit a report to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions every three years on the progress made towards achieving economic and social cohesion and on the manner in which the various means provided for in this Article [130b] have contributed to it'.

The organisation of society in European countries reflects the values of the social market economy. This seeks to combine a system of economic organisation based on market forces, freedom of opportunity and enterprise with a commitment to the values of internal solidarity and mutual support which ensures open access for all members of society to services of general benefit and protection. With growing European integration, it is inevitable that the Union should increasingly share responsibility with the Member States for the maintenance of this European model of society. The Union, no less than the Member States, must also have the means at its disposal — the cohesion policies — to do so.

Until now, the national and Community level policies to promote cohesion have not been subject to a single, comprehensive examination, although the Commission has reported from various perspectives: on the situation in the regions, employment and macroeconomic developments. The first Cohesion Report represents an opportunity to consider systematically how policies at these different levels have contributed to European cohesion and to examine their interaction.

A fundamental prerequisite for this analysis — if only for operational purposes — is to clarify the Union's cohesion objective. General aims such as solidarity and mutual support must be distilled into substantive, and measurable, economic and social targets.

In its methodological approach to economic and social cohesion the present Report takes as its inspiration Article 130a of the Treaty on European Union where it is set in terms of 'harmonious development' with a specific geographical dimension: 'reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions, including rural areas'. This reflects an explicit recognition that wide disparities are intolerable in a community, if the term has any meaning at all.

Imbalances do not just imply a poorer quality of life for the most disadvantaged regions and the lack of life-chances open to their citizens, but indicate an under-utilisation of human potential and a failure to take advantage of economic opportunities which could benefit the Union as a whole.

So far as the geographical dimension is concerned, the reduction of disparities between Member States and regions is held, following the Commission's 1993 White Paper on these themes, to mean convergence of basic incomes through higher GDP growth, of competitiveness and of employment. Improving the competitiveness of the weaker regions is particularly important in the context of the European Single Market. By permitting the free movement of goods and services, labour and capital, the Single Market has removed obstacles to trade creating conditions for faster growth in the Union as a whole and new opportunities for increased prosperity in its Member States.

So far as social cohesion is concerned, this is more difficult to define in operational terms. A starting point would be to link social cohesion with the objectives of the European model of society which is founded on the notion of the social market economy as described above. The solidarity dimension is given practical effect through universal systems of social protection, regulation to correct market failure and systems of social dialogue. In addition, policies which promote solidarity and mutual support are themselves a factor in strengthening the productivity of European society and contributing to economic and social well-being.

The promotion of social cohesion requires the reduction of the disparities which arise from unequal access to employment opportunities and to the rewards in the form of income. Such inequality tends to have serious social consequences through the marginalisation of sections of society, such as the long-term unemployed, the young unemployed and the poor. The incidence of poverty is also a result of policy choices affecting inter-personal income transfers. These are all measurable aspects of social cohesion which are considered in the analysis of this report.

More generally, it is important to underline that increasing cohesion in the Union is about change. Improvements in living standards and the reduction in economic and social disparities depend, to an important extent, on increases in productivity. However, increasing competitiveness almost inevitably implies change; the acceptance of new technologies, new ways of working, the need to learn new skills. This can give rise to adjustment problems in the labour market if economic growth is slow and job creation is insufficient to compensate for the productivity growth which derives from increased competitiveness. However, experience shows that 'freezing' existing economic structures to protect jobs is not a viable, lasting, solution. Delaying the introduction of change can make it a more difficult and painful process later on.

More than ever, national and regional economic performance depends on flexibility in an ever more competitive, global marketplace. The evidence shows that countries and regions can combine improved productivity (high output per worker) and high levels of employment (the percentage of the working-age population in employment). The two are reconciled over time by the re-employment of workers in new activities. Innovation is at the heart of this process. Technological and organisational change and new demands generated both by this and by rising real income levels are factors which create new opportunities to replace the old. Changes in the composition of employment are part of the process by which successful countries grow and develop economically.

This suggests that the aim must be to accelerate the rate at which new opportunities are created while attempting to ensure that labour force skills match requirements. Where the scale of redeployment is substantial or where workers have difficulty in finding new employment opportunities and the adjustment to change is slow, there may be a role for cohesion policies in attempting to reduce the rate at which jobs are lost in declining sectors. But the preceding analysis suggests that such an approach ought not to be generalised and ought not to be pursued for very long.

While the report places much emphasis on quantifying trends and policy impacts, it is important to be aware of the limits and risks of measurement in this context. First, it is necessary to avoid the wider political aims of the European Union for its citizens becoming reduced to a debate on the relative merits of different macro- and microeconomic policies. The Union's political goals of solidarity, mutual support and cohesion may be pursued through largely economic means, but, as underlined above, these goals, nevertheless, remain the irreducible ambitions which structure European society and help to determine its sense of identity.

Secondly, although considerable strides have been made in the development of techniques of evaluation, economic policies inhabit a complex world where it is not always possible to quantify outcomes precisely or, indeed, to assign effects to particular causes.

Thirdly, the outcomes tend to emerge over the longer term, perhaps especially in the EU context where cohesion policies address the often extremely disadvantaged position of the weakest Member States and regions with the aim of improving the supply-side conditions for economic activity to develop.

While the preceding represents the essentials of the operational approach to cohesion, four further points should be made. First, it is important to underline that cohesion is concerned with increasing economic growth and new opportunities in the poorer regions and for disadvantaged social groups and does not imply a reduction in either growth or jobs for others ('negative convergence'). Secondly, improving economic circumstances is not an end in itself, but the means to an end. The creation of wealth should widen opportunity and raise living standards and the quality of life generally. In the European context, it should not only be a consequence of closer integration but should also contribute to increasing the exchange of ideas across national borders and appreciation of the benefits of solidarity. Thirdly, it should heighten awareness of the need for development to be sustainable and for a long-term view to be taken of the use of natural resources.

Fourthly, cohesion is not to be confused with harmonisation or uniformity. Its sole aim is to achieve greater equality in economic and social opportunities. Cohesion and diversity are not conflicting objectives, but can be mutually reinforcing.

Outline of report

Chapter 2 quantifies the extent of the cohesion challenge: the nature and scale of economic and social disparities between Member States, regions and social groups. It focuses on the gaps in income per head, competitiveness and unemployment between different parts of the Union, as well as the situation of disadvantaged social groups in relation to their access to employment and the related incidence of poverty.

The remaining chapters of the Report consider the contribution of national and Community policies to reducing the gaps and hence to the promotion of convergence and cohesion.

Chapter 3 contains observations on the contribution to cohesion of policies which are the responsibility of the Member States. Macroeconomic policies to promote stability are examined in this context, as well as national policies designed to redistribute income at the inter-personal level or promote national and regional competitiveness.

Chapter 4 considers how the various policies of the Union in different sectors contribute to the achievement of cohesion. A wide range of policies is examined, from those which have a major budgetary significance at the Community level — notably agriculture and research and development — to those which are largely concerned with establishing a common Community framework for the development of the sector — such as the policies to establish the single market or to reinforce the European dimension in sectors such as transport, telecommunications and energy. The policies examined in this part do not have cohesion as their primary objective but, because they are concerned either directly or indirectly with issues such as competitiveness or quality of life, they generally have cohesion effects.

Chapter 5 of the Report examines the contribution of the Community's cohesion policies themselves. These have existed in their modern form since 1989, and the report presents the first extensive opportunity to evaluate their contribution — not only their direct impact on economic and social disparities, but also their wider contribution to improving the quality of life and giving substance to the idea of European citizenship.

Chapter 6 contains the Commission's reflections on the lessons learned from experience in the operation of cohesion policies, on the problems which have emerged and on the appropriate response to these.

Finally, Chapter 7 summarises the main conclusions of the report.

Chapter 2
The convergence process and cohesion: recent trends

The purpose of this chapter is to examine the extent of geographical and social disparities in the European Union with particular reference to income per head and employment.

A key question is whether gaps between Member States, regions and social groups have tended to widen or narrow over time. According to a number of studies, convergence is a slow process and regional differences tend to be reduced by not more than 2% a year over the long-term.

For convergence to occur, it is not enough for the situation in the weaker parts of the Union or the position of disadvantaged social groups to improve in absolute terms. Both must improve in relative terms, relative to other regions and more privileged groups.

This chapter seeks, in the first instance, to quantify prevailing disparities. As outlined in Chapter 1, however, cohesion is also about more qualitative aspects — the *sustainability* of economic growth and the quality of European *citizenship*. These are discussed in the final section of the chapter.

2.1 Income and employment

The enlargement of the Community from six countries and a population of 175 million to 15 countries and a population of 370 million has been accompanied by an increase in its diversity, not least in socio-economic terms. Major differences exist between the Member States and regions in terms of income per head and their capacity to generate jobs.

Cohesion between Member States

Income per head

At the Member State level, income per head today (as measured by per capita GDP in 1995) is significantly — 10% or more — above the Union average in Belgium, Denmark, Luxembourg and Austria. It is also above average in Germany, France, Italy and the Netherlands, around the average in the UK and slightly below in Sweden and Finland. The remaining four Member States have income per head between 64% of the Union average (Greece) and 90% (Ireland). The 'cohesion gap' is most clearly seen in the fact that average income per head in the two poorest Member States, Greece and Portugal, is some 40% below that in the four most prosperous Member States listed above. The gap is considerably wider now than immediately before the first enlargement of the Community in 1973 when GDP per head in Germany at one extreme was only 25% above that in Italy at the other.

But while the entry of Ireland in 1973, Greece in 1981 and Spain and Portugal in 1986 resulted on each occasion in the gap widening, the key issue is how these countries have fared compared to the other Member States over time.

Taken as a whole, the economies of the Fifteen have grown at an average rate of just over 2% a year over the past two decades, though there have been considerable cyclical variations. This is slightly less than in the US over the same period but markedly slower than in Japan (though Japan has undergone prolonged recession over the

1990s). It is, nevertheless, equivalent to GDP doubling every 30 years or so.

One of the most striking features of economic developments over this period has been the closer integration of Member States as witnessed by the growth in trade between them, especially during the 1980s when for every country imports from other parts of the Community grew much faster than those from the rest of the world. For all Member States, trade with the rest of the Community now accounts for well over half of the total and for all apart from Germany, the UK, Ireland and Finland, for over 60%.

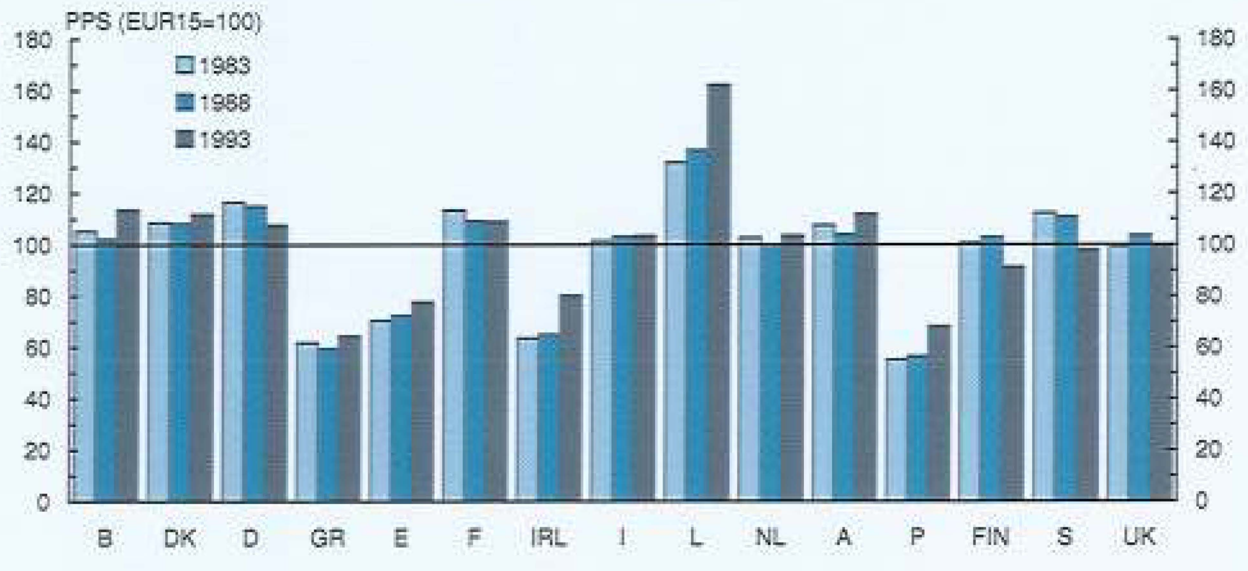
There have been some differences, however, in the growth of individual Member States and — as discussed in the next section — regions (Graph 1). Since the beginning of the 1980s, four Member States, Spain, Ireland, Luxembourg and Portugal, have grown on average appreciably faster than the rest. For Spain and Portugal, growth accelerated in the period after their accession in 1986. For the rest, apart from Greece, Finland and Sweden, growth has been close to the average. In the case of Finland and Sweden, there has been a reversal of economic fortunes without precedent in the Union in the post-war years. Both experienced a sharp fall in GDP in the early 1990s which led to their income per head declining from above the Union average to below in the space of a few years.

This is particularly striking in the case of Sweden. Over the 10 years 1983 to 1993, GDP per head, measured in terms of purchasing power standards (PPS), declined from 12% above the Union average to 2% below. In Finland, GDP per head measured in the same terms was the same as the Union average in 1983 and 9% below in 1993. In both cases, the fall occurred largely after 1990 when output fell markedly. Both economies have experienced faster growth than the Union average since 1993, but they have some way to go to recover their former position among the wealthier European economies. The signs are especially positive for Finland where both investment and GDP have picked up strongly after several years of decline (though, as noted below, this recovery is concentrated in certain regions).

The Cohesion Four

The relative growth of the four poorest Member States, Greece, Spain, Ireland and Portugal, is of particular relevance for cohesion. In 1983, the four had an average income per head of 66% of the Union average, and it remained at this level until after 1986 (the year of accession of Spain and Portugal). Since then, annual growth in the four has averaged just over

1 GDP per head in Member States, 1983, 1988 and 1993



one percentage point above average, giving rise to a slow but steady process of convergence with the rest of the Union. By 1993, GDP per head in the four reached 74% of the EU average, an increase over 10 years of 8 percentage points).

In general, strong growth of the European economy has tended to favour convergence. This was the case in the second-half of the 1980s (Graph 2). On the other hand, the recession of the early 1990s greatly affected some of the weaker countries and disparities widened again (though the effect is disguised by the unification of Germany). Since 1994, growth has resumed in the Union and in these countries.

Growth of the Union economy as a whole means that the weakest Member States have, in effect, to hit a moving target to achieve convergence. Though they have tended to grow at an above average rate, convergence has been slow and the gap in income per head between them and the EU average diminished by only around a quarter in the 10 years 1983 to 1993.

There have been marked differences in developments between the four. Ireland has recorded the fastest growth of any Member State in recent years, maintaining a high rate even during the recession in the early 1990s. GDP per head, which stood at 64% of the European average in 1983, increased to 80% by 1993, rising further to 90% in 1995 and at the present rate will overtake Finland in 1996/97.

Relatively high rates of economic growth were also achieved in Spain and Portugal, where GDP per head increased by 7 and 13 percentage points, respectively, relative to the Union average between 1983 and 1993. Both countries were particularly hard-hit by the recession, however, and their GDP per head remained largely unchanged relative to the average between 1993 and 1995.

In Greece, GDP per head increased slightly relative to the rest of the Union between 1983 and 1993, from 62% of the average to 65%, though growth has tended to vary widely from year to year. Whereas in 1985, 1989 and 1991, it exceeded the Union average at 3 to 4%, GDP fell in 1987 and 1993 and stagnated in 1990. The weak performances in 1987 and 1990 are particularly striking, since they were against a background of strong growth in the rest of Europe.

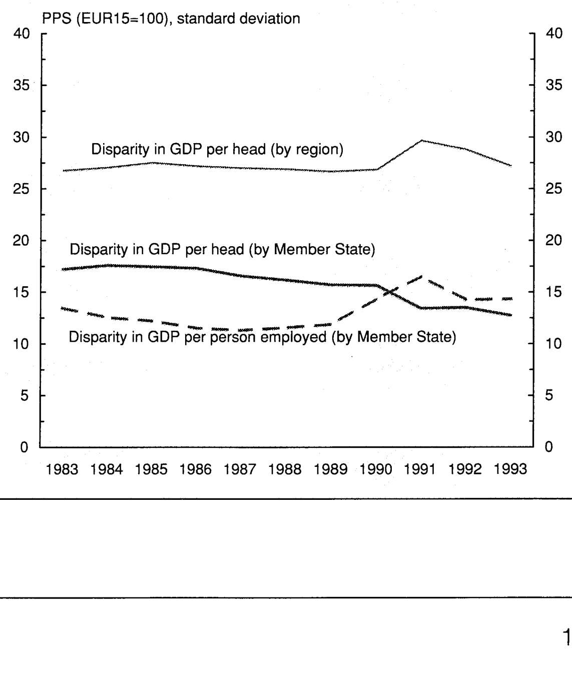
Employment and unemployment

The major economic challenge facing the Union is the persistence of high rates of unemployment (Graph 3). It is this feature above all which marks it apart from other major economies, specifically Japan and the US. It is a feature which dates back 20 years. From 1973 to 1985, unemployment in the Fifteen increased each year from an average of only 2% to 10%. Although the economic recovery in the second half of the 1980s brought unemployment down, it still left the rate only just below 8% in 1990 when the upturn came to an end. Unemployment peaked at over 11% in 1994 and in 1995, it was only slightly below this level, with over 18 million people unemployed. By contrast, the rate was under 6% in the US and 3% in Japan.

Unemployment rates in Member States in 1995 varied considerably, from less than 5% in Luxembourg and Austria to 15% or more in Spain and Finland. They were also above average, at close to 12%, in France and Italy.

While the present rate of unemployment in the Union is slightly above the level a decade ago, the number in employment is, nevertheless, higher. Despite the image to the contrary, net job creation has been higher over the past 10 years than in the previous 10 and the number employed in the Fifteen went up by almost 7 million over this period (although the employment rate — the proportion of the working age population in jobs has remained unchanged). The rate of net job creation, however, has varied from year to year

2 Disparities in GDP per head and productivity, 1983-93



reflecting the effects of the cycle. Growth in jobs was particularly pronounced in the second half of the 1980s when a total of 10 million net new jobs were created, a growth of 1½% per year.

In the period 1991 to 1994, however, the Fifteen lost an estimated 4 million jobs although employment started to grow again in 1995. However, at the same time, growth in employment has been accompanied by, and was a contributory factor in, the relatively rapid expansion of the labour force, predominantly among women. In the 1980s, labour force growth averaged nearly 1% a year, adding to the difficulty of reducing unemployment rates.

In general, economic growth has tended to be less employment-intensive in the EU than in the US which has experienced job growth of 1½% a year over the last decade or so, while in Japan the figure was just over 1% a year. In the Union, economic growth over the long-term, averaging just over 2% a year, has been associated with productivity growth of just under 2% a year and so has generated an increase in employment of around ½% a year.

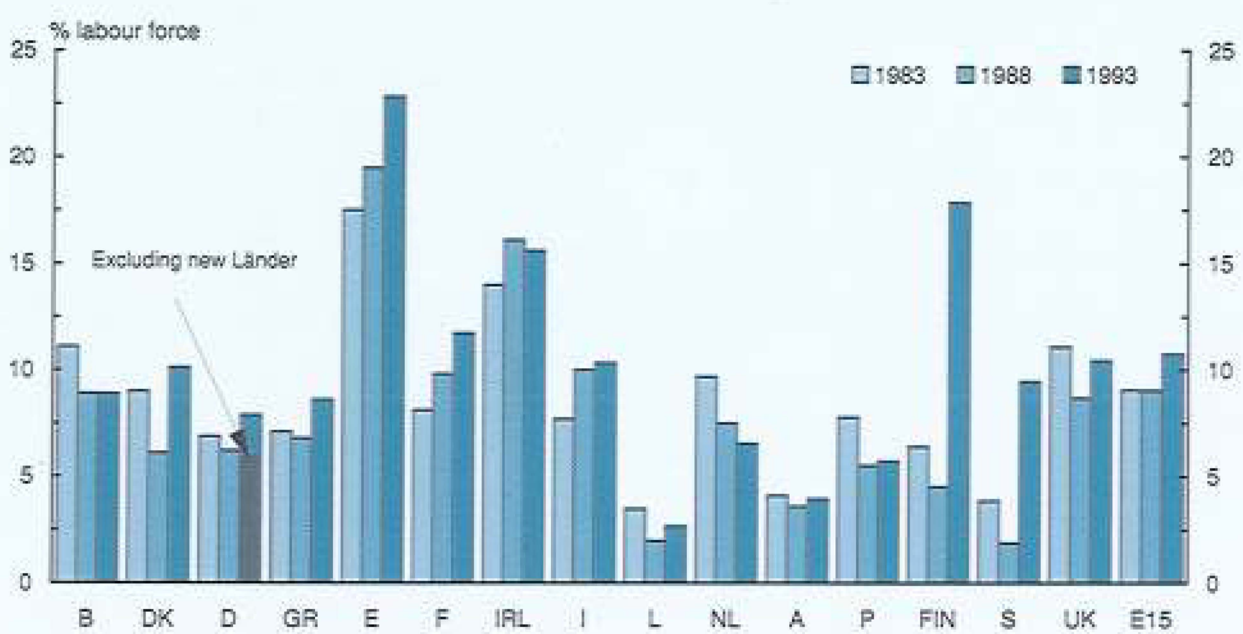
The 1995 enlargement of the EU added three Member States, where, throughout the 1970s and 1980s, unemployment was much lower than elsewhere and two, Austria and Sweden, where unemployment was not much above the frictional levels associated with workers changing jobs. This remains broadly true for Austria, but the fall in GDP in Finland and Sweden in the early 1990s was accompanied by large-scale job losses and dramatic rises in unemployment.

In Finland, the number employed fell by over 20% between 1990 and 1994, largely due to the fact that trade with the former Soviet Union collapsed, and unemployment soared from 3% to 18%, although as noted above, the economy has been recovering since and unemployment has fallen. In Sweden, there were similar difficulties, some of the problems being associated with delays in adjusting macroeconomic imbalances and with problems of international competitiveness in some industrial sectors. Employment fell by 13% between 1990 and 1994 while unemployment rose from under 2% to 10%.

The Cohesion Four

Unemployment in Spain — the highest in the Community — has tended to affect between one-sixth and one-fifth of the labour force since the beginning of the 1980s, the proportion rising to almost a quarter in 1994. These fluctuations mirror the pattern of economic growth, unemployment declining significantly in the second half of the 1980s (when employment grew

3 Unemployment rates in Member States, 1983, 1988 and 1993



by 3½% a year) and significant increases in the 1990s (when employment fell by almost 2% a year).

In the case of Ireland, where unemployment has also been traditionally high, the strong economic performance over the past 10 years or so appears at last to be reducing the rate. Economic growth of nearly 5% a year in the period 1983 to 1993 was accompanied by growth in employment only slightly above the Union average. Unemployment remained around 15% of the labour force, though recently the numbers employed have risen markedly and unemployment fell to below 12½% in 1995. Ireland is the only Member State where migration has been on a significant scale over the past 15 years, net outward migration helping to keep down unemployment in the 1980s — facilitated by the existence of large Irish communities in the UK, the US and, increasingly, other Member States of the Union — and net inward migration increasing the work force in the 1990s as the demand for labour has risen.

Portuguese experience has been similar to that of Ireland insofar as rapid economic growth has not been matched by higher than average job creation. On the other hand, labour force growth in Portugal is much slower, partly because participation among women was already higher at the beginning of the 1980s and has increased by much less than in Ireland, and the rate of unemployment has remained below the EU average. The unemployment rate in Greece has also consistently been below average, though, in the 1990s, it has been 2–3 percentage points higher than in Portugal.

Cohesion between Regions

Income per head

Despite these considerable differences between Member States, economic disparities in the Union are most evident at the regional level and, in particular, between the centre and the periphery. Income per head is below or well below average in all the southern peripheral Mediterranean regions, including southern Italy, as well as in those on the eastern and northern periphery — in eastern Germany and northern and eastern Finland — and on the north-western periphery, in Ireland and parts of the UK (Map 1). They are well above average in a cluster of regions in northern Italy, southern Germany and Austria with a second cluster in the Benelux countries and northern Germany.

Disparities can be demonstrated in a number of ways. For example, a simple comparison between regions with the highest and lowest levels of income per head (again measured by per capita GDP in purchasing power standards) reveals that, in 1993, the average level in Hamburg (D), the most prosperous region in the Union, was 4 times that in Açores or Alentejo (P) and in Guadeloupe (F).

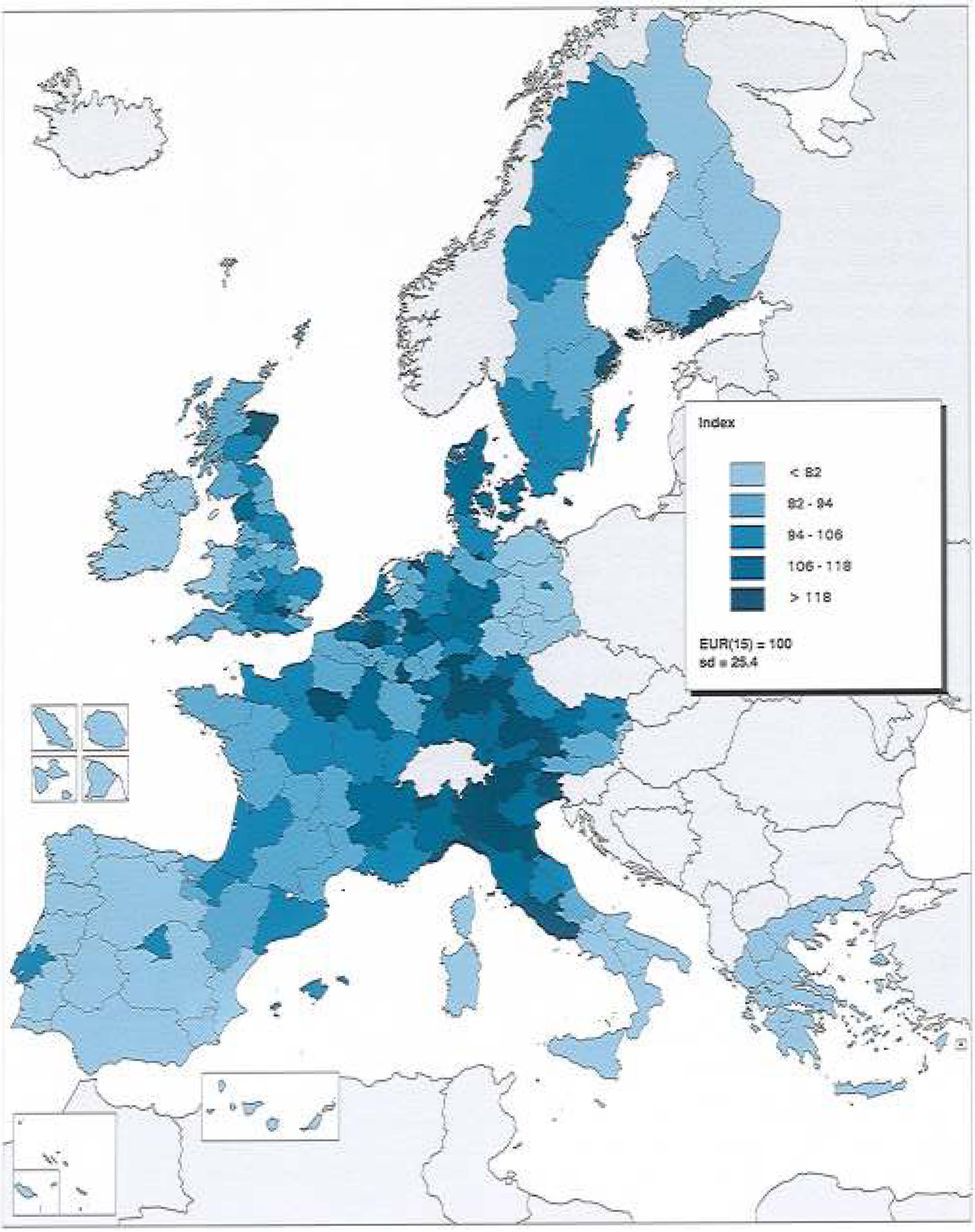
Taking more representative groups, a comparison of the 10 richest and the 10 poorest regions indicates that, in 1993, in the former, average GDP per head was some 3.3 times higher than that of the latter, though this was slightly less than a decade earlier when the figure was 3.5 (Table 5).

Over the 10 years 1983 to 1993, growth in GDP has varied markedly between regions (Map 2). The difference in GDP per head between the 10 richest regions and the EU average has widened while the gap between the 10 poorest and the average has narrowed at a slightly faster rate. Excluding the new German Länder, the regions making up the two groups remained remarkably similar over the 10-year period. The top 10 regions were exactly the same in 1993 as in 1983, though rankings changed within this group. Half of these are (West) German regions while the rest are made up of five northern capital city regions: Bruxelles, Île de France, Wien, Luxembourg and Greater London. The bottom group was dominated by the same group of Greek and Portuguese regions in 1993 as in 1983 together with the Départements d'Outre Mer (F). With German unification, however, one of the new Länder, Mecklenburg-Vorpommern, was included in this group in 1993, with three others being only just outside.

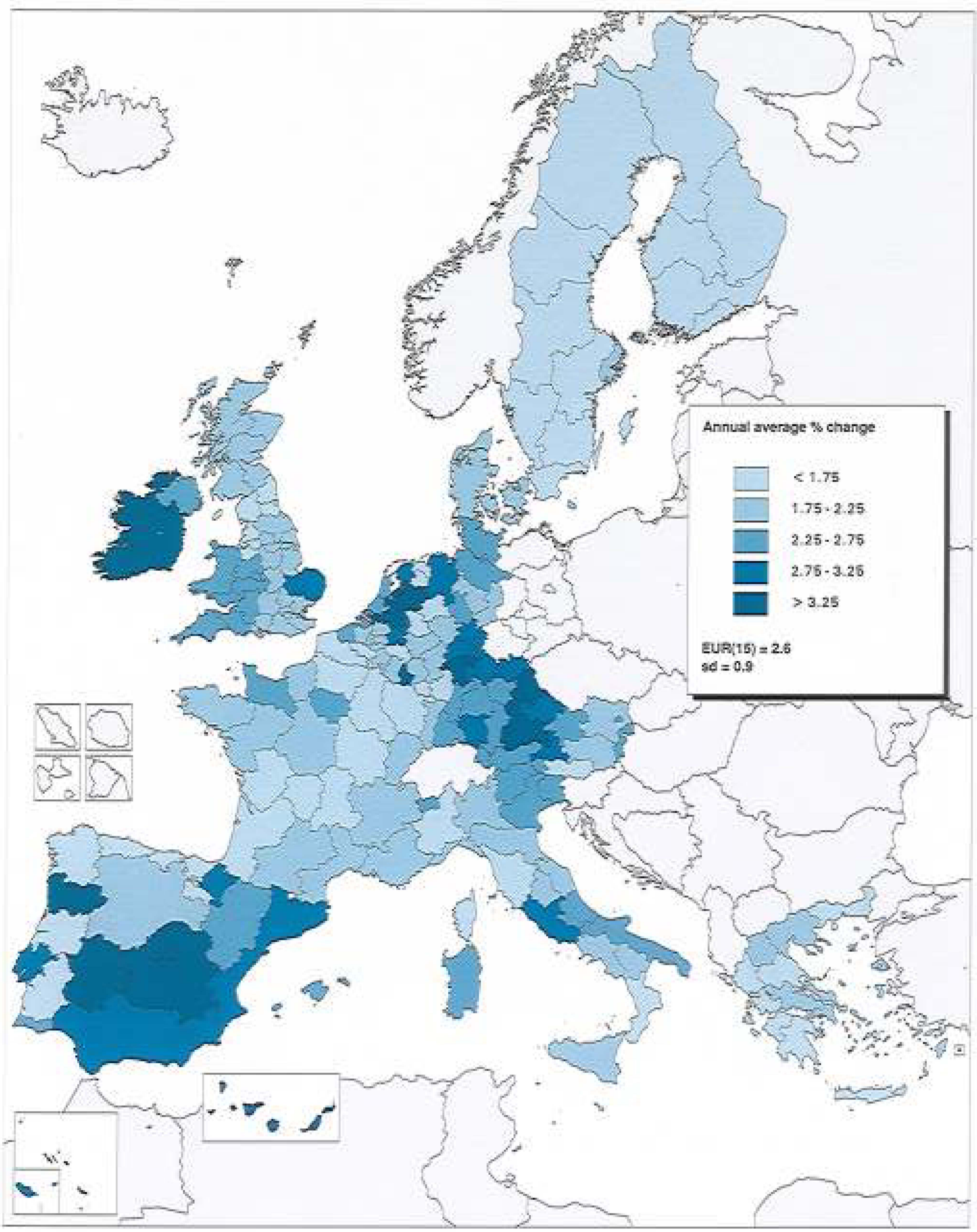
Enlarging the scope of the analysis to compare, for example, the top 25 and bottom 25 regions reveals a picture of relatively unchanging disparities over the 10 year period, but with more changes in the regions making up the groups.

The unchanging nature of regional disparities is confirmed by more formal statistical measures. For example, the average dispersion around the average, which provides summary information on differences between all regions and not just between the extremes, also shows little net change

Map 1
GDP per head by region (PPS), 1993



Map 2
Growth of GDP by region, 1983-93



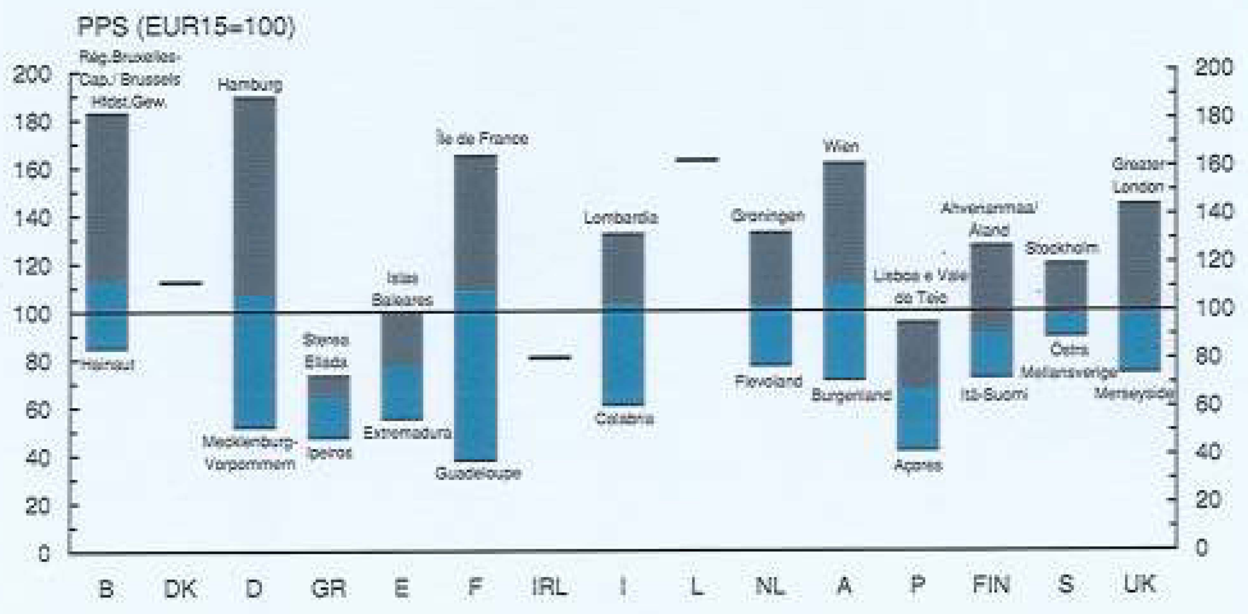
over the 10 years to 1993 (Graph 2). Though there was a slight widening of disparities during the relatively unfavourable economic climate of the early 1980s, this was gradually reversed during the period of recovery between 1985 and 1989. Disparities then widened again with the entry of the new German Länder into the Union before narrowing again to reach virtually the same level as in 1983. The average disparity in income per head in the EU is twice that in comparable regions in the US.

Growth of income per head has tended to vary between regions according to their degree of dependence on different sectors (Table 6). The regions most dependent on primary sector employment (mostly agriculture) — located in the four cohesion countries (Greece, Spain, Ireland and Portugal) and Finland — have GDP per head substantially below the level in the rest of the Union and have experienced slower than average growth, reflecting the trend decline in this sector over the long-term and the difficulties of diversifying economic activity in a rural context. The most industrial regions — half of which are in Germany and the rest in north-eastern Spain, northern France, northern Italy, Austria and central UK — have above average GDP per head and have grown at a rate only marginally below the EU average. Regions with a strong service sector have, on average, the highest level of GDP per head and have experienced a rate of growth of around the Union average. This group of regions contains the capital cities of all the Member States, except Lisbon (P), as well as regions in Belgium, the Netherlands and northern Germany.

Economic activity is strongly concentrated in the most urbanised areas of the Community. Regions with more than 500 inhabitants per square kilometre account for only 4% of the land area of the Union but for more than half the population. In 1993, their average GDP per head was 14% above the EU average. This implies that between two-thirds and three-quarters of the EU's total wealth creation occurs in urban areas — although, as described in the next section, inner city areas have some of the most serious social and economic problems in the Union.

The prosperity and growth of many large cities has given rise to a marked feature of development in a number of Member States in the form of significant differences in economic performance between certain regions, often including the capital city, and the rest. This has led to a widening of disparities in income per head, in particular, in Spain, Portugal and Greece in the South and Belgium and Germany (West) in the North (Table 7, Map 2).

4 GDP per head by Member State and regional extremes, 1993



In Spain, which is the fifth largest Member State in terms of population and the second biggest in land area, development has been particularly uneven. Growth has tended to occur most strongly in the industrial areas on the eastern coast as well as in certain central and southern regions. For example, the level of GDP per head in Valencia increased from 70% of the European average in 1983 to 75% in 1993, while in Asturias, it fell from 77% to 75%. Growth in the more favoured regions was especially strong at the end of the 1980s, before faltering in the recession of the 1990s.

Development has also been uneven in Portugal, where regions with two thirds of the population (Lisboa and Norte) saw their level of income per head rise by more than 10 percentage points relative to the European average in the 10 years 1983 to 1993, while in the other regions the relative level remained much the same. The most dramatic example of a growing city and a declining hinterland is in Portugal; GDP per head in Lisboa increased from 81% of the Union average in 1983 to 96% in 1993, while in neighbouring Alentejo, it fell from 48% to 42%. As a result of the growing prosperity of Lisboa, its GDP per head in 1993 was well over twice that of the Açores, the poorest region in Portugal (Graph 4).

Leaving aside France, where the DOM have a lower income per head than anywhere on the EU mainland and the smaller Member States, where capital cities have relatively high levels of income per head, internal disparities are particularly acute in Italy and Germany. In the former, income per head in the North is typically between 120% and 130% of the Union average compared to 60% to 90% in the regions in the South. For much of the 1980s, the disparities tended to widen even further, but then narrowed in the recession of the early 1990s which affected the South to a lesser degree. As a result, over the 10-year period as a whole, the pattern of regional disparities changed by less in Italy than in other Member States.

Many of the characteristics of a dual economy are also evident in Germany. The new Länder, however, are different from other parts of the Union, with structural problems characteristic of lagging regions in general, but also with problems inherited from the previous era of central planning and environmental neglect: outmoded infrastructure, environmental degradation and a lack of competitiveness in much of industry. In the year after unification, 1991, GDP per head was around a third of the EU average (but after substantial efforts at national level and with assistance from the Union, this is estimated to have risen to more than 50% in 1995).

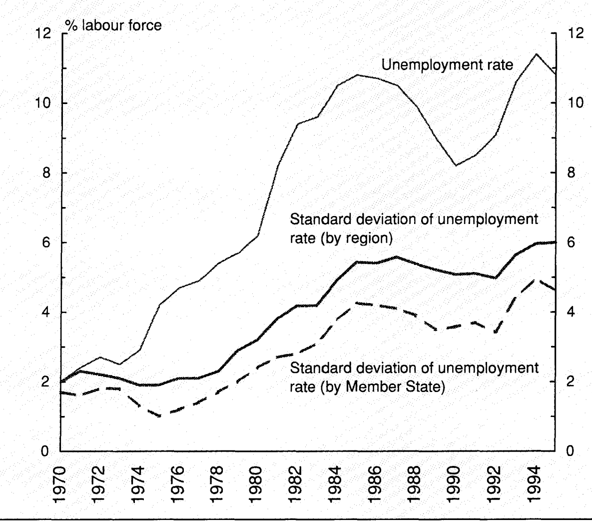
Employment and unemployment

The Union's unemployment problem is most acute at the regional and local level. The evidence confirms that it is in terms of unemployment that regional disparities are particularly acute and show little sign of narrowing.

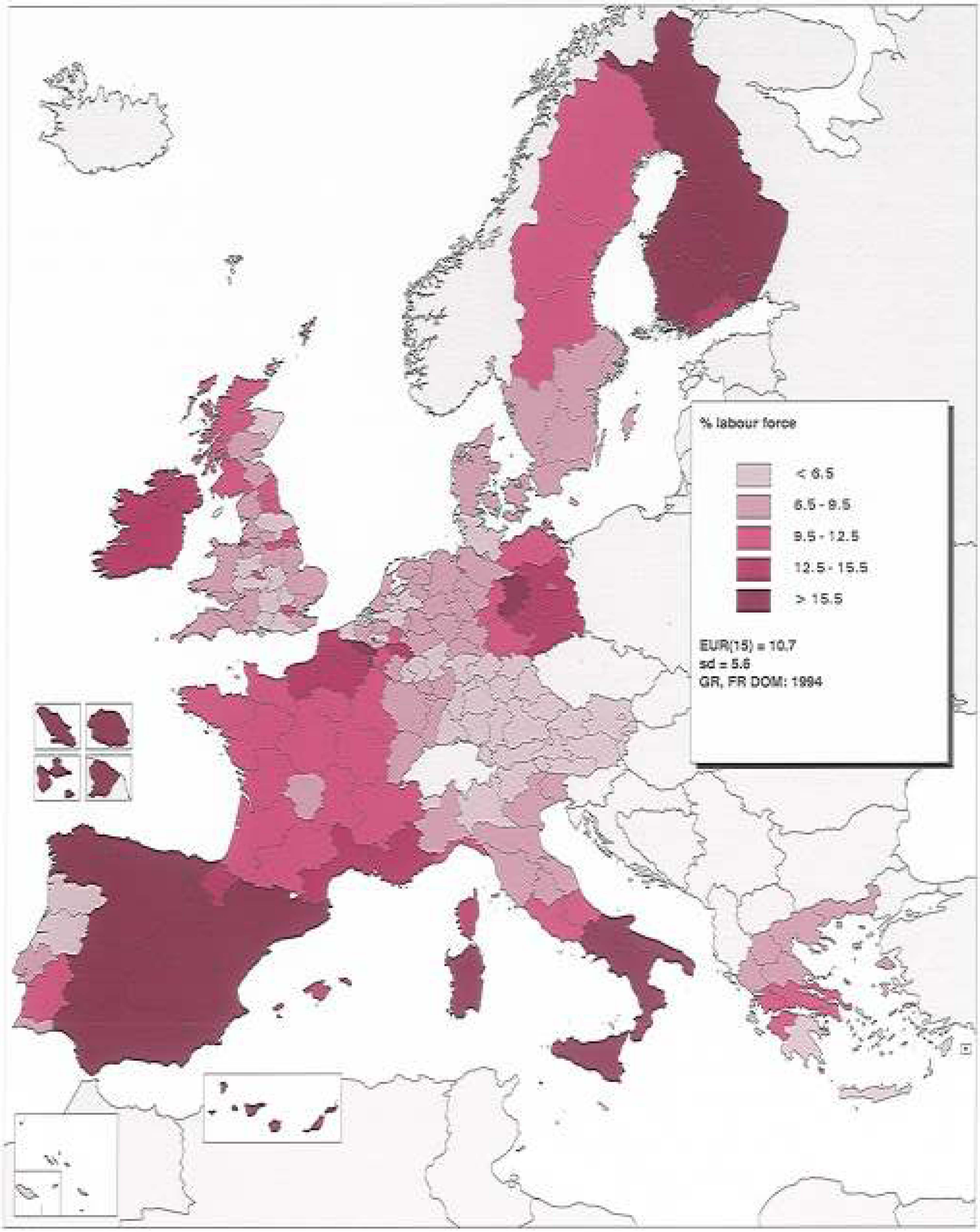
Comparisons of regions at opposite extremes serve to underline the scale of the disparities (Map 3). Thus, in the 10 worst-affected regions, the average unemployment rate was 26.4% in 1995 or nearly seven times the average rate (just under 4%) in the 10 least-affected regions. The 25 worst-affected regions had an unemployment rate averaging 22.4% in 1995, nearly five times the average for the 25 least-affected regions (4.6%).

The changes over time in these groups of regions are revealing (Map 4). For both the group of 10 and the group of 25 least-affected regions the average unemployment rate was virtually the same in the mid-1990s as it had been a decade earlier. But for the group of 10 and the group of 25 worst-affected regions, the picture is quite different. For the former, the average unemployment rate increased significantly over the 10 years, from 19.4% in 1983 to 26.4% in 1995, an

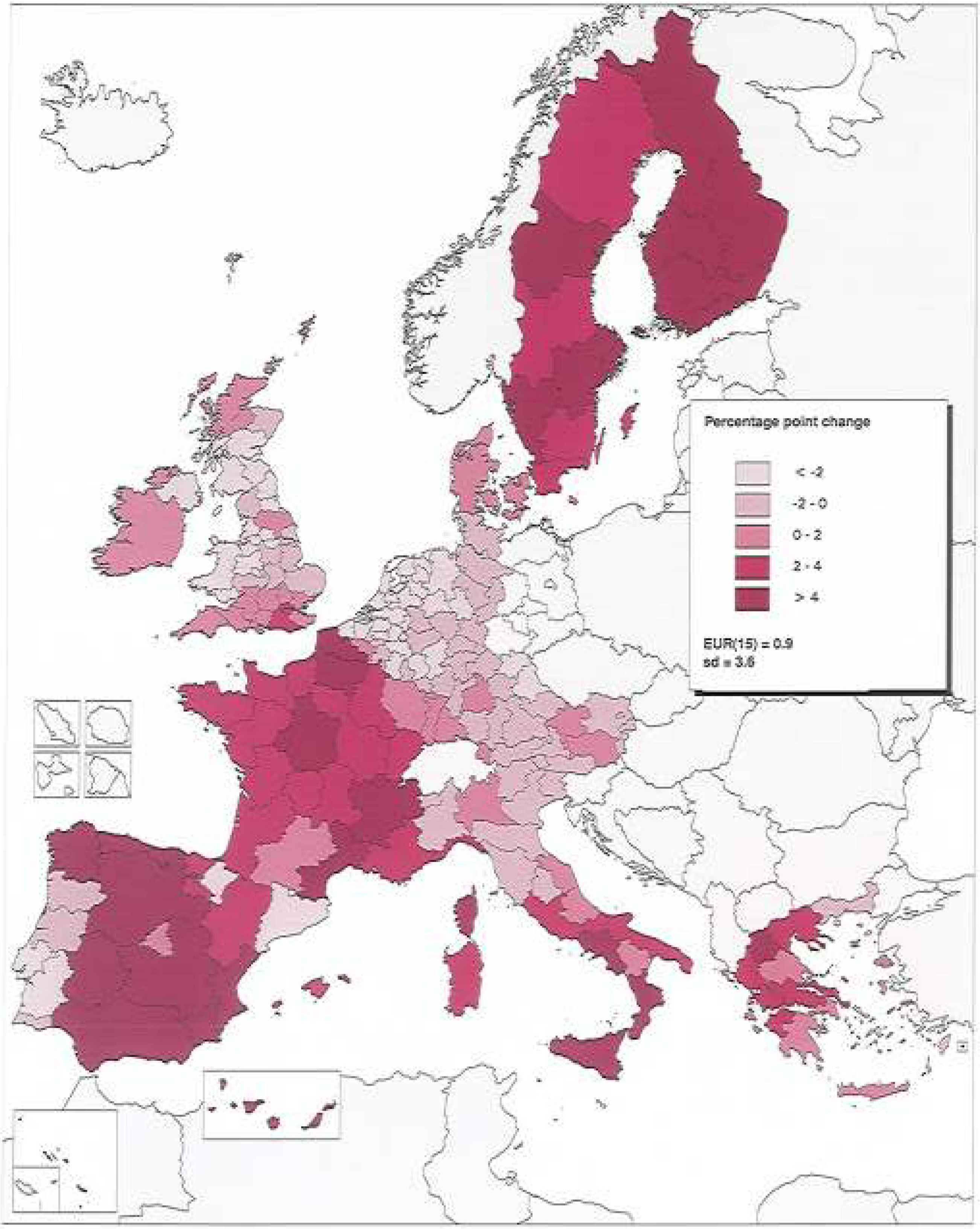
5 Disparities in unemployment, 1970-95



Map 3
Unemployment rates by region, 1995



Map 4
Change in unemployment by region, 1983-93



increase of 7 percentage points. For the latter group, the increase was 5 percentage points.

The tendency for disparities in unemployment to widen over time is confirmed by the summary statistics for all regions (Graph 5). The long-term trend for regional differences to increase, which dates back to the mid-1970s, was interrupted by the economic upturn between 1987 and 1990. The subsequent recession led to unemployment increasing throughout Europe and was associated with a substantial widening of disparities which continued into 1995.

However, the regions worst-affected by unemployment today are not always the same as 10 years ago. The major change which has occurred is that many old industrial regions of the UK which featured among the 25 worst-affected regions a decade ago have been replaced by regions in southern Italy. Spanish regions are the constant feature of this group throughout the period. With the enlargements of the first half of the 1990s, a number of regions in eastern Germany and Finland joined the group.

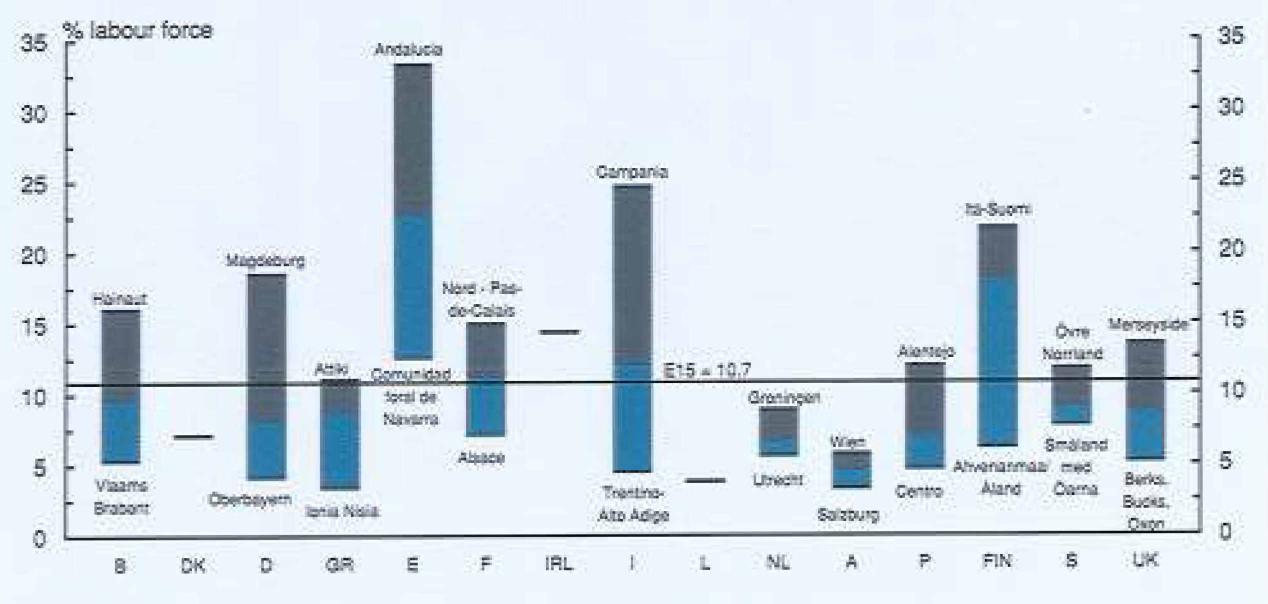
A growing phenomenon is that of urban unemployment, which tends to show itself in particular parts of cities rather than across cities as a whole. The co-existence of areas with high added value activities and high income residents alongside areas with low incomes, high unemployment, high dependence on welfare benefits and overcrowded and poor housing has become increasingly common throughout Europe. For such small — if populous — areas, few comparable statistics are available at the European level to capture the underlying realities, but national sources point to unemployment rates of 30% and more — and occasionally as high as 50% — in some districts:

Unemployment in 49 districts with an EU URBAN programme

Unempl. (%)	<15	15-20	20-25	25-30	30+
No. of cities	5	10	10	9	15

At the broader regional level, there are often significant differences in unemployment rates *within* Member States (Graph 6). The variation in rates in Spain, Italy and Germany is considerable. In 1995, the worst affected region in Spain (Andalucia) had an unemployment rate of close to 35% and the least affected region (Navarra) one of around 13%. In Italy, the difference between the most and the least affected region was some 20 percentage points and in Germany, around 15 percentage points. High average rates of unemployment also exist in some capital cities despite their high income per head, prime examples being Brussels, Berlin and London. In general, as for regional GDP per head, the disparities in unemployment rates within most Member States have tended to widen over time (Table 8).

6 Unemployment rates by Member State and regional extremes, 1995



The pattern of employment growth at the regional level in the EU has also been mixed (Map 5). The regions with the highest rate of net job creation in the period 1983 to 1993 were located in the Netherlands, Germany, Luxembourg and the UK in the North and in eastern Greece, Spain and northern Portugal in the South. For a large number of regions — nearly 60 at the NUTS 2 level, or around 30% of the total — there was no change in employment or a fall over this period. Among those with the poorest record are many Nordic regions in Finland and Sweden, as well as a diverse group including old industrial regions in the UK (Merseyside, South Yorkshire and West Midlands), France (Lorraine and Nord-Pas de Calais), Spain (Galicia and Asturias) and rural or less developed regions such as Dytiki Ellada (GR), Auvergne, Limousin and Poitou-Charentes (FR) and Basilicata (IT).

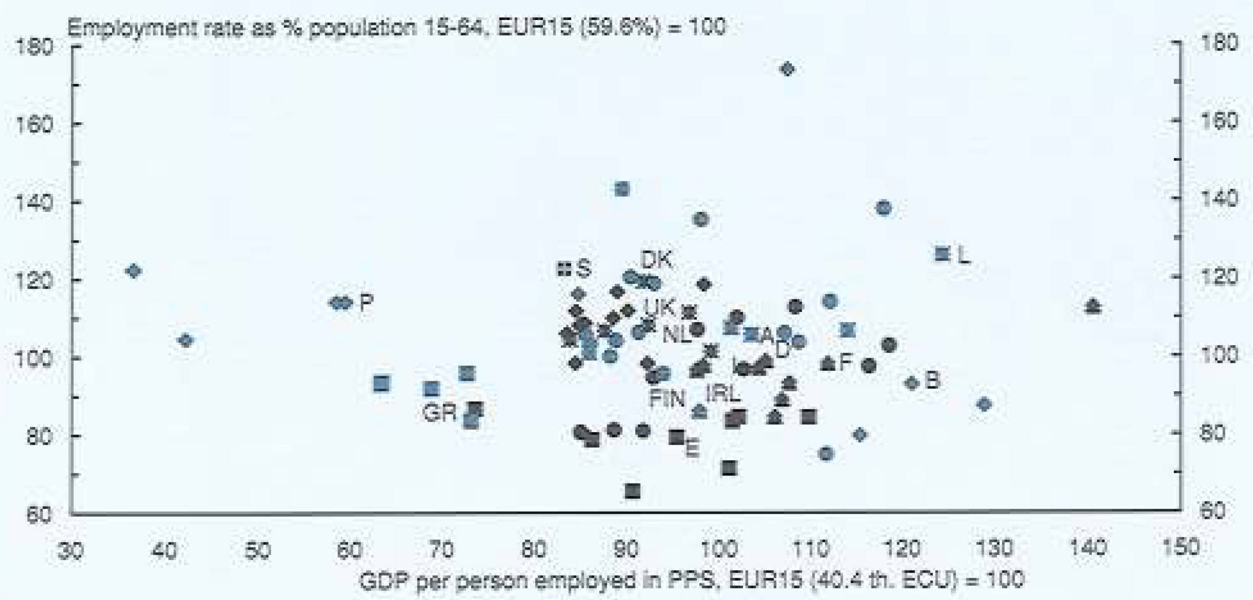
Similarly, the distribution of employment between sectors of activity differs widely across the Union (Maps 6 to 8). Typically, northern regions have the highest concentration of activity in the service sector while Greece and Portugal, and to a lesser extent, Spain and Ireland, lag substantially behind. The exception to this pattern is Germany where employment in industry remains particularly high.

As expected, there are strong concentrations of service employment in the large urban centres and capital cities in all Member States, including Athens and Madrid. At the same time, there are still many regions in the Union where the employment structure remains very traditional, with over a quarter of total employment in agriculture in parts of Greece, southern Spain, Portugal and southern Italy.

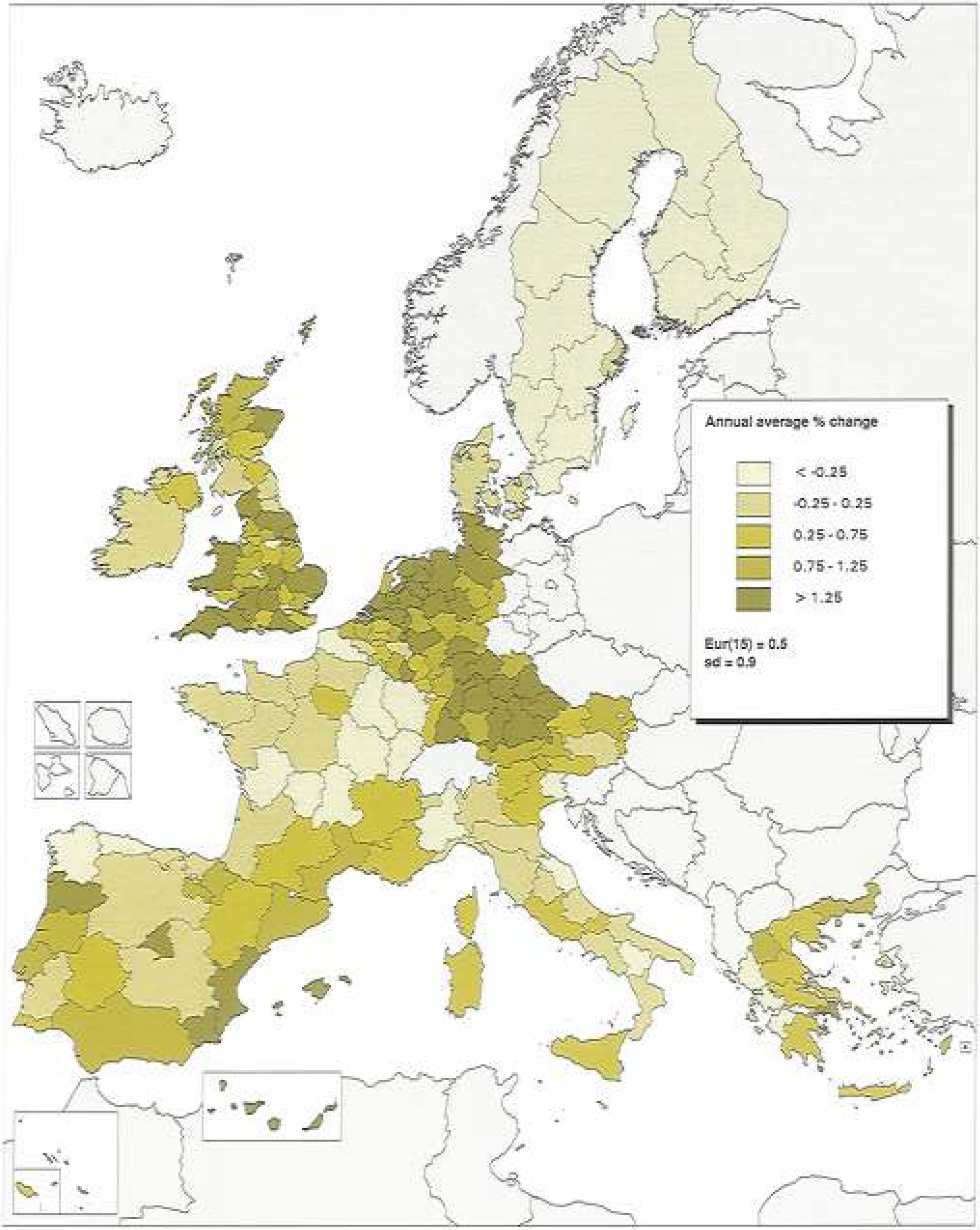
As noted in the previous section, regional dependence on different sectors has an important bearing on performance. The regions most dependent on the primary sector have unemployment rates well above the EU average, which is largely explained by the presence in this group of many Spanish and southern Italian regions. Largely unchanged levels of employment have meant that unemployment rates have also risen over time at a rate significantly above the Union average, as the numbers looking to work have increased. The consolidation of farm holdings in the agricultural sector has continued with the estimated loss of 800 thousand units, 9% of the total, between 1989/90 and 1993, and it has been estimated that, in 1993, agriculture provided full-time employment for only a quarter of those working in the sector.

Unemployment rates are below the EU average in regions most heavily dependent on industry and have fallen over time — except in the French and Austrian areas — partly as a result of employment growth above the EU average. The regions most dependent

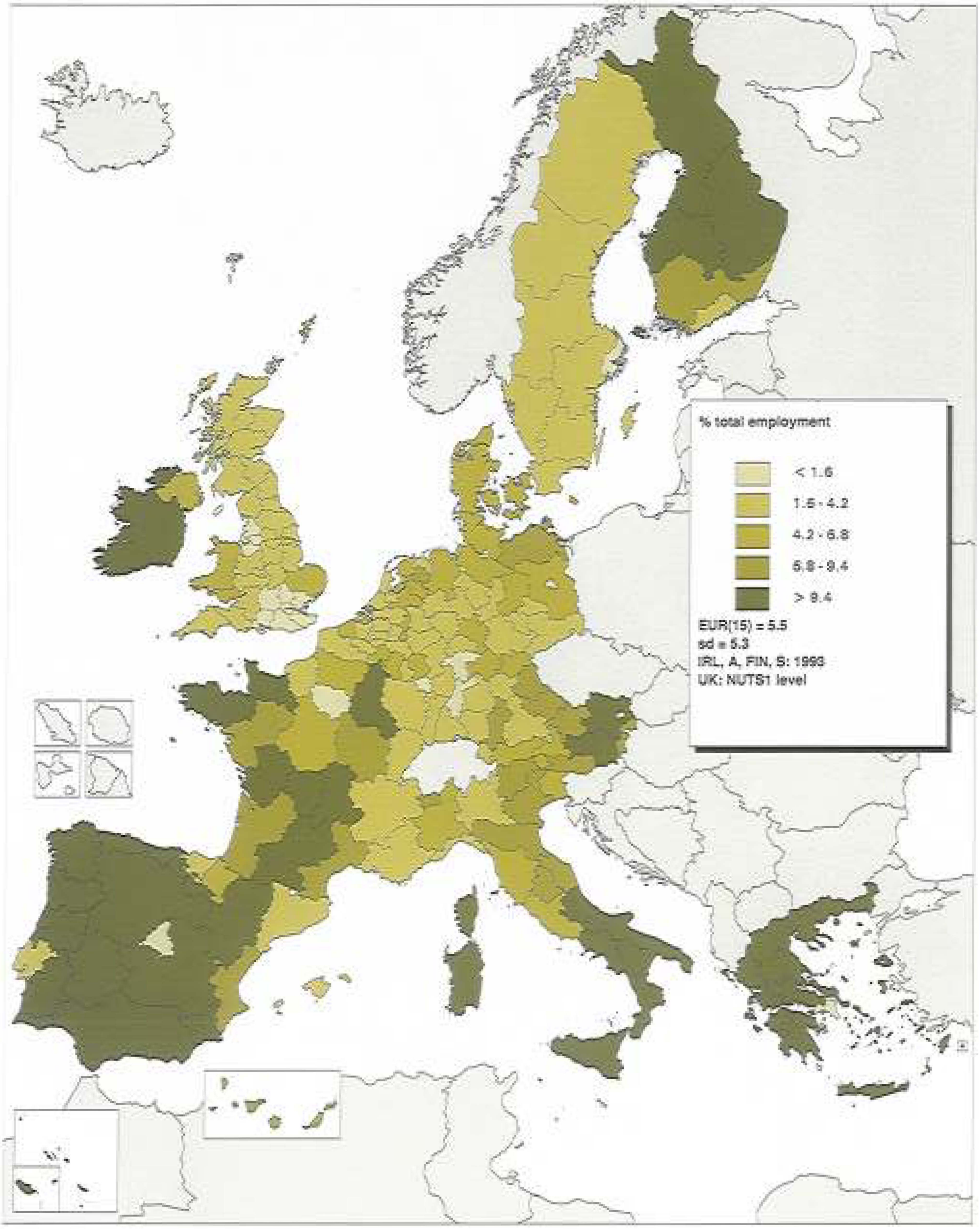
7 Employment rates and productivity in NUTS 1 regions, 1993



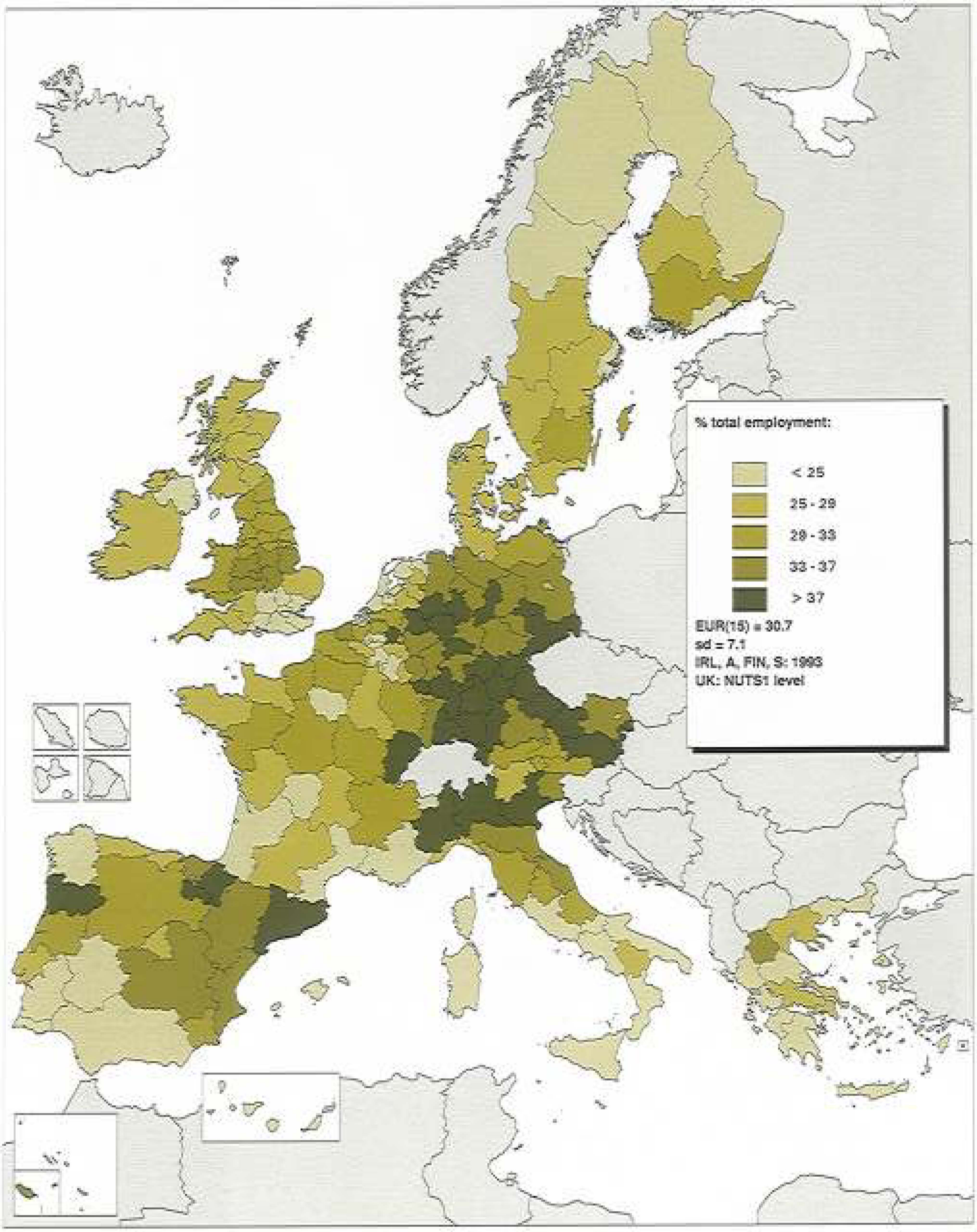
Map 5
Change in employment by region, 1983-93



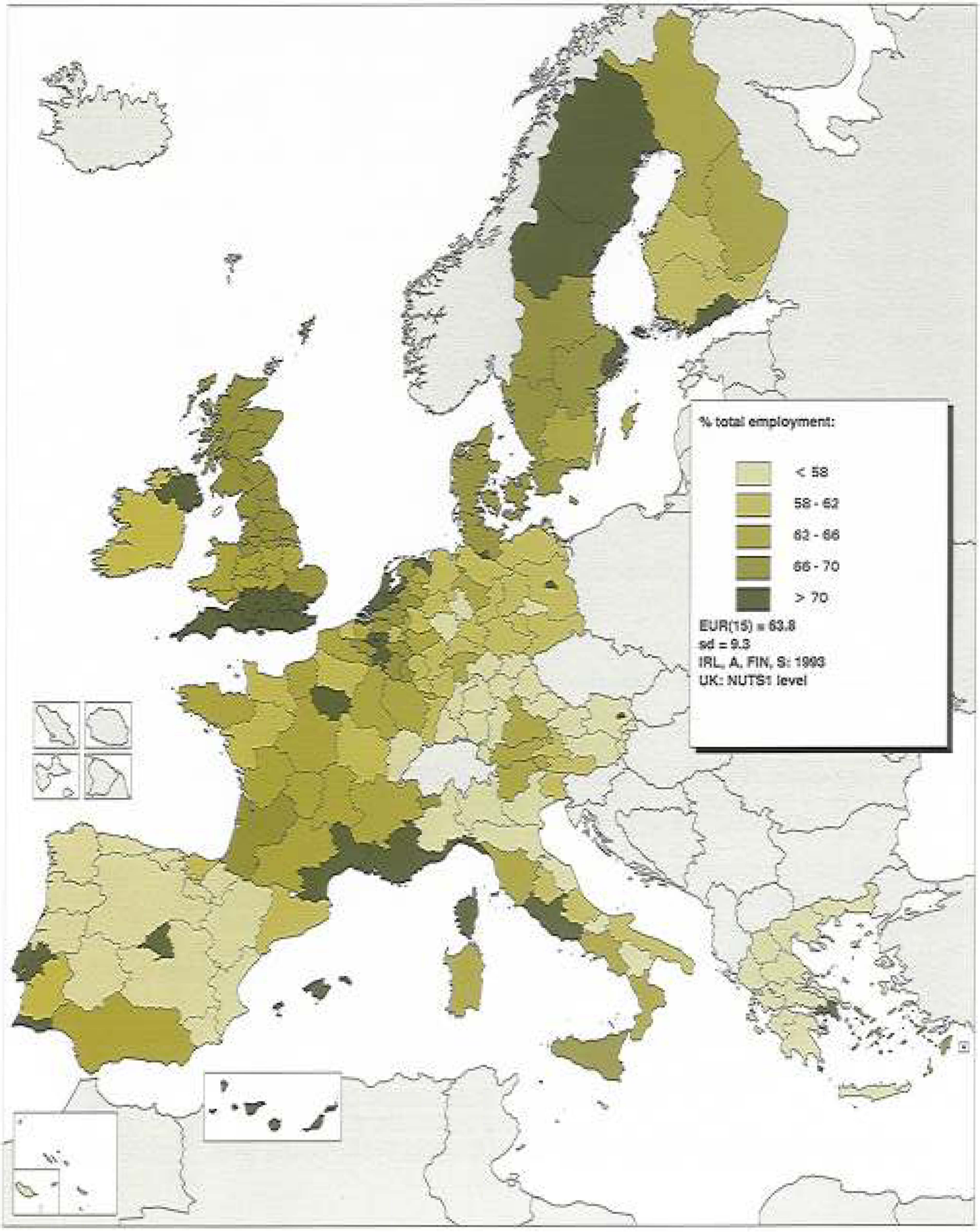
Map 6
Employment in agriculture by region, 1994



Map 7
Employment in industry by region, 1994



Map 8
Employment in services by region, 1994



on the service sector have higher unemployment rates on average than the industrial regions but still below the EU average.

The components of geographical disparities

An insight into the underlying causes of regional disparities in income per head can be obtained by dividing this into two components: productivity (GDP per person employed) and the number employed in relation to population. GDP per head is the product of these two factors. It is informative to examine the degree to which the income disparities described above are attributable to one or other of these two magnitudes — whether, for example, a Member State or region has high GDP per head because it has a high level of productivity or a high proportion of its population in employment.

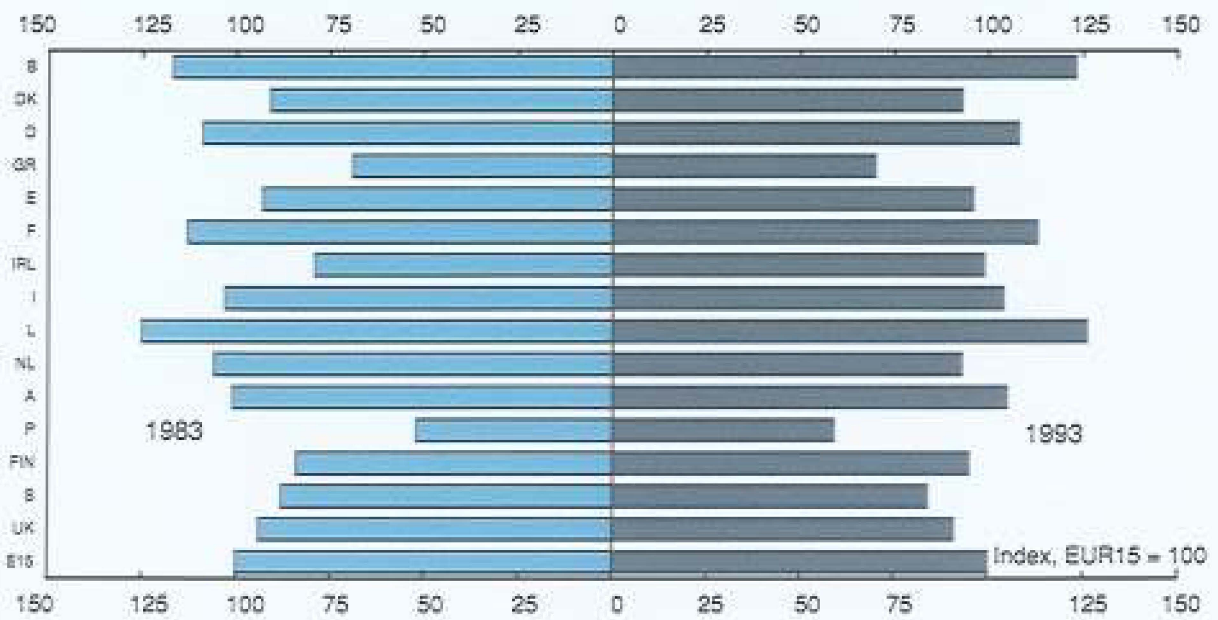
In order to visualise simultaneously the relative roles of variations in productivity, on the one hand, and employment, on the other, information for each has been set out in a graph (Graph 7). This shows how the different Member States and regions (at NUTS 1 level) compare to the EU average. The results are revealing. They show that Member States have widely different combinations of productivity performance and employment levels, even where their final GDP per head is similar. The variations are even more marked between regions.

Among the three most prosperous Member States, for example, high income per head in Belgium is attributable to relatively high productivity, while in Denmark it is due to a high proportion of population in employment (a Nordic characteristic in general, although less so today in Finland). In Austria, the third Member State in this group, high income per head results from a more equal contribution from both components.

Three of the four large Member States (Germany, France and Italy) are clustered comparatively closely together, while the fourth large country, the UK, has lower productivity and a higher employment level than the rest. These Member States are characterised by wide internal variations, especially Germany and Italy. In these two countries, Italy in particular, regions tend to be at one or other of the extremes, with either a combination of low productivity and low employment or high productivity and high employment. This underlines the extent to which these countries exhibit the characteristics of dual economies.

The graph also shows a cluster of regions centred in Germany, northern Italy and Austria where relatively high productivity and employment levels are com-

8 GDP per person employed in the Union, 1983 and 1993

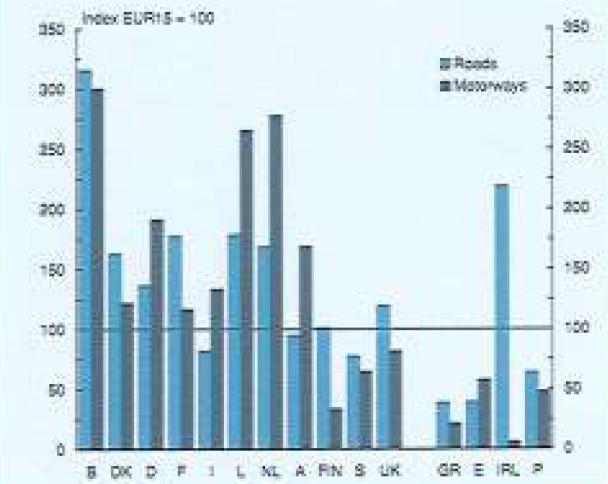


bined. This is a practical illustration that high productivity — or low labour intensive methods of production — can be combined with high employment. As discussed elsewhere, in a dynamic framework it requires a flexible, adaptable and innovative economy capable of generating new opportunities to replace those made obsolete for technological or other reasons.

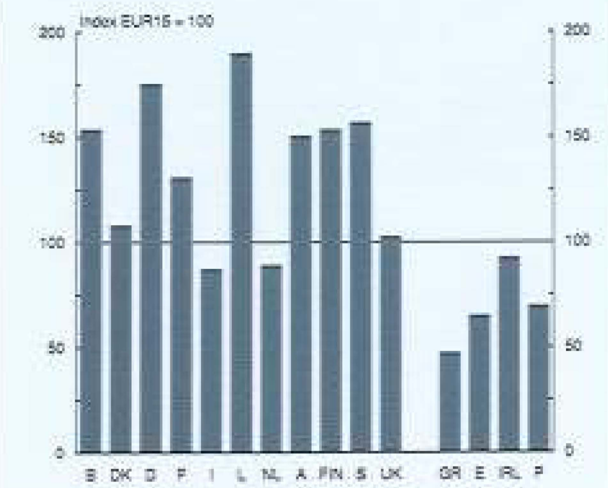
The situation in the four cohesion countries is of particular interest. In practice, there are almost as many differences as similarities between them. Ireland and Spain are relatively similar, both having a level of productivity which is now close to the EU average combined with a low level of employment. Greece and Portugal have a productivity level significantly below the average, but in Portugal employment is above average. In Spain, the largest of the countries, the internal variations are considerable especially as regards productivity (which is above the EU average in the East and North-east and in the capital, Madrid).

For all of the cohesion countries (and to a lesser extent for Finland) the challenge is generally one of seeking to improve both productivity and the numbers in employment. Not only will this increase income per head but it will also tend to reduce the numbers of unemployed (or will provide employment for discouraged workers who are now economically inactive). The emphasis needs to be different in different Member States and regions within the group. For Ireland and Spain, productivity has already converged to the EU average (Graph 8 and Map 9), so that the main challenge for the future is the generation of jobs. Both countries are characterised by high unemployment, as noted above, and also have relatively low rates of female participation in the labour force. For Portugal, where employment is generally high, the challenge is to increase productivity, and income per head, while avoiding substantial rises in unemployment as the necessary structural changes take place. In Greece as well as some Spanish regions (and others in southern Italy), the challenges are generally more serious, involving progress on both productivity and employment fronts simultaneously. This is an extremely difficult — and long-term

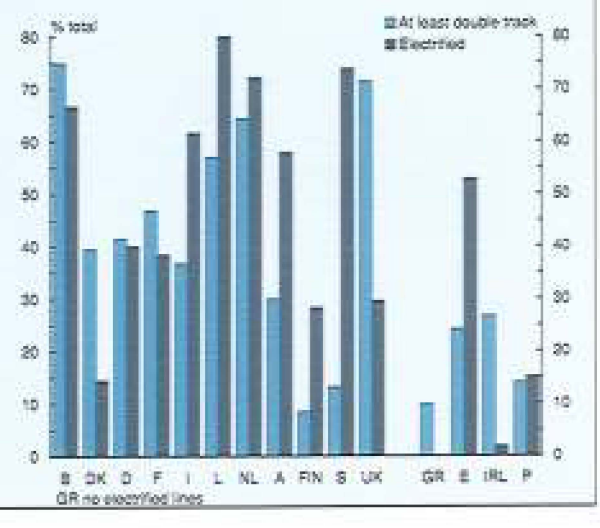
9 Composite index of length of roads and motorways, 1992



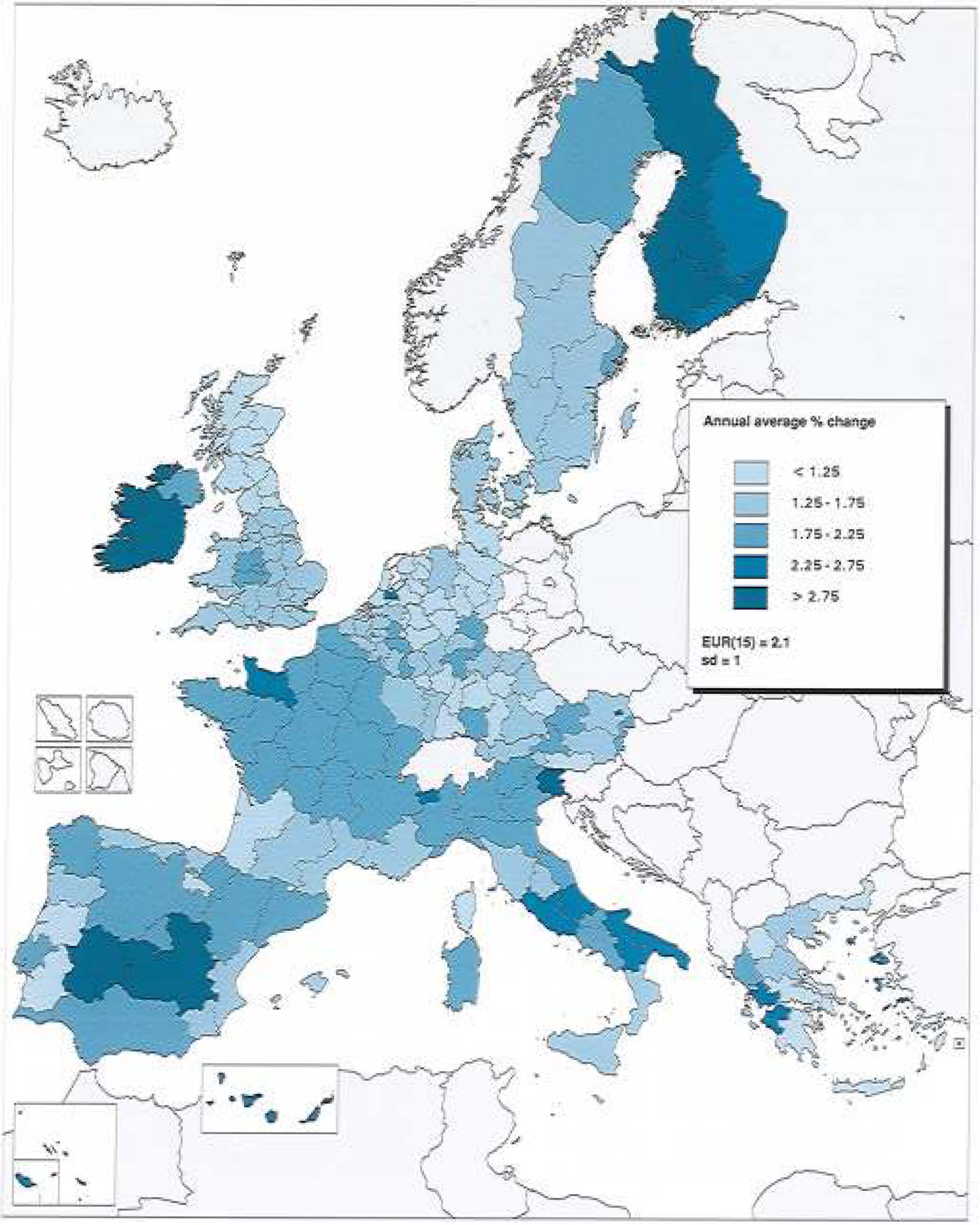
10 Composite index of length of railways, 1992



11 State of the railways, 1992



Map 9
Growth in GDP per person employed by region, 1983-93



— task, but one of the messages of the preceding analysis is that it is not an impossible one.

Underlying the productivity gaps are significant differences between different parts of the Union in the conditions for production. In particular, the economically stronger and more prosperous parts of the EU are generally more richly endowed with modern communication infrastructure, a skilled and qualified labour force and the capacity for advanced research and development.

The gaps in infrastructure can be seen in the differences in systems of transport, in road and rail networks. In the South of the Union and Ireland, the provision of motorways — which are particularly important for the transport of both passengers and freight — is 50% or less of the EU average (Graph 9). Railway networks are also less extensive in the South although the disparity is not so great as for roads, but the gap widens once the degree of modernisation is taken into account (Graphs 10 and 11).

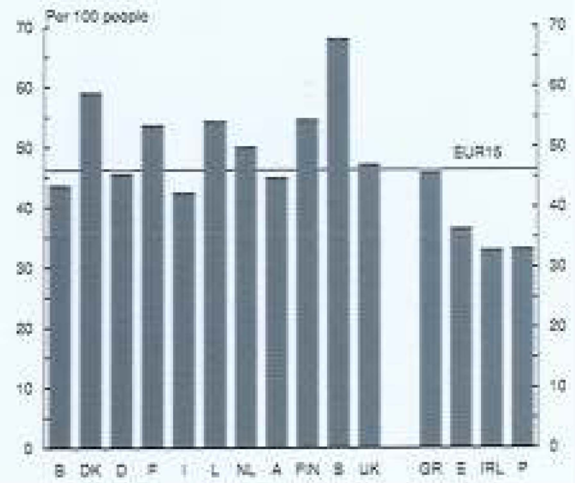
Telecommunication links are a prerequisite for the growth of modern industries and services which need efficient telephone, fax and, increasingly, digital data transmission systems. Telecommunication networks in the Union are developing rapidly, but major variations remain in the level of provision. Typically the poorest parts of the Union score less well with regard to the availability of telephone lines (Graph 12), but as a result of the more recent development of their systems, better in relation to the provision of modern digital networks (Graph 13).

It is increasingly recognised that the competitiveness of regions is dependent on the know-how and skills of their people. In modern industrial economies, most employment does not depend on low-skill mass production. Rather, employment is increasingly concentrated in smaller enterprises, where the capacity to innovate is often essential and where the need for a trained and adaptable work force is correspondingly greater. Skills are also at a premium in the public and private provision of many business, social and personal services which together account for some 64% of total employment in the EU.

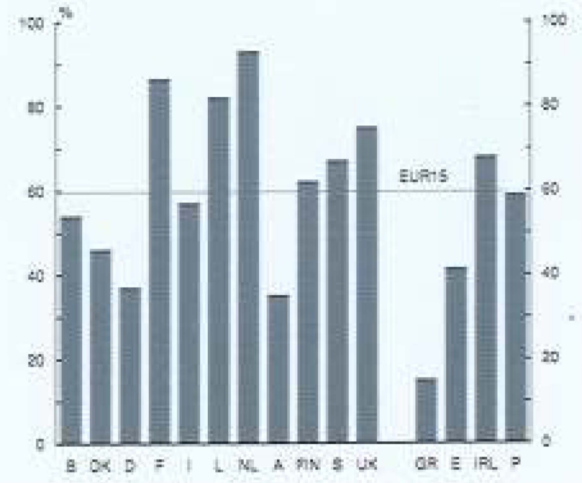
While progress has been rapid over recent years, more remains to be done to develop the potential of Europe's work force especially — but not exclusively — in the poorer regions. In the latter, the weight of the past is particularly important so that today a large proportion of the adult labour force has not proceeded beyond basic schooling, ranging from 45% in Ireland to almost three-quarters of the total in Portugal compared to 36% in the Union as a whole (Graph 14). Virtually all young people in the Union are in school to at least the age of 15 and almost all remain in education to 18 in many Member States (Graph 15). But more needs to be done to improve the higher education and vocational training of these to equip them for an increasingly competitive marketplace.

The availability of specialist skills is important for innovation and the development of Research and Technological Development capacities. The proportion of employment in RTD in the South and in Ireland

12 Number of main telephone lines, 1993



13 Main telephone lines connected to digital exchanges, 1993



is generally around a half that in the more prosperous Member States (Graph 16), and the overall investment in RTD is correspondingly low — for example, Germany invests 5 times more than Greece in relation to GDP (Graph 17).

2.2 Social Cohesion

Previous sections have been concerned in part with the spatial dimension of labour market problems and the implications of regional disparities in unemployment for economic and social cohesion. This section focuses more explicitly on social cohesion through an investigation of trends in two key areas affecting the well-being not just of different social groups but of European society as a whole:

- the access of individuals to income generating activities. This aspect can be best understood in terms of developments in the labour market, not just of levels of unemployment but also levels of participation and access to job opportunities;

- the distribution of household incomes net of transfers after tax, where, in terms of social cohesion, indicators of the incidence of poverty are particularly relevant.

These are matters of concern to all Member States in the Union and to their policies for social integration and solidarity. They represent two defining elements of the European model of society. Given the general difficulty in defining social cohesion, as discussed in chapter 1 above, for operational purposes any narrowing of differences in individual access to employment and a reduction in poverty can be regarded as signifying an improvement in social cohesion.

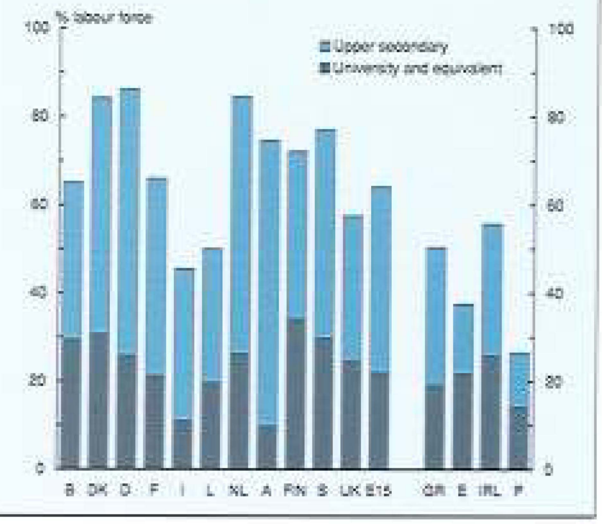
Access to employment opportunities

Changing patterns of employment

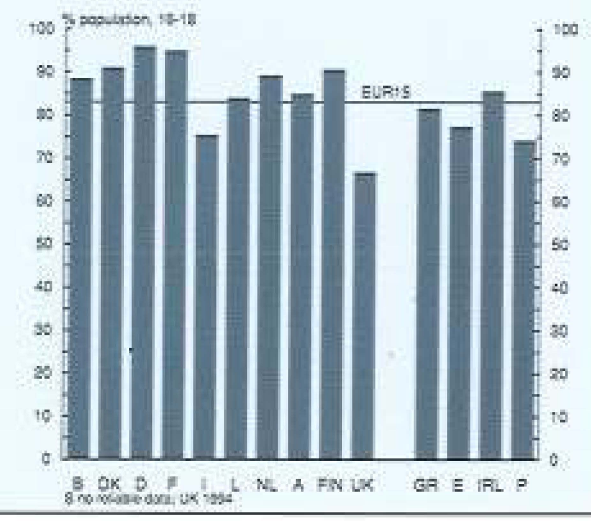
There have been fundamental changes in the global economy over the past two decades which have had far-reaching consequences for the pattern of employment in Europe and elsewhere. The most obvious long-term employment developments in Europe are an expansion of employment in services coupled with declining employment in agriculture and manufacturing, a growth of part-time jobs, filled predominantly by women, and a shift in the occupational structure of the work force towards those with high educational and technical qualifications and knowledge-based skills.

The expansion of service employment, associated both with increasing demand for services as real incomes rise and the more labour-intensive nature of service activities, is a feature of all advanced economies and shows little sign of abating. In 1995, 64% of employment in the Union was in services as against 57% 10 years earlier, while only 31% was in industry.

14 Educational attainment of labour force, 25-59 year olds, 1995



15 Participation in education, 16-18 year olds, 1995



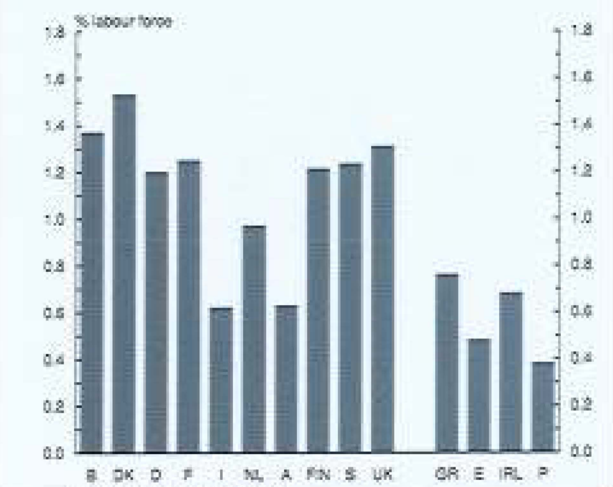
This, however, still leaves a gap between Europe and the US, where 73% of employment was in services in the same year and where some 22 million additional jobs in this sector were created between 1980 and 1993. This is not so many more than were created in services in the European Union over the same period — around 18 million — but the big difference is that in the US this was coupled with a increase in total employment of 20 million, in Europe of only 5 million. Whereas Europe lost 5 million jobs in agriculture and 8 million in industry, losses in the US in these two sectors together totalled only 2 million between them.

Differences between Member States in the distribution of employment between sectors have narrowed considerably. Over the Union as a whole, there has been a decline in the share of employment in agriculture, a large decline in the share of industry and a rise in services (see Table 10 in the Annex which shows sectoral shares for the years 1983 and 1993 comparing the cohesion countries with five other Member States — Belgium, Germany, France, the Netherlands and the UK). In the cohesion countries, there was a dramatic fall in agricultural employment (the decline in share ranging from 6 percentage points in Ireland to 8–9 percentage points in Greece and Spain and to 13 percentage points in Portugal). In effect, the structure of employment in the cohesion countries appears to be converging towards that in the more 'mature' economies in the North of the Union in which employment in agriculture has declined to very low levels, while dependence on the service sector for jobs has grown considerably. The increase in employment in services in the cohesion countries ranged from 6 to 15 percentage points while in the rest of the Union, it was around 7 percentage points. In effect, in the former, the average share of service employment is similar to that in the rest of the Union 10 years ago. Large numbers of people remain employed in agriculture in the cohesion countries, and it seems likely that further restructuring will take the form of a direct shift from agriculture to services, missing out the intervening step of a shift to industry first.

Many of the additional jobs created in Europe in services were part-time, most of them taken by women. Whereas the number of full-time jobs in the Union declined markedly during the recession years 1990 to 1994, the number of part-time jobs increased by around 3% a year. In the majority of Member States, all or nearly all the extra jobs for women over this period were part-time. By 1995, over 31% of women in employment worked part-time, 67% in the Netherlands, 45% in the UK and 43% in Sweden, a higher proportion than in the US (28%). By contrast, part-time working remains on a relatively small scale in the four Southern European countries, though, apart from in Greece, it is tending to increase significantly. The corollary of the expansion of service employment and part-time working is the significant growth in the importance of women in the labour force.

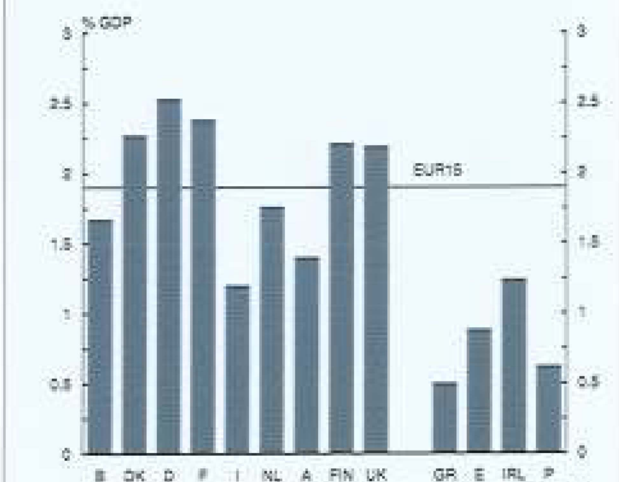
While many of the women joining the labour force went into comparatively low skilled jobs in services, there was also a marked growth in jobs demanding

16 RTD personnel in the Union, 1993



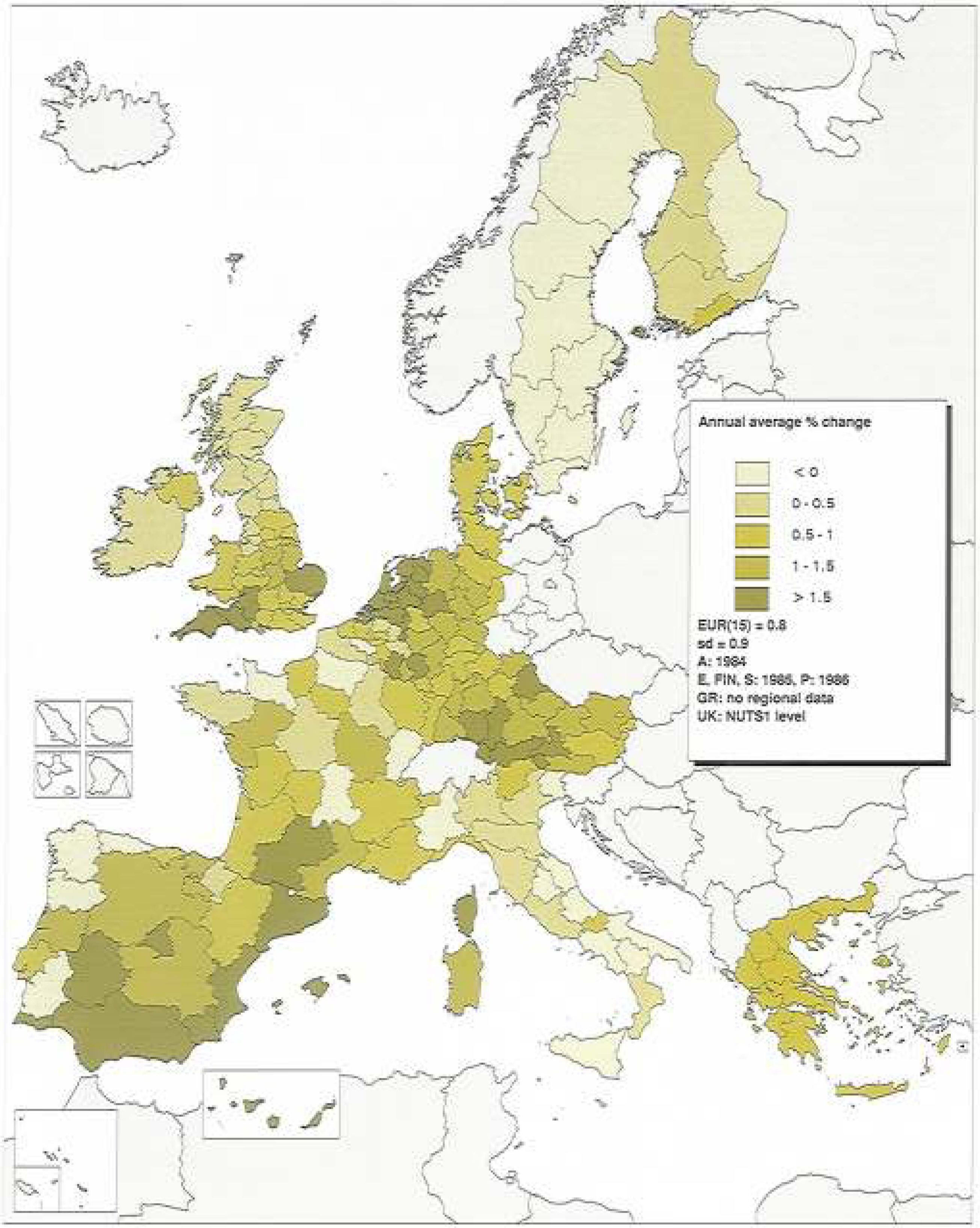
L no data: B 1991; FIN, P 1992

17 Gross expenditure on research and development in the 1990s

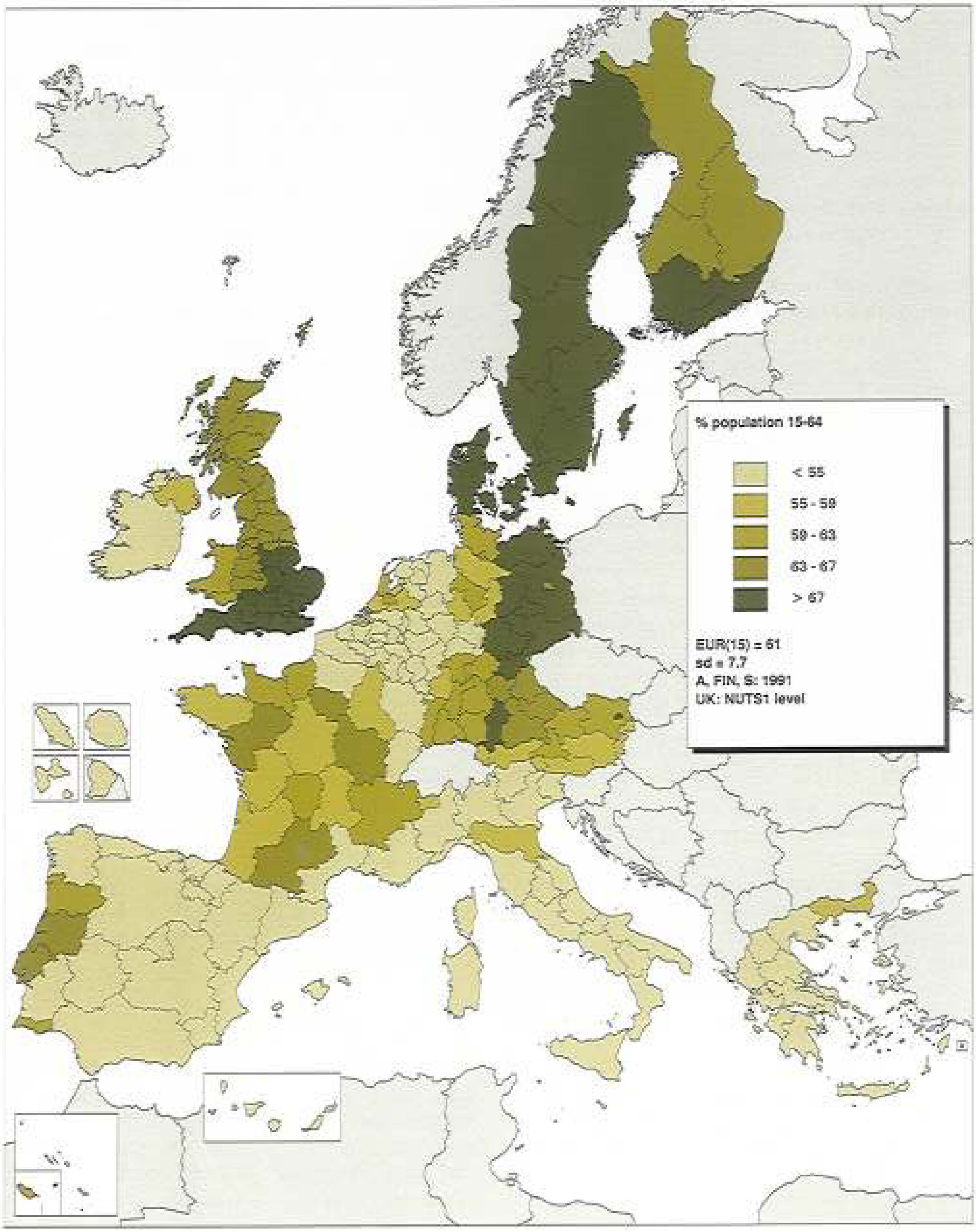


L S no data: B 1991; P 1992; DK, GR, E, IRL, I, NL, A, FIN 1993; F, UK 1994; D 1995

Map 10
Change in labour force by region, 1983-93



Map 11
Labour force participation of women by region, 1993



high skills and high education levels. Between 1983 and 1991, the employment of those classified as technical and professional workers expanded by 2% a year across the Union, twice the rate of growth of total employment, while the number of manual workers declined. The former continued to increase despite the recession in the first half of the 1990s while the number of manual workers fell markedly.

Non-manual jobs in services filled largely by women have expanded, while manual jobs largely filled by men in industry and agriculture have contracted. Nevertheless, over the long-term, it is the higher skilled jobs which offer the surest prospect of growth for both men and women.

The effects of the changes: participation in the labour force

The changes in the global pattern of employment have been a factor in the different experiences of different social groups. One of the most striking changes has been the increase in the number of women working, up by over 6 million over the last 10 years. But this was 1 million less than the increase in the number of women joining the labour force, so that female unemployment has also risen.

The increased participation of women in the work force has been a major factor, of more importance than differences in demographic trends, underlying the differential rate of labour force growth across the Union over the past decade or so (Map 10).

There have been other differences, notably among those under 25 and those in their 50s and older.

The proportion of young people in the labour force and employment has declined over a number of years as more have remained longer in education and initial vocational training. However, in three of the poorer Member States (Spain, Ireland and Greece) the number of young people looking for work has not fallen as fast as the fall in employment resulting in an increase in unemployment, among young women more than young men.

For the so-called prime-aged population (aged 25–54), the striking feature is the difference between the sexes. For men, participation rates are similar in the North and the South, though they have declined over time everywhere, though less in Greece and Portugal than in other Member States. For women, participation rates are much lower in the South, except in Portugal, and in Ireland. though they have risen markedly over the past 10–15 years, converging gradually towards those in the rest of the Union. This is especially true in Ireland and Spain where participation rates of women aged 25 to 54 have increased by over 10 percentage points over the past decade. While this has had the positive result of promoting the greater integration of women into the labour market, it has added to the challenge of reducing unemployment especially in these two countries. It is likely, moreover, to continue to add to the challenge in the future since rates of participation of women still tend to be much lower in most of the less prosperous regions of the Union than in other parts (Map 11).

There is a general tendency for people to remain longer in the work force in the poorer Member States than in the North resulting in higher employment and participation rates among the over 55s. This is especially true for men, although in both North and South rates of participation and employment are falling as a result of earlier retirement, linked to the lack of job opportunities for them combined with the more widespread availability of pension and disability insurance schemes.

In sum, while it is difficult to draw general conclusions on the trends of disparities between social groups on the labour market, one result appears to be that participation and employment patterns in the poorest countries are converging towards those in the more prosperous Member States.

Unemployment

Different social groups are affected differentially by unemployment. In genera,l its impact is greatest on young people, women and those working in declining sectors and/or in low-skilled jobs and serves to reinforce the general disparities between different parts of the Union.

The rate of youth unemployment among those under 25, has mirrored the movement in the overall rate, but is around twice as high, averaging some 21% over the Union as a whole in mid-1996, giving a total of 5 million young people unemployed. The rate, however, has come down slightly faster than the overall rate since the present recovery began. Indeed, the gap between the two has tended to narrow a little over time, reflecting in part the declining numbers of young people across the Union (the result of falling birth rates), in part, the tendency for a growing proportion to stay longer in education, in part, the range of measures taken in Member States to prevent those leaving school with few or no qualifications moving straight into unemployment.

Except in Germany and Austria, high unemployment among the young is universal across the Union, the rate rising to over 40% in Spain, around 35% in Italy and 25% or more in Greece, Belgium and France (though in all three of the latter countries, this partly reflects the very small number of young people in the labour force — only around 35% of the 15 to 24 year olds).

The rate of unemployment among women in the Union is also high, averaging some 12½% in mid-1996 compared with 9½% for men, with the result that despite there being many fewer women than men in the labour force almost as many of them are unemployed.

With the exception of Sweden and the UK, as well as Finland, where the rates are much the same, the rate of unemployment of women is higher than for men throughout the Union, over 60% higher in Spain and Belgium and almost 90% higher in Italy and Greece. Moreover, although unemployment rates for women generally rose less sharply than for men during the recession, partly reflecting the disproportionate presence of women in service sector jobs which were affected much less than jobs in industry, they have also tended to fall less quickly during economic recovery as participation of women in the labour force has continued to increase.

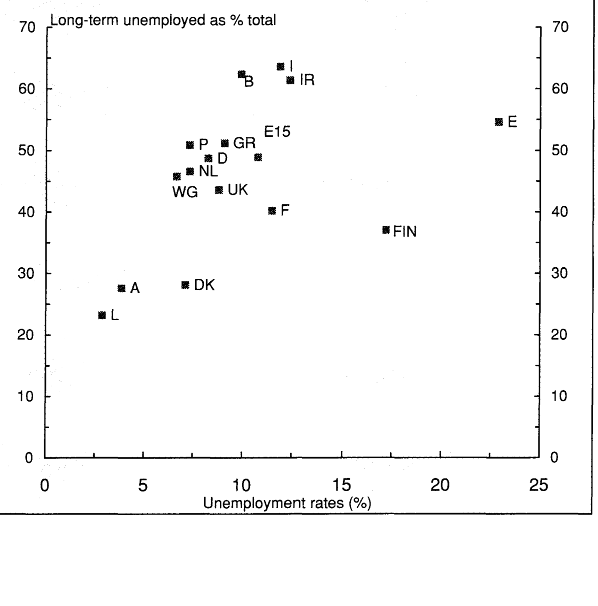
In all economies, there are significant movements of people between jobs going on all the time, in part because of a desire for change, in part in response to shifts in the composition of economic activity and in the demand for different skills. Such movements are almost bound to be associated with spells of unemployment for some, though these need not be of long duration. In Europe, however, one of the most marked features of the labour market is the high and persistent incidence of long-term unemployment, especially in comparison with the US, indicating the structural, and deep-seated, nature of its unemployment problem.

In 1995, in the Union as a whole almost half (49%) of those unemployed and seeking work had been looking for employment for a year or more (compared with only 12% in the US) and over a quarter for at least two years, only slightly below the proportions 10 years earlier. High long-term unemployment creates problems of its own which are particularly intractable. Those affected face social exclusion, a loss of confidence, a degradation in their skills and increasing difficulty finding a job the longer they are out of work, reinforced by the general reluctance of employers to take on people who have not worked for some time.

Member States differ considerably as regards the average duration of unemployment, or more relevantly the relative numbers of long-term unemployed, which determines the scale of the problem. For example, two countries or regions can have the same level of unemployment but one may have a high inflow combined with a short average duration and the other a low inflow combined with a long average duration and a large number of people who have been unemployed for a year or more. The former implies lower rates of 'exclusion' and, accordingly, is less damaging to social cohesion.

Member States differ according to the inflows into unemployment — or the chances of someone becoming unemployed — and, most relevantly for social exclusion, the prevalence of long-term unemployment. Some indication of these differences can be gained from the relationship between the overall rate of unemployment, on the one hand, and the proportion

18 Unemployment rates and long-term unemployment in Member States, 1995



of the unemployed who have been out of work for a year or more (i.e. who are long-term unemployed), on the other. In 1995, the highest rate of overall unemployment in the Union was in Spain, at almost 23%. The proportion who were long-term unemployed, at just under 55%, was also above the Union average (of 49%), but less so than in Italy and Ireland, where the overall rate 'of unemployment was much less, though still above the Union average, but over 60% of the unemployed had been out of work for a year or more (Graph 18). In Belgium, the incidence of long-term unemployment among the unemployed was much the same as in these two countries, but the rate of unemployment was slightly below average. It is in these four countries, therefore, that the problem of social exclusion seems particularly acute.

By contrast, in Finland, unemployment was well above the Union average in 1995, but a much lower proportion of those affected were long-term unemployed (37%). This is partly explained by comparatively recent and rapid growth in unemployment to present levels. In France, unemployment was also relatively high, but long-term unemployment relatively low. In these countries, therefore, despite relatively high levels of unemployment, social exclusion seems less of a problem.

In the other Member States, overall rates of unemployment were below average to varying extents. These can be divided into two groups — Luxembourg, Austria, Denmark and Sweden (not shown in the graph because of data comparability problems), where the proportion who were long-term unemployed was much less than average, and the other five Member States, where it was around the average level (though the number affected was significantly higher in Greece, where the proportion was slightly above average, than in the Western part of Germany, where the overall unemployment rate in particular was well below average). The UK, however, is somewhat different from the other four countries in this group, in that not only was the incidence of long-term unemployment less in 1995, but it had also been significantly below the Union average in earlier years (in 1990, only a third of the unemployed had been out of work for a year or more as compared with a Union average of 48%).

In general, the relative scale of the long-term unemployment problem as between Member States was similar in 1990 before the rise in unemployment rates which occurred subsequently, suggesting that the problem is a deep-seated one as well as being distinct from the problem of unemployment as such.

There are also differences between social groups. Women seem to be less likely to lose their job than men once in employment, but experience difficulties in finding a job when unemployed or when trying to return to work after a spell of inactivity to take care of children. Long-term unemployment is, therefore, slightly higher among women than men in most Member States (though not all, Denmark, Ireland, the Netherlands and the UK are significant exceptions).

Unemployment among young people is also a problem, though the number affected has risen by very much less than the rate over recent years because of the increasing numbers staying longer in education and initial vocational training (which has, therefore, reduced the size of the youth labour force). Moreover, the proportion of those under 25 who are long-term unemployed has not tended to rise significantly, though it remains a serious problem in Italy and, to a lesser extent, in Greece, where it takes much longer on average for those looking for their first job to find one.

Long-term unemployment is a particularly serious problem for older workers, especially men and women who lose their jobs in industry and find it particularly difficult to find another one. In 1995, 62% of those unemployed aged between 55 and 59 had been out of work for a year or more and two-thirds of these had been out of work for at least two years. Many others, moreover, had withdrawn from the labour force completely into enforced early retirement, a large proportion after trying to find another job (in 1995, around a third of men in this age group were no longer in the work force, well below the official age of retirement — 65 — in most countries).

In general, the chances of being unemployed are much greater for those with low skills and few qualifications. In 1995, the rate of unemployment among those aged 25 to 49 with only basic schooling averaged 13% across the Union compared with 8% for those with additional secondary level qualifications and 7% for those with a university degree or equivalent.

The incidence of poverty

Earlier sections of this chapter discussed the growth and distribution of basic income from production — GDP — in Member States and regions. It showed that GDP growth in the Community has been achieved largely by raising the output of each worker, rather than by additional employment, although the latter has also increased.

This has also been associated with a fall over time in the share of total income (GDP) accruing to labour in the form of wages and salaries (pre-tax) in virtually all Member States, while the share accruing to capital has increased. At a time of acute threat from international competition, these developments underline the contribution that European labour has been making to the restructuring of the economy to meet the challenges posed.

As also discussed above, there are evident differences in the capacity of Member States to integrate the more disadvantaged members of society fully into the labour market. This affects the incidence of poverty at household level in the EU, which is determined in large measure by access to paid employment as well as by the scale and prevalence of transfers under systems of social protection. One of the main characteristics of the European model of society is the commitment to combat poverty and to correct large income inequalities through taxes and social transfers.

The degree to which society suffers from poverty is generally assessed in terms of the *poverty line*, which is a *relative* rather than an *absolute* concept, usually defined as the proportion of households with income of 50% or less of the average for the country as a whole.

The impact of social transfer payments on the incidence of poverty is considerable. It is estimated that without such transfers around 40% of all households would find themselves below the poverty line, whereas this is reduced to less than 15% as a result of transfers.

At the Union level, inequalities between households have tended to be examined by reference to levels of household expenditure, for which some estimates exist for a number years, rather than income, for which no comparable data exist over time. These should show a more equal distribution than income levels to the extent that savings tend to be higher among wealthier households than poorer ones. The data for expenditure, which come from general surveys of household spending, are adjusted for differences in purchasing power and household size and composition (a smaller weight is accorded to children, for example, than to adults).

A brief overview of the results (see Annex, Table 3) shows that, at the end of the 1980s, the incidence of poverty was generally higher in the South than in the North of the Union. It was particularly high in Portugal, where 27% of all households fell below the poverty line and to a lesser extent in Italy (22%) and Greece (20%). At the other extreme, only 5–6% of households in the three BENELUX countries and Denmark had expenditure of less than 50% of the national average. In the remaining countries, the proportion ranged from 11% in Germany to 17% in both Spain and the UK.

The data suggest that there was some increase in rates of poverty measured in these terms in most Member States during the 1980s, and it was only in Ireland and Spain and to a lesser extent in Portugal, where the proportion of households below the poverty line declined. These countries had among the highest incidence of poverty at the beginning of the 1980s and it appears that the fruits of subsequent economic growth have been more evenly distributed than previously, perhaps reflecting the stage of their economic development. More and more up-to-date information, however, is required to determine how far these changes represent long-term trends and to assess the effects on distribution of the economic recession of the 1990s.

More recent data on poverty in the 1990s can be obtained from the first results of the new European Community Household Panel (ECHP), which collected information on household income — rather than expenditure — for 1993. For most countries, the income measure for this year indicates that there was more inequality between households than shown by the expenditure measure for the late 1980s and, therefore, a higher incidence of poverty. Given the different basis of measurement, it is not possible to conclude anything about changes during the 1990s, but the ECHP at a minimum suggests that the problem in some countries remains serious.

2.3 Other dimensions of cohesion: quality of life and European citizenship

The previous sections presented a traditional analysis of the relative circumstances of Europe's population. The indicators used, relating to income and employment, remain the most solidly-based and widely understood which are available. They have provided the basis for decision-makers in undertaking difficult regional and social policy choices at European and national level.

At the same time, they are insufficient in themselves to assess the full situation and other aspects need to be taken into account, perhaps especially at Union level. In the EU today there is widespread concern about two further issues which relate directly to the quality of life and cohesiveness. First, there is concern about the consequences of economic growth for the environment, in terms of increased congestion, pollution and degradation. This has given rise to a concern with 'inter-generational cohesion' and the need for national and regional development to be *sustainable* over the longer-term. Secondly, there is concern that European integration should not become a geopolitical process remote from the needs of ordinary people, but should be about the quality of European citizenship in all its facets.

Sustainability

Sustainable development has been defined as 'development which meets the needs of the present without compromising the ability of future generations to meet their own needs' (World Commission on Environment and Development (1987), *Our Common Future*, OUP). At its heart, sustainable development emphasises the need to move towards patterns of growth which lower the consumption of non-renewable resources and which are therefore reproducible over time.

According to the White Paper, *Growth, Competitiveness, Employment,* the essential contradiction in the existing economic order is that production is too intensive in natural resources which are scarce, often non-renewable, and uses too little labour which is plentiful. It called for a new framework — which requires nothing short of 'a new model of development' — based on an integrated approach where progress would be measured in terms of changes in the overall quality of life resulting from economic growth. This would attach particular importance to the generation of local, community-based employment, to the benefits derived from the improvement and protection of the natural environment and to the development of individual and collective responsibility as the guarantor of sustainable growth. This new model of development addresses cohesion — especially social cohesion — issues directly.

A basic challenge recognised in the White Paper is to make the economic-ecological relationship a positive one. This is particularly important for regional cohesion where the imperative, as discussed above, is to promote rapid catching-up on the part of low-income regions. In this context, sustainability concerns must not be regarded as something which holds back regional growth where it is needed most, but as a source of new opportunities.

There are complex issues at stake in this regard. On the one hand, there is an increasing awareness that the quality of the environment is an important determinant of a region's attractiveness for new activities and that regions can make best use of their natural assets if their economic policies are geared to sustainable development. The environmental sector is, therefore, increasingly regarded by enterprises as a business opportunity and by regional authorities as an asset. Accordingly, sustainable development and the narrowing of regional disparities can be mutually-reinforcing.

On the other hand, environmental policy choices need to have regard to existing regional disparities, which have to be taken into explicit account in order to minimise the risk of a further widening, to the detriment of economic and social cohesion, especially in peripheral regions.

Subsequent chapters illustrate how the Union has sought to incorporate environmental issues in regional development programmes — which include investment in clean water supplies, waste management and land reclamation. (see chapter 5) — as well as in transport and policies specifically for the environment (see chapter 4).

Citizenship, democracy and solidarity

The idea of European citizenship — and the creation of a people's Europe in the broadest sense — has been implicit in the process of integration since the beginning. The only true foundation for integration in Europe is a sense of common purpose and solidarity on the part of all of its people. Any notion of European cohesion is inevitably intertwined with that of citizenship, democracy and solidarity.

The Union is intended to develop opportunities for people to work together in pursuit of shared objectives. Beyond citizenship, which grants free movement of people, political rights and greater democratic participation, the Union promotes equal opportunities for all through the respect of fundamental rights. The sense of belonging to the Union and democratic participation are mutually reinforcing. Democratic participation has been enhanced by the institutionalisation of the social dialogue and the dialogue between representatives of civil society. It finds concrete expression in the growth and development of institutions over four decades, most notably *via* the growing power and influence of directly-elected representatives in the European Parliament and, since 1993, through the involvement of the regional and local representatives in the Committee of the Regions.

An enhanced sense of belonging to the Union implies more than bringing decision-making closer to the grassroots. It is interrelated with a reduction in the basic economic and social disparities discussed above. The existence of under-used resources, in disadvantaged regions or among excluded social groups, serves to fragment European society, apart from being a waste of economic potential. European citizenship, therefore, places obligations on the Union to work to eliminate major disparities in standards of living between citizens in one part of the Union and those in another and to promote freedom from poverty and equal access to employment opportunities.

Again, it is not just the aims which are important to cohesiveness: the way in which they are implemented is perhaps as important because it provides opportunities for people to come together. This has been a central component of European policies for solidarity and cohesion (see chapter 5). At one level, it has produced a spirit of cooperation between the Commission and representatives in the institutions, fostering a two-way flow of information and ideas — extending beyond the formal requirements for consultation contained in Community law — which has contributed to the conception and formulation of cohesion policies, raising the quality of the interventions for the benefit of those whose lives are directly affected.

At another level, the implementation of EU policies is highly decentralised, devolving responsibility as close to the ground as possible to promote partnerships between Member States and regions, and to encourage cooperation and exchanges of experience. Not only is this a vehicle for innovation and best practice, it is also essential for raising awareness of European issues.

All of these developments have contributed to breaking down the barriers of nationality, without compromising the virtues of diversity. In other words, they have helped lead to the formation of a genuine Europe for all.

Concluding remarks

The analysis of this chapter demonstrates that there has been significant progress in reducing economic and social disparities in some areas and that some of the weakest Member States and regions have embarked on a long-term process of convergence with the rest of the Union. This favourable outcome persisted through the recession of the early 1990s, although it has been accompanied by a general deterioration in the employment situation throughout the Union.

Economic convergence at the Member State level has not always been evenly distributed between regions and social groups. However, in countries in the process of catching-up, these negative side-effects of development are often difficult to avoid due to the different dynamics of certain regions and industries. Within some of the most advanced countries in the Union, there is evidence of weakening social cohesion as a result of the effects of unemployment on disadvantaged social groups and an increasing incidence of poverty. On the other hand, rates of employment are higher than a decade ago, though women's participation in the work force has risen significantly.

The outlook for the labour market will be affected by demographic trends. One important feature remains the failure of fertility rates in the EU to pick-up, falling to a post-war record low in 1995 of only 1.4 children per women. This will reduce some of the inflows into the labour market in the next century, although there can be other offsetting effects on total labour supply.

More generally, there are reasons to believe that a process of fundamental economic reform has been put in place in the weakest parts of the Union encouraged, as later chapters of this report will demonstrate, by national and EU policies to develop infrastructure, human capital and productive activity.

The prospects for further reducing disparities will depend on this process continuing as well as on other factors such as general economic circumstances. Much also depends on policy developments. Policies geared to macro-economic stability to provide the conditions for growth are important in this context (see next chapter), as are national and Community policies to promote competitiveness and growth and the creation of durable jobs.

Finally, past enlargements of the EU have generally had the effect of widening regional disparities. It seems likely that future enlargements will have a similar effect since many candidate countries of Central and Eastern Europe have incomes per head significantly below the current Union average. As the experience of previous enlargements demonstrates, however, the Union has shown itself capable of accommodating such differences and of moving forward nevertheless.

Chapter 3
Member State policies and cohesion: an overview

3.1 Introduction: weakening internal cohesion

The evidence presented in chapter 2 suggests that, even though a process of convergence between the Member States is apparent, economic and social cohesion *within* most Member States seems to have experienced a setback during the 1990s in the form of widening disparities in income and unemployment.

There are a wide range of Member State policies which have implications for cohesion at national and EU level, particularly:

- structural policies aimed at maintaining macroeconomic *stability;*
- redistributive policies aimed at achieving an optimal *allocation* of resources in social as well as economic terms and redistributing income between persons and regions to avoid excessive disparities.

These aims are not of course mutually exclusive and it is generally the case that the same expenditure will have a direct or indirect impact on all them at the same time. Each is examined below.

3.2 Macroeconomic policies

The macroeconomic policies of the Member States are important in creating the climate for economic growth. In the four poorest Member States, in particular, where regional under-development problems cover more or less the whole country, national-level macroeconomic policies have a key role in ensuring the effectiveness of EU cohesion policies designed to promote higher public and private investment.

In view of the inter-dependencies and spill-over effects created by trade and the movement of capital as well as labour, countries have long since ceased to regard their macroeconomic policies as purely internal and have engaged in coordination. In the European Union, macroeconomic coordination is focused on establishing a stable macroeconomic framework which is a pre-condition for achieving sustained growth in the medium-term and for participation in EMU. Particular attention is devoted to the convergence criteria of price inflation, exchange and interest rates, public deficits and indebtedness which — given the key role of these criteria in macroeconomic stability — even countries with an EMU 'opt-out' aim to fulfil.

Stability is of critical importance to the poorest Member States, providing the climate for investment and hence for obtaining the most from European Union cohesion policies.

The evidence suggests that three of these countries — Greece, Spain and Portugal — as well as Italy, where a large part of the territory is less developed, need to maintain their efforts towards nominal convergence although the emphasis may be different in each case.

In global terms, significant progress in nominal convergence has already been achieved, in particular in relation to inflation rates which have converged to levels which are among the lowest of the past 30 years. In Greece, Portugal, Spain and Italy, rates have declined considerably in the last years, but are still high compared to the Union average, especially in Greece (Graph 19). Differences in interest rates are a reflection of a number of factors such as differences in inflation rates, fiscal balances, exchange rate movements, financial market confidence and the credibility of the policy mix.

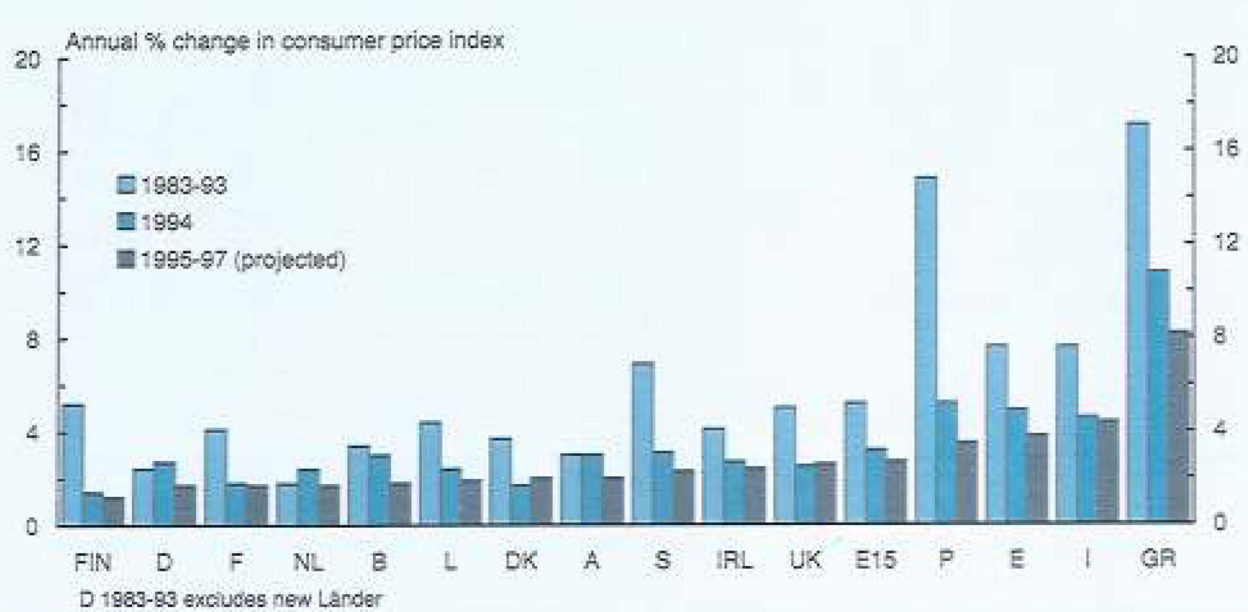
The current room for manoeuvre with regard to exchange rate variation is determined, for countries participating, by the bands in the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). Within the wider bands adopted in August 1993, rates have remained remarkably stable. Although the central rate of the Spanish Peseta had to be devalued four times between September 1992 and March 1995, partly followed by the Portuguese Escudo, pressure on currencies inside the ERM has not been as severe as on currencies outside the ERM.

Excessive budget deficits result in upward pressure on interest rates providing less favourable conditions for investment and growth. In addition, they lead to a build-up of debt over time increasing the burden of interest payments in public expenditure, which reduces the financial resources at the disposal of Member States to carry out even the most productive programmes, such as investment in economic infrastructure and training, while placing additional strain on social expenditure. Partly as a result of the recession, average debt for the Fifteen has been creeping upwards since 1992 from around 60% of GDP to over 70%. High indebtedness remains a particular problem for Belgium, Greece and Italy (Graph 20).

With the introduction of a single currency, national-level policies will continue to play an important role in *regional* stabilisation. Adjustment will occur partly through the automatic transfer mechanisms which operate at the inter-personal level within the Member State (especially through social security payments and taxes). From a regional perspective, the situation after joining European EMU will not be so different in economic terms from that of belonging to a national monetary union.

Without further political integration, responsibility for these transfer mechanisms is likely to remain with Member States. The present Community Budget is too limited to contribute significantly to macroeconomic stability across the Union as whole, although Union-level policies will help to underpin the position of the weakest regions and Member States. At national level, Member States participating in EMU will have to combine fiscal discipline with the necessary flexibility to be able to cushion, *via* inter-

19 Inflation in Member States, 1983-93, 1994 and 1995-97



regional and inter-personal transfers, shocks which temporarily threaten regional and social cohesion. As discussed in the next section, adjustment is also facilitated by improvements in the adaptability of the work force.

3.3 Structural reforms and expenditure-based policies

Alongside policies to promote stability, the Member States for which catching up is a major objective also need to ensure that their economies are adaptable to the requirements of faster growth. Impediments to resource mobility in its widest sense reduce their efficiency and their ability to restructure and to exploit new opportunities.

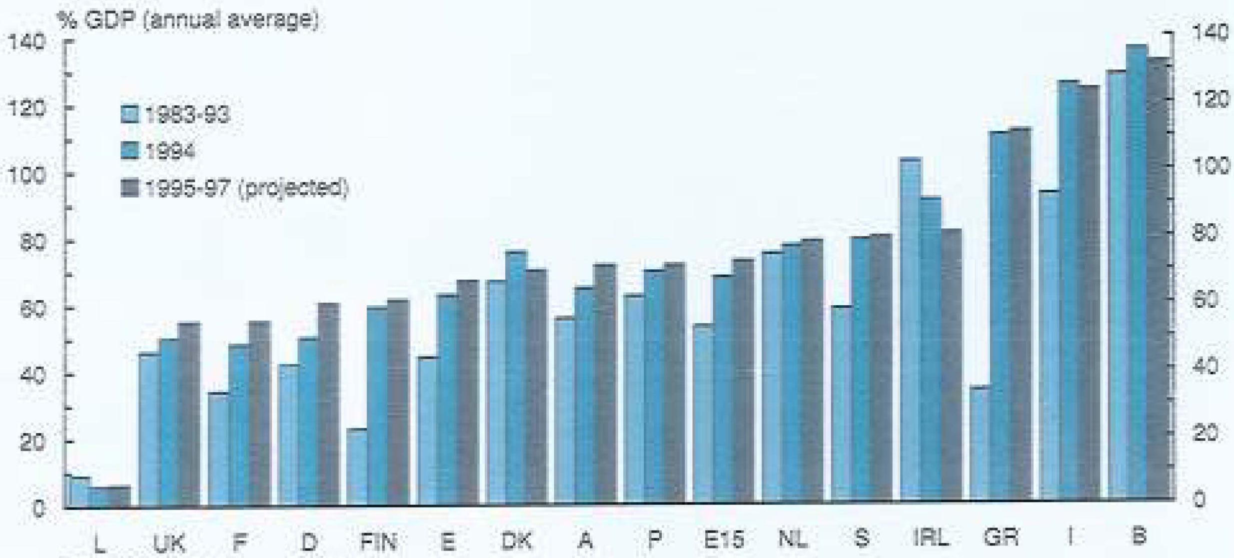
The Member State allocative policies take the form of structural reforms to improve the functioning of the markets and expenditure-based policies to provide incentives to overcome market failures.

In the European Union, the Single Market Programme (SMP) has been the motor for structural reforms, sweeping away a wide variety of national measures which served to limit trade and protect inefficient activities. Member States have generally accompanied this with market reform policies of their own.

These appear to have been largely successful in Ireland and Portugal. Both countries have attempted in this context to improve the flexibility of the work force not only through reducing regulation but also by raising skills, in tandem with determined industrial development strategies to provide new opportunities in modern activities and thus to attract FDI in export-oriented sectors. In Portugal, this has been accompanied by deregulatory measures in the financial sectors, in public services, the retail trade and the housing market. Furthermore, administrative price controls were lifted for many industrial products and services. But in the other Member States most concerned, more remains to be done.

In Greece, market reform has gone furthest in the financial sector, bringing the economy into the wider European monetary environment. But progress remains limited as regards the working of the labour market: wage variations are insufficiently related to productivity performance at sectoral, enterprise or plant level; regulation has limited flexibility by acting as a disincentive to the redeployment of labour. Moreover, the Greek economy continues to be characterised by close relationships between the government, the wider public sector, the banks and

20 General government consolidated gross debt in Member States, 1983-93, 1994 and 1995-97



D 1983-93 excludes new Länder

selected large private enterprises. While such arrangements are helpful in the formation of consensus around economic policy goals, a less desirable result is that the economy is less subject to the disciplines of the market.

In Spain, while reforms linked to the Single Market Programme have been extensive, there have been only limited changes in two key areas affecting performance: the labour market and the non-traded (largely service) sector. The Spanish authorities themselves identified the problem in the convergence programme of early 1992 and its revision in 1994. A set of measures in the service sector to improve competition and transparency were planned, along with measures to enhance labour mobility through the reform of the education system and to improve housing supply, administrative procedures and management of public enterprises. Up to now, however, the assessment on the implementation of these proposals is somewhat mixed and much depends on the outcome of extensive reforms, mainly enacted in 1994, to address the main labour market rigidities, including working time regulations, occupational and geographical immobility, wage setting, recruitment procedures and employment contracts. Significant progress, on the other hand, has been achieved in a number of areas linked to decisions taken at the EU level, including transport services and the financial system.

Through their expenditure-based, allocative policies Member States can influence patterns of production and consumption in order to achieve a more optimal use of resources in social and economic terms. Broadly defined in this way, all spending by the Member States is allocative and mostly concerned with social aspects. Thus services supplied to the community and to households and persons directly (education, health, social security and welfare, housing community and cultural services) account for 50% to 70% of total general government expenditure in the Member States, or between 20% and 30% of national GDP. This social expenditure also plays a significant redistributive role within the Member States, often supporting spending of the lower income groups who contribute less to its financing through proportional or progressive tax systems. They, therefore, contribute significantly to the internal cohesion of Member States, as discussed below.

Expenditure on economic services (regional policies, research and development, trade promotion, employment policies, etc.), on the other hand, accounts for between 6% and 14% of total government expenditure or 3% to 10% of national GDP. These policies are intended to improve the climate for firms and to affect the way in which the job market functions. Apart from regional policy, which due to its importance will be treated separately below, these policies have no *intended* spatial effects and are operated largely without reference to spatial considerations. Nevertheless, such effects exist and merit careful analysis. The analysis will be limited to R&D and employment policies.

While R&D policies vary significantly between Member States, they are generally aimed at national objectives, such as the stimulation of innovation and the improvement of competitiveness. While some of the larger Member States have made efforts to regionalise public R&D spending, it remains the case that though the sums concerned are of a similar order of magnitude to regional incentives, their spatial distributions are virtually the opposite. Both overall R&D spending and incentives are highest in relation to GDP in the more prosperous countries and are concentrated in the richest regions in all countries for which regional data are available. In France, Spain and Italy, public spending is even more unevenly distributed than private spending and is thus often the main engine of disparities.

The net result is a reinforcement of existing disparities inside the EU, contributing to a virtuous circle of innovation and competitiveness in the more prosperous regions. This is an issue for European cohesion which is unlikely to be resolved at the national level, creating the space for more determined intervention through EU structural and R&D policies, as examined in chapter 4 below.

A major aspect of employment policy is that it helps to prevent the exclusion of people from the labour market, thus furthering social cohesion. Since the European Council of Essen in December 1994, EU Member States have been coordinating their employment policies within a Community framework, with the aim to achieve a structural reform of the labour market. Efforts have been concentrated in five priority areas:

- to improve labour force skill, Member States have strengthened financial as well as fiscal measures to encourage firms to increase their investment in vocational training. Some Member States have also launched extensive reforms of their vocational training systems while others have increased substantially the number of training places available. Specific measures have been introduced to improve training levels for young people, in particular, through the apprenticeship system and traineeships which combine work experience and formal training;

- to promote more employment-intensive growth, some Member States have encouraged the social partners to reach formal agreement on more flexible and shorter working hours. In other cases, regulatory reforms have been undertaken to facilitate the use of part-time and other flexible types of work. The expansion of services in social, community and home-care sectors, fulfilling unmet demand in the personal sector, has been encouraged in some Member States, through various means including regulatory reform, tax incentives and the use of service-vouchers;

- to reduce labour costs, in cases where they constitute a potential barrier to job creation, especially at the lower end of the skill and earnings scale, several Member States have reduced the level of social security contributions on selected groups of workers, the low paid and those who are disadvantaged in the labour market. In a number of cases, total or partial exemption from contributions have been introduced to encourage the hiring of young people or the long-term unemployed;

- to achieve a similar objective, of reducing charges or taxes imposed on labour to bring down the cost of employment and thereby stimulate job creation, in a number of Member States, an attempt is being made to shift the burden of tax from labour to other sources by extending the tax base. So-called 'green' taxes (such as the new landfill tax in the UK) have, therefore, been introduced — or are in the process of being introduced — in some countries to replace part of the social contributions levied on employers;

- to improve the effectiveness of labour market policy, most Member States are attempting to rebalance expenditure from passive income support to active measures aimed at the integration of the unemployed into paid jobs. In some cases such efforts have sought to eliminate disincentives by making the eligibility rules for unemployment benefits stricter, in particular in connection with the refusal of job offers. In other cases, the range of policy instruments was strengthened and diversified, including training programmes, recruitment subsidies, temporary job offers, job-search assistance and business start-up aids. In some Member States, reforms have been undertaken to improve the efficiency of employment services, through greater de-centralisation, deregulation and a greater focus on the needs of special groups.

In all areas referred to above, priority has been given to actions in favour of the re-integration of the most disadvantaged groups, such as young job-seekers and the long-term unemployed, as well as to achieving effective equality of opportunity between men and women in working life.

Member States' own regional policies

Most of the Member States operate their own policies to assist their less developed regions or to achieve other spatial goals. These policies are conceived and implemented differently in different national contexts. In some countries, it concerns incentives to capital investment in the regions while in others, particularly in France, it is more wide-ranging also including policies of spatial planning involving infrastructure expenditure. The objectives of regional policies are to reduce disparities in economic development by encouraging investment in the poorer areas and to reduce disparities in unemployment, particularly that linked to industrial restructuring, but also underemployment in backward regions. In some Member States, demographic and geographical issues, in particular peripherality and the associated risk of outward migration, also play a prominent role. Finally, urban policy, especially in the UK and France, also addresses problems linked to the decay in the physical and social environment in inner city areas.

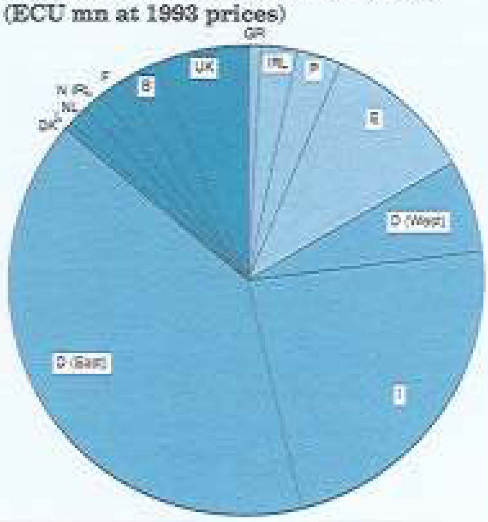
As regards regional incentive policies — which are common to all Member States — grant expenditure is typically very low, accounting for between 1% and 4% of total government expenditure. In Italy, Germany and France, however, grants account for less than

40% of total regional aid expenditure, so that total regional incentives are significantly higher in those Member States. Germany and Italy, the large 'dual' economies, also account for most expenditure, around two-thirds of the total between 1989 and 1993 (Graph 21), although in Italy it is in sharp decline. Over the same period, the four cohesion countries together accounted for about one-fifth of total expenditure on incentive while together they had almost one-sixth of total population and just over one-tenth of total EU GDP. In these Member States the amounts of regional support are largely determined by the needs generated in co-financing the EU's cohesion policies.

An intertemporal analysis reveals that Member States are spending less of their budgets on regional investment incentives over time. In a longer term perspective this is particularly true in Denmark, the Netherlands and the UK. Given that grants do not constitute the most important instrument of support in Germany, Italy and France, which have among the highest absolute amounts of expenditure, and that the intertemporal development of the other support measures is not known, a reduction in grants would not necessary imply that the importance of spatially-oriented policy is in overall decline in these countries.

National regional incentive policies have played a necessary role in promoting EU-wide cohesion. The lessons learned and experience gained in regional policy at national level have contributed significantly to the support for policies of solidarity and to the

21 Average annual expenditure on regional assistance in Member States, 1989-93 (ECU mn at 1993 prices)



quality of actions at EU level. In addition, insofar as they help the most disadvantaged regions, Member State policies contribute to European convergence and cohesion. But while necessary from the point of view of cohesion at the EU level, national policies are not sufficient.

First, since they are faced with generalised problems of lack of competitiveness across much of their territory, the intensity of expenditure in the cohesion countries — expressed per head of population in the assisted regions — does not always give them a significant advantage compared to many regions in northern Member States. The northern Member States concentrate their resources on a more restricted population in the worst-affected regions, typically between 20% and 40% of their total population, often with some of the highest unemployment rates in the Union and other serious structural problems. As a consequence, expenditure per head is higher in the assisted parts of Italy, Germany or Luxembourg than in the cohesion countries (Graph 22). Across the EU as a whole, this has tended to mean that the concentration of resources on the assisted regions with the lowest GDP is not as clear-cut as it might be. In effect, and as discussed below, lack of budgetary capacity has reduced the impact of EU competition policies which permit higher rates of intervention in poorer Member States. As a result, the receipt of regional grants is determined at least as much by the Member States in which the region is located, as by needs. However, with the help of the EU's Structural Funds, the poorer Member States have been increasingly able to offer comparable support for regional investment to many northern regions.

Secondly, in the absence of a decisive advantage with regard to incentives, the weaker Member States have more difficulty in competing with northern Member States where supplier networks are more developed and, as regards producer services, often of higher quality. The superiority of business infrastructure probably lies behind the research finding that the effectiveness of regional expenditure and the quality of the foreign direct investment (FDI) attracted (in terms of such factors as decision-making autonomy or innovative capacity) are higher the more developed the economy. Countries and regions with a long history of FDI attraction and experienced regional development agencies, such as Scotland and Ireland, succeeded in attracting higher quality investments.

Thirdly, the widespread availability of grant support risks generating dead-weight, whereby incoming investors receive grants beyond the level required to make their investment profitable because of grant competition between countries. Finally, given the particular problems of urban areas, the degree of success of urban policy seems to be lower than that of regional policy in general.

3.4 Redistribution

Member State redistributive policies change the distribution of income between people through flows of taxes and benefits. As a result of such policies, the distribution of personal disposable income (PDI) can differ significantly from the distribution of income before taxes and benefits.

The effects of these policies can be seen clearly at the regional level: since tax payments are related proportionately or even progressively to income, while benefits tend to be constant or even to decrease with income, they involve involuntary but significant implicit transfers from high income to low income regions. As a result, the regional distribution of PDI per head within the Member States tends to be more even than the distribution of GDP per head. For example, Northern Ireland, the poorest region in the UK, has a GDP per head which is 68% of the figure for the South-East, the richest region, but its PDI after transfers is 85%. Similarly in France, Languedoc-Roussillon moves from 55% of the GDP per head of Ile de France to 71% in terms of PDI per head.

The redistributive effects at the inter-personal level also result from expenditure on the provision of public goods and services, either free at the point of consumption or at subsidised prices. The inter-regional redistribution of such expenditure is not transparent and cannot be found in published accounts. They have had to be estimated for this Report.

This analysis suggests that the regional disparities after taking account of the effects of tax and public spending flows through national budgets are between 20% and 40% lower than the disparities in regional GDP per head (Map 12, which shows estimates of the net amounts transferred in 1993). Member State budgetary policies, therefore, make a contribution to cohesion, though primarily at the *national* level.

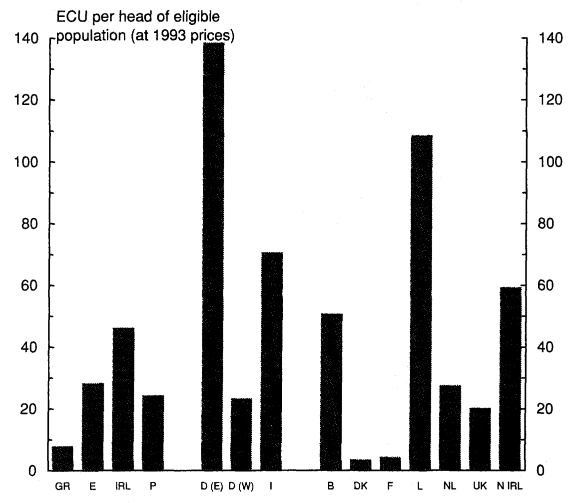
National policies mostly concern aspects of social cohesion and tend to impact on regional cohesion indirectly. Study results suggest that even though public expenditure accounts for between 40% and 60% of national GDP, the *net* regional transfers are much smaller, equivalent to 4% of the GDP of donor regions or 8% of recipient regions.

To the extent that national redistribution policies bring regional and personal disposable incomes closer to the national average, at the European level they also bring the regional-level disparities closer to the Member State-level disparities. As a result, they have an important role to play in promoting convergence and cohesion between regions at Community level.

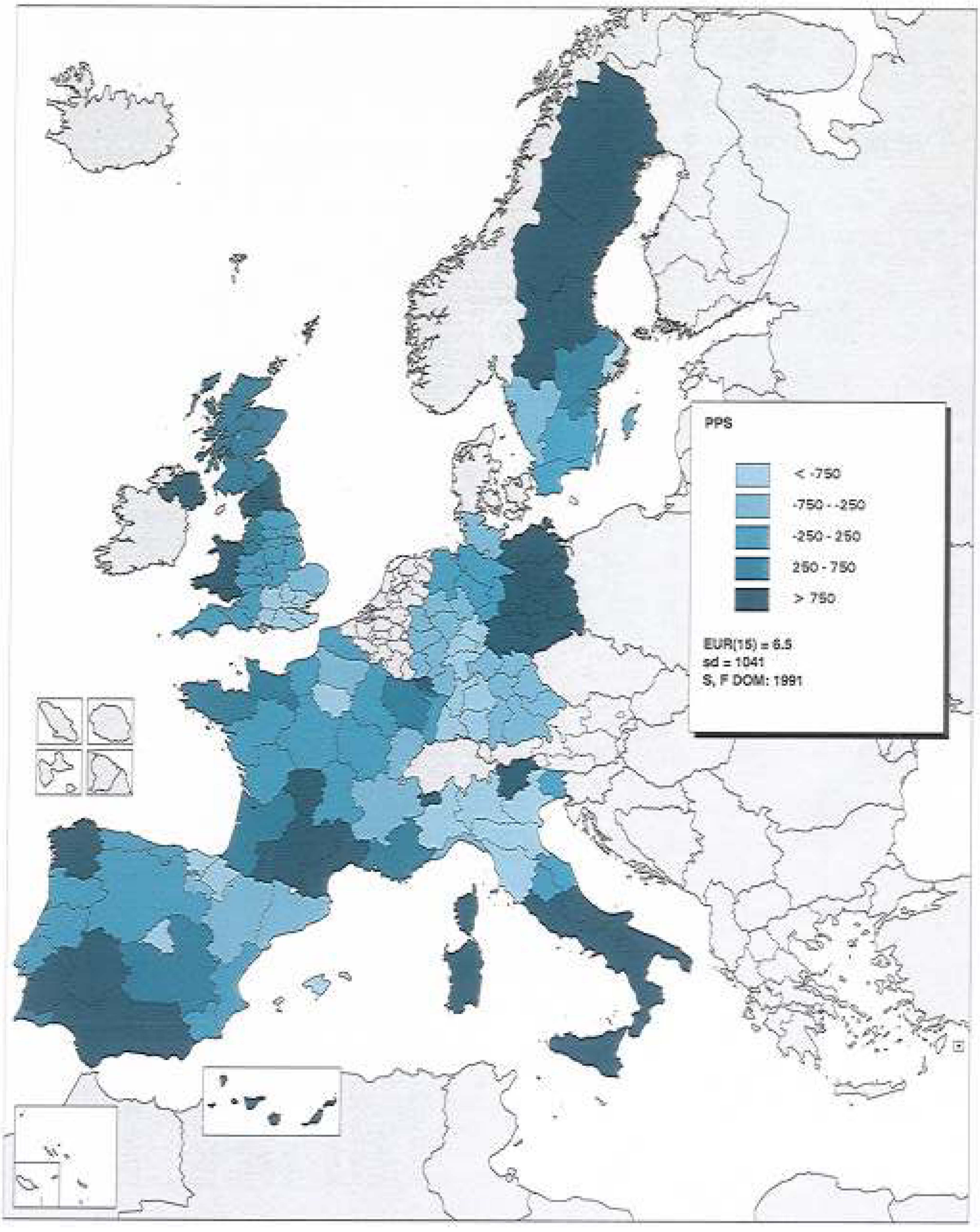
At the same time, they cannot substitute for EU-level policies. Since they are organised nationally, the transfers are not systematically related to differences in GDP on a European scale. For example, East Anglia in the UK is of a similar level of prosperity as Bretagne in France and both are just above the EU average. But in terms of transfers their position is quite different. Bretagne receives net transfers equivalent to around 3% of its GDP from the French State, East Anglia transfers the equivalent of 3% of its GDP (again, in net terms) to the British State.

The role of Member State redistributive policies is to redress basic income inequalities and to widen

22 Average annual expenditure per head in assisted areas, 1989-93



Map 12
Net regional transfers in selected Member States, 1993



opportunity and access to services. They serve an essential purpose in social terms especially in view of the need to combat poverty in the Union, as discussed in chapter 2 above. This means that transfers which support consumption predominate over those aimed at expanding investment. This is one of the differences with Community policies which are mostly concerned with the latter.

Striking an appropriate balance in public expenditures between the 'social' and the 'economic' is an ongoing difficulty facing national policy-makers. Thus, for example, the failure over many decades to effect long-term structural change in southern Italy in spite of large-scale transfers — which have, nevertheless, served to reduce household disposable income disparities — appears to be an example of too much of the former and not enough of the latter.

In Italy, a new balance has now been struck, reducing the emphasis on purely income transfers which are difficult to sustain over the longer term. This has meant, in effect, that policies for the poorer regions of the Mezzogiorno increasingly work to a Community-driven cohesion agenda which stresses structural improvement and competitiveness. As noted above, in the four poorer Member States of the Union, the political priority given to expenditures in support of regional economic competitiveness and development, in the face of competing demands on the national budget, can similarly be traced to the lead given by policies established by the EU.

3.5 Concluding remarks

The preceding analysis provided an overview of some of the policy instruments and political choices deployed at national level in addressing issues of economic and social cohesion. These policies contribute to reducing income and employment disparities at national level and, indirectly, at Community level. They are, above all, the Union's primary defence against poverty. The evidence of chapter 2 suggests that, albeit in difficult economic circumstances, these policies have not been able to prevent a widening of regional and social disparities internally within the Member States.

This inevitably has negative effects on the quality of life of sections of the population and on national cohesion, as well as on cohesion in the Union as a whole. It carries an additional risk of weakening overall efforts at the European level to promote solidarity to the extent that it contributes to disaffection in disadvantaged regions and among the unemployed and the poor.

As indicated in the introduction to this chapter, there have been important constraints on the capacity for independent economic policy action by European governments over the last decade or so. Nevertheless, the preceding observations provide cause for further common reflections on appropriate policy responses.

In particular, they draw attention, firstly, to the role played by fiscal policies over the last decade. One result has been that the financial burden for repaying the public debt has increased on average by 1.2 percentage points of GDP; in some Member States such as Greece, Finland and Italy, the rise has been more dramatic. Under EMU, national budgets will have to be managed in such a way as to underpin economic stability and maintain low interest rates while retaining sufficient flexibility to help smooth out the cyclical ups and downs in economic activity. Budgetary discipline is, therefore, an essential medium-term objective and several Member States have already announced their intention to keep public finances in balance, or even in surplus, partly in preparation for the longer-term effects of supporting an ageing population.

Secondly, in relation to their overall budget, Member States typically devote relatively small sums to expenditure on strategic economic services (regional policies, research and development, trade promotion, etc.) which address long-term competitiveness problems. The issue of the correct balance between efforts to *cure* cohesion problems and those which seek to *prevent* them arising in the first place may merit further reflection in this context.

In this regard, the Union has attempted to give a lead by reinforcing the priority within all Member States of efforts to promote investment for growth. For the weaker Member States, however, budgetary constraints inevitably limit their capacity to undertake the necessary rebalancing in favour of strategic expenditure in the fundamental way required to promote catching up with the rest of the Union. Here, Union intervention can offer financial support for wide-ranging improvements in infrastructure and human capital.

Chapter 4
The policies of the European Union

Introduction

One clear manifestation of the process of European integration is the wide range of areas where the Member States have taken a deliberate decision to pursue common policies. In each case there is a specific set of objectives, the origins of which can be traced, at least in a formal sense, to the provisions in the Treaties. These policies include those specifically targeted on improving cohesion, which are the subject of detailed analysis in chapter 5. The other policies — which are examined in this chapter — have other objectives, though in some cases, such as the trans-European network programmes, they include explicit reference to cohesion. But even where cohesion is not explicitly part of the objectives, different regions and social groups tend, nevertheless, to be affected differentially.

The concern of the following analysis is not to carry out a critical assessment from a cohesion perspective of policies designed to pursue other objectives. Rather, it is to examine how, and to what extent, they have helped to further cohesion aims and to consider whether, and under what conditions, they could do more to further this end without being diverted away from the pursuit of their primary objectives. This is an important issue in an era of continuous pressure on public budgets, at both national and Community level. In both financial and efficiency terms, it makes sense, to take account, where relevant, of the effect on cohesion when designing policy measures and to take advantage of any opportunity for achieving multiple aims through a given set of actions.

The Union policies examined here differ significantly in nature and scope, but can broadly be considered under four heads:

- agriculture and fisheries;
- measures to improve competitiveness — the single, or internal, market programme (SMP), research and development, competition policies, industrial and trade policies;
- network policies — transport, telecommunications and energy;
- measures to improve the quality of life — social policy, education and training and environmental protection and improvement.

4.1 Agriculture and fisheries policies

Agriculture

In expenditure terms, the most important policy of the EU concerns its intervention in agricultural markets under the Common Agricultural Policy (CAP). The market support or 'Guarantee Section' of the EAGGF (the EU's Agricultural Fund) alone absorbed almost half of the total EU budget in 1994.

By ensuring the orderly development of markets and by removing the uncertainty from a sector characterised by long lead times in the production process, the CAP has helped to secure, over several decades, the supply of food for European citizens. It has also supported and stabilised incomes in a sector where employment has been under constant threat (see chapter 2) and for whom there are generally few alternatives. The CAP has had a decisive impact on activity in the sector: it has been estimated that half the value of agricultural production is accounted for by these transfers.

The CAP has also been the sectoral policy of the EU involving the largest redistribution of income among European citizens. Financial support under the Community Budget takes the form of a transfer of income from consumers and taxpayers to agricultural producers. The difference between prices inside the Union and world prices, where these exist and where they can be considered as valid reference prices, also gives rise, implicitly, to income transfers. Direct measures to improve the longer-term competitiveness of the agricultural sector are a separate, if related, aspect of the CAP, specifically addressed under another part of the EAGGF budget, the 'Guidance Section', which aims at improving farm structures. This involves only a relatively small proportion of the EU's agricultural budget (around 8–9%) and its impact is considered later in chapter 5.

The CAP is a policy in a state of evolution, most recently with the 1992 agricultural policy reforms, which in turn has effects on the nature and extent of the implicit transfers. The 1992 reforms addressed the problem of growing surpluses for many agricultural products by reducing price support and weakening the relationship between payments and output in favour of more direct support for farmers' incomes.

As already indicated, in supporting farmers indirectly through prices which are generally higher than world prices and directly through the payment of subsidies, the CAP also involves large implicit transfers *between Member States and regions, economic sectors and social groups*. The CAP, therefore, has an effect on cohesion. The following analysis considers the first-order effect of these transfers before going on to consider other effects.

The mechanism through which transfers from trade come about is particularly complex: first, *taxpayers* in one Member State subsidise domestic as well as other EU producers through direct payments and export refunds. Secondly, *consumers* subsidise national producers through purchases of domestically produced food, but they also subsidise producers in other Member States through intra-EU imports of agricultural products. Income is therefore transferred between Member States according to their differing patterns of production and consumption (the net trade transfer).

The net trade transfer and other income transfers (direct payments in certain sectors, such as tobacco and cotton, and Member State transfers to the EU's agricultural budget) generated by the market policies of the CAP have been estimated by external experts for the period 1989 to 1994 (the methodological difficulties of doing this are discussed in the statistical annex to this report). The data, therefore, contain information both for the period before and after the 1992 reforms (see annex). The reforms, however, are not the only factor affecting the pattern of transfers: there are many others which determine the performance of agriculture in any country in any given period and, accordingly, the net gains and losses under the CAP.

The pattern of transfers between Member States

Transfers under the CAP can be assessed for 1994, the most recent year for which a complete data set is available. This is an interesting year because it is the first complete one under the new CAP regime, though full implementation occurred only in the course of 1995/96. The estimates for overall gains and losses by the external experts gave the following results:

- the net transfers in 1994 were positive for five Member States. Ranked in order of the absolute transfer, the five are GR, E, IRL, FR and DK. The explanation for the transfers varies, however, from country to country within this group. Typically, the northern Member States — especially DK and IRL — benefit more from trade transfers because of patterns of specialisation which favour production in the more protected sectors. The southern Member States — GR and E — tend to benefit from direct payments. FR also gains substantially through trade — in 1994, it had the largest positive effect from trade with EU partners of any Member State — but it received even more in the form of direct payments;

- the net transfers were negative for the remaining seven Member States. Of this group, the three large Member States, D, IT and UK, made substantial gross contributions to the EU's agricultural budget in the same way as FR, but unlike for the latter, the trade effects were negative in each

The development of market policies under the CAP

The traditional CAP was based mainly on market price support of farm output. This particular approach to agricultural policy, being directly related to domestic supply, succeeded in generating a rapid increase in agricultural production and self-sufficiency within the EU.

In the first years of the CAP, import duties, apart from allowing higher domestic prices and farm incomes, also provided an extra source of financial resources for the Community Budget. The costs of the policy were borne almost exclusively by consumers. From the end of the 1960s onwards, expanding domestic supply relative to domestic demand created surpluses of dairy products, meat and cereals with the result that the EU had to provide incentives to promote exports. In effect, European consumers and taxpayers were faced with a situation of ongoing support for the incomes of farmers through higher agricultural prices than world levels, combined with the increasing costs of surpluses in the form of export subsidies, storage and disposal costs.

In view of the changing circumstances, the EC Council of Ministers decided in 1984 to introduce production quotas for dairy farmers to limit the budgetary costs which were particularly high in the dairy sector. By directly restricting supply, the objective of reducing surpluses and associated costs was achieved, although this did rather less to change underlying agricultural structures. A further step towards balancing demand and supply was taken a few years later by taking land out of production under the land set-aside scheme. While savings on budget expenditure were achieved the overall efficiency of the agricultural sector was not improved.

In view of ongoing pressures, including a preoccupation with the very variable effects of the CAP on different parts of the Union, a major reform was introduced in 1992 which had effects on important product sectors of EU agriculture: cereals, oilseeds and meats. Its main aim was to balance supply and demand by giving a greater role to the market mechanism. The reform also sought to break the link between support to farmers and the quantity of production. Payments to farmers are now based on historical yields. At the same time, compensatory payments remain linked to the area cultivated by each farmer, but they are limited by regional or individual ceilings. Meanwhile, accompanying measures seek to reduce over-supply and improve the environment by encouraging less intensive farming, the afforestation of agricultural land and early retirement schemes for farmers.

Estimates of net transfers under the Common Agricultural Policy

The calculation of transfers associated with the CAP was undertaken by external experts. It requires a complex analysis and a number of simplifying assumptions, due to the individual nature of different agricultural markets and the fact that for some products, there is no international reference price.

Transfers between Member States

Transfers from taxpayers in each country are estimated by assuming that the share of each in the EU agricultural budget equals the share of its contribution to the overall Community Budget. Transfers from consumers are estimated by multiplying the amount of each product available for consumption in each country by the EU 'price support'. 'Total support' is based on OECD data used to calculate PSEs (Producer Subsidy Equivalent) and CSEs (Consumer Subsidy Equivalent). Because these data relate to a period before the Uruguay Round Agreement, they may not necessarily reflect the relationship between EU prices and world prices after the agreement. This could mean that the scale of EU price support is over-estimated. Since the OECD does not compute support rates for fruit, vegetables, wine and olive oil, these had to be estimated.

Transfers between regions

Food consumption per head and average tax rates are assumed to be the same across all regions in each Member State. Both assumptions are likely to mean that the burden on richer regions is under-estimated in relation to that on poorer regions, and more refined assumptions might, therefore, produce a greater cohesion effect.

case while direct payments were substantially lower. The BENELUX countries all experienced positive trade effects. Agriculture in Belgium and Luxembourg is relatively specialised in more protected products, but this was more than offset by the negative effects of transactions under the agricultural budget.

The data suggest that the position has changed over time. For the five Member States for which transfers are currently positive, all have experienced increasing transfers over the period. For Spain and France, the effect has been to transform their position from one of net loss to one of net gain. For the remaining Member States, the position of net loss has been maintained and only in the UK were net losses substantially reduced, especially in the period after the reform.

The position of the four weakest Member States

A priori, it could be expected that the cohesion countries would benefit from the CAP if only because they have proportionately more agricultural producers than the more prosperous and more urbanised northern Member States. In the past, this has been offset by a pattern of support under the CAP which was related to the production of certain livestock products and cereals. These are products of particular importance for climatic and other reasons in northern Member States. The 1992 reforms took an important step away from this system and the pattern of transfers to which it gave rise appears to have had the expected effect of giving more support to poorer countries with more agricultural producers. In particular, it reduced the burden on consumers in poorer Mediterranean countries by reducing the prevailing prices of cereals and of beef and veal for which they are net importers. Countries with higher dependence on agriculture also benefited from moves towards direct payments financed by taxpayers.

As a result, and as shown above, three of the poorer Member States — GR, E and IRL — were net beneficiaries from the CAP in 1994 compared to two, GR and IRL, beforehand. For Greece, the gains come from a combination of high direct payments (mainly to cotton and tobacco producers) and its low contribution to the budget. It has experienced (smaller) losses from trade because of lower protection rates for its exports (mainly fruit and vegetables) and higher protection for its agricultural imports (mainly livestock products). Ireland has gained because of positive trade transfers (it exports highly protected agricultural products), but also because of its relatively low contribution to the agricultural budget. Spain benefited from direct payments after the reform, the main factor in turning its position from net contributor to net beneficiary, although it also has significant receipts from the effects of trade.

One of the four cohesion countries, Portugal, however, has remained a net loser under the CAP even after the reform, despite low budgetary contributions. Its high employment in agriculture is offset by very low agricultural productivity, which is combined with a structure of production resulting in a relatively low level of direct payments and a pattern of exports of agricultural products for which the level of price protection is also low.

Overall, it appears that in managing Europe's agricultural markets, the CAP has had the effect of creating a system of implicit transfers which has yielded positive transfers of income to three of the four poorest Member States. With the reforms of 1992, the cohesion effect has been reinforced, most notably by transforming the position of Spain to one of net beneficiary. At the same time, benefits flow to two of the more prosperous Member States, Denmark and France, which have both experienced significant improvements in the period after the introduction of the CAP, while one of the two poorest and most agrarian countries, Portugal, remains a net loser. Indeed, when the transfers are expressed in relation to a standard farm unit ('annual work unit' or AWU) the intensity of support is now highest for Denmark, one of the most prosperous Member States in the EU.

It remains possible, however, that the improvement in terms of cohesion may become greater as the reform policies are consolidated, though this needs to be monitored as further information becomes available.

Regional patterns

The CAP also has a differential effect on the Union's regions and the areas within these where agriculture is concentrated, though for data reasons it is not possible to measure the effect on the latter. Examining the position in each Member State individually, it is possible to discern a positive effect of policy on the distribution of income between regions (Maps 13 and

14). Typically, the regions with net benefits are mostly the lower income ones while the higher income regions are generally among the losers. Again, this results from agriculture being proportionally more important in the poorer regions, while other economic activities are more concentrated in urbanised areas in the more prosperous regions (indeed, dependency on agriculture tends to be inversely related to levels of income). Moreover, the costs of the CAP price support to consumers in rural and poorer regions tend to be lower than the benefit accruing to farmers producing there. As a result, a flow of income is generated from richer to poorer regions.

This positive effect of agricultural price support on regional cohesion *within Member States* increased in the period after the 1992 reform. In fact, the switch to direct income support financed by the taxpayer seems to have increased the costs borne by the richer urbanised regions. This is considered in more detail below.

Regions in the cohesion countries

In the four poorest Member States, regions outside the major urban centres generally benefit most from transfers under the CAP. As a result, in Greece, for example, which is a net beneficiary overall, the metropolitan area of Attiki was a net loser in 1994 because of its urban, non-agrarian character. In Portugal, a net contributor overall, two regions were net beneficiaries, Alentejo and Centro, which are also the poorest regions in the country. Moreover, both experienced an increase in net transfers in the post-reform period.

In other Member States, there are considerable regional variations in experience. In Italy, some richer northern regions where agriculture is important as well as highly productive — such as in Emilia Romagna and Veneto — benefit in net terms from the price support policy, while poorer and very populated regions in the South, such as Campania, despite having large agricultural sectors, are large net losers. Poor and less densely populated regions, such as Abruzzo and Basilicata, receive significant net transfers per head of population. In Germany, the position in the regions of the former GDR differs markedly from that in the rest of the country. Since the former have a low average income per head and a relatively large proportion of employment in agriculture, they have generally gained in net terms and more so since the reform.

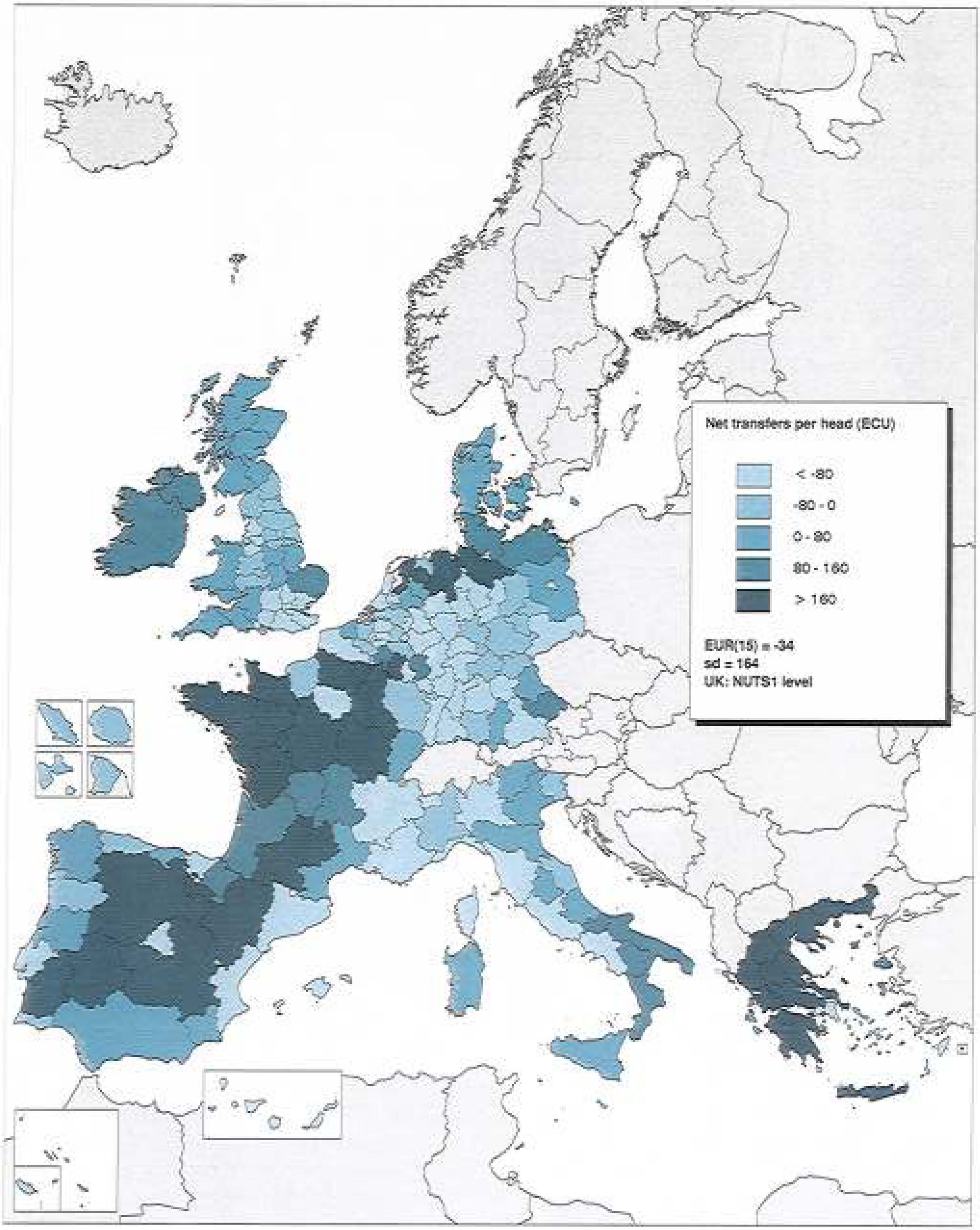
The vast majority of regions in France, the largest agricultural producer in Europe, already benefited from the price support policies before the reform. However, the high concentration of population, income and consumption in the capital region, Ile de France, has offset some of the gains accruing to the country as a whole. At the same time, net transfers to French regions generally increased after the reform. In the UK, the pattern of net transfers is highly differentiated. The poorer regions (Northern Ireland and Wales) are net beneficiaries, while the richest and highly urbanised South East region is a net loser. On the other hand, the cereal-producing East Anglia, which is among the richest regions, gains, while the less prosperous North England region is a loser. The reform appears to have slightly accentuated these differences.

Income transfers between social groups

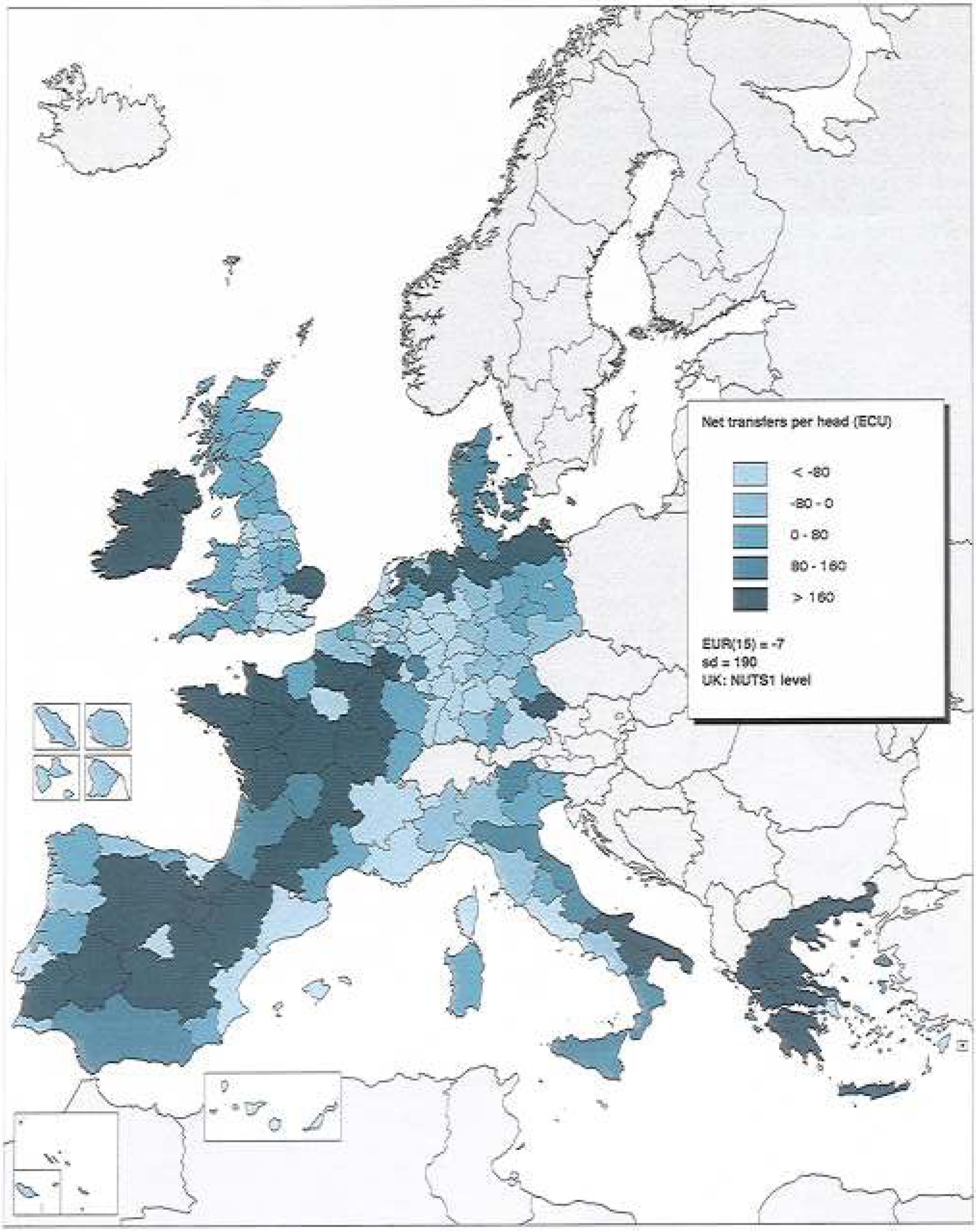
An argument traditionally advanced in favour of the CAP is that it has a positive 'social' effect, in that it leads to income being transferred from richer urban residents to poorer people living in rural areas. This has, indeed, been largely true in many countries insofar as average farm incomes are lower than average non-farm incomes. The analysis above confirms this at territorial level, in the sense that the EU agricultural price policy transfers income from richer urban regions to poorer rural ones.

This conclusion needs to be seen in the context of the following considerations. When internal prices are markedly higher than world market prices, and to the extent that these are valid reference prices, agricultural price support can be regarded as the equivalent of a regressive tax on consumers since low income households spend a higher share of their budget on food. At the same time, if agricultural support is linked to production capacity without any limitation, it transfers income to farmers in proportion to their size, so benefiting larger agricultural enterprises more than smaller ones. Before the 1992 reform, when agricultural support was provided essentially through protected prices, some estimates suggested that 80% of transfers went to the 20% most profitable farms whose income was often higher than average non-farm incomes, while small farmers benefited less. In its proposals for the reform of the Common Agricultural Policy, the Commission had proposed ceilings on direct aids but these were only partially introduced. Since the reform, the gaps have, therefore, persisted even if they have been reduced.

Map 13
Net transfers between regions under the CAP (market policies), 1991



Map 14
Net transfers between regions under the CAP (market policies), 1994



Longer-run effect on competitiveness

The CAP leads to improvements in farm incomes through the 'rational development of agricultural production' or structural adjustment. But the method of support which has been used, income transfers generated through supporting prices, could reduce incentives for change, encouraging labour to remain in agriculture and impeding improvements in efficiency. By prolonging the involvement of marginal producers in agricultural production, the CAP has a positive influence on employment in a sector which is suffering a long-term decline in areas where there are often few alternative jobs for the workers concerned. On the other hand, in Member States with small sizes of farm, achieving a more competitive structure is a necessary part of the development of agriculture and the economy over the longer term.

Against this background, the effect of the 1992 reform on competitiveness is a mixed one. The market orientation of prices has favoured efficiency and should, over the longer term, encourage structural adjustment towards a smaller number of viable farms capable of guaranteeing a sufficient income to the work force, so reducing dependence on the protection traditionally offered by the CAP. Particularly in the poorer regions, existing sizes of farm (often less than 2–3 hectares) are too small either for modern techniques to be adopted or to provide sufficient income for a farming family. In general, the Commission has indicated that the maintenance of the current situation is not a solution and it is necessary to pursue the approach of the 1992 reforms, introducing improvements and extending it to other sectors.

Fisheries policies

The Common Fisheries Policy (CFP), first established in 1970, is centred around four major areas: structural measures, conservation of resources, organisation of markets and international agreements. Most of the regions that depend heavily on fishing and related activities are coastal and on the geographical periphery of the EU. Many are relatively disadvantaged and have little alternative employment. Some 70% of fisherman and 60% of jobs in the fisheries sector as a whole are concentrated in Greece, Spain, Portugal and southern Italy which have the lowest levels of GDP per head in the Union.

Like other economic sectors, the sector suffers from over-capacity of production; at the same time, it is currently over-exploiting a renewable natural resource. Reducing the fishing effort has in the short run a negative impact on the level of employment in the regions concerned; in the medium term, on the other hand, the improvement in the competitiveness of the sector will help to sustain the industry, arrest its decline and maintain jobs in less favoured regions.

Apart from structural policy covered by the FIFG which is analysed in chapter 5, the CFP has a number of potential effects on cohesion:

- the policy of conserving fish stocks at sustainable levels and, where required, of rebuilding them, also entails protecting the areas and social groups particularly dependent on fisheries. Conservation measures have also been accompanied by special provisions to meet the needs of small enterprises and individuals located in dependent areas;

- the Common Organisation of Markets for fisheries and aquaculture products encourages producers to organise themselves efficiently, so reducing the risk of business failure and contributing to social cohesion. The principle of 'regional coefficients', which makes it possible to maintain lower prices in the less-favoured regions furthest away from the major marketing centres, facilitates their access to markets and so helps reduce regional disparities;

- through fishing agreements with third countries, fishermen can continue to operate in traditional remote fishing fields, so helping to maintain employment in the less favoured parts of the Union, in Spain and Portugal especially, but also in other countries.

4.2 The single market and competitiveness policies

One of the major preoccupations of the Community since its foundation has been the competitiveness of the European economy in the face of intense and growing international competition. A range of policies has been developed at Community level in an effort to raise efficiency and to exploit technology and innovation more fully. At the same time, a key issue concerns the distributional effects of these and the extent to which they address the particular needs of weaker areas and disadvantaged social groups.

The single market programme

One of the most far-reaching factors for change in recent years has been the single market programme (SMP), which comprises the legislative measures implemented over the period 1988 to 1993, as a follow-up to the Single European Act in 1987. These have been aimed at achieving free mobility of labour, goods, services and capital, through:

- the removal of customs formalities, the opening-up of public procurement to competition and the establishment of common technical standards in production, packaging and marketing;

- the removal of constraints on capital flows and the establishment of a European labour market.

The SMP was part of a larger policy package comprising both the specific measures relating to mobility and accompanying policies for facilitating their implementation, notably with regard to deregulation and the promotion of competition.

The SMP has had more general benefits on quality of life — not just on economic efficiency — by guaranteeing freedom of voting and other rights, although these aspects are not the focus of attention in the present analysis.

It is difficult, however, to distinguish the effect of the SMP on cohesion from other developments which took place at the same time, such as the economic upturn in the second half of the 1980s, the entry of Spain and Portugal into the Community and Structural Fund assistance in the poorer regions, especially after 1989. All that it is really possible to conclude is that this combination of events led to a significant boost to growth in three of the four cohesion countries.

An examination of trends shows that in the four cohesion countries taken together, GDP was 9% higher in 1993 than it would have been had pre-1987 growth patterns persisted. Detailed analysis suggests that the SMP was one of the factors contributing to this improvement, though the effects seem to have varied considerably between regions. In principle, the direct benefits from the SMP include one-off effects on the level of output, from the opening-up of markets and new opportunities for exporters and investors, as well as the spur to efficiency from a more competitive environment, and a longer-term improvement to productive potential, from increased investment in plant and machinery and labour force skills.

In the case of Ireland, the one-off effects appear to have been positive with higher output in the post-1987 SMP period from an increase in trade, improvements in efficiency and competitiveness in most sectors and greater specialisation in the export of high quality products. Moreover, the SMP has been accompanied by increased investment and improved potential for higher long-term growth, though, of course, this is not to imply that the SMP alone was responsible for this.

In Portugal and Spain, the SMP was associated with even more significant improvements in economic performance, though its effect cannot be isolated from that of accession. The expansion of trade, coupled with increased competitiveness and specialisation in both up-market and lower quality products, has improved economic efficiency, while larger inflows of direct investment, particularly in Portugal, have increased the pace of technological advance.

Only in Greece are there few signs of improvement in the post-SMP period. While trade and inward direct investment have increased, overall investment and the skill profile of the labour force, and so underlying growth potential, have not changed much. Indeed, the SMP may have had negative effects on growth and employment. In Southern Italy, both the one-off effects on efficiency and the longer-term effects on growth appear to have been mildly positive, but too small to change the pattern of development significantly.

Industrial competitiveness policy

At the Union level, the aim of industrial competitiveness policy has been to identify specific priorities for strengthening the industrial base which can be pursued through other measures, notably the Union's structural policies. Three of these priorities are worth highlighting in the context of this report.

The first is the *modernisation of public authorities,* where a major programme concerns the Integration of Administrative Data (IDA), which should provide more effective services, easier access to European information and more effective European administration. By improving the diffusion of information to the less developed regions, in particular, it will reduce disparities between 'info-poor' and 'info-rich' areas.

The second concerns the promotion of *intangible investment* in relation to both upstream (marketing, product design, strategic and operational management) and downstream (distribution and sales) stages of production. The effect of this on cohesion is uncertain. There is a risk, in particular, that the growth of intangible investment will reinforce the competitive position of large metropolitan areas since they already have an advantage in the provision of services, the supply of highly-qualified executives and the efficiency of communications, as they are usually nodes in major computer, telecommunication, road, rail and air transport networks. Union-financed initiatives under the Structural Funds have been directed at counteracting this risk by trying to bring about a more even regional distribution of opportunities.

The third priority is to increase *cooperation between firms.* The formation of inter-firm networks could become an increasingly important factor for survival for firms in less developed parts of the Union. Current initiatives include policies to promote cooperation with Central and Eastern European countries with the aim of constructing an international network of enterprise advisory agencies, such as chambers of commerce, banks and consultancies. At present, these networks are used by enterprises, especially in cohesion regions, which do not have support networks of their own. These are largely SMEs, which are more important in the poorer parts of the Union, rather than large transnational companies. Other initiatives are pursued in the context of SME policy (see below).

Competition policy

An essential complementary measure to the SMP has been to outlaw other forms of restrictive practice which could distort the market. Competition policies attempt to prevent the excessive concentration of market power in the hands of a single or limited number of producers and unjustified State aids which might impede free competition. They are, therefore, aimed at improving efficiency rather than improving geographical cohesion. To the extent, however, that market distortions are more widespread in the poorer Member States and regions, then their removal could have an indirect, positive effect on efficiency and growth in these areas.

More directly, the allowance given in special cases for subsidies under national systems of regional assistance, as described in the previous chapter, are compatible with the SMP so long as they contribute to economic development in the weaker regions and have only a minor effect on competition. In addition, EU competition rules also cover aid for horizontal objectives, such as R&D, environmental protection and the support of SMEs, as well as sectoral aid for sectors in crisis, such as steel and shipbuilding.

During the period 1990–92, the latest period for which data are available for all Member States, 50% of all aids given by Member States were of a regional kind, some 38% of a horizontal kind and the remaining 12% sectoral.

National aid for regional development

The Community recognises two types of region that are eligible for regional aid: the least developed areas with an abnormally low standard of living or serious unemployment problems (so-called '92(3)a' regions) and those with other problems, mostly of industrial decline (so-called '92(3)c' regions). The aim has been to target regional aid so as to offset the effects of lack of competitiveness.

At the same time, there has been pressure from Member States to widen the coverage of eligible areas in some of the more central parts of the Community (to increase '92(3)c' coverage). In practice, this has been largely resisted and, during recent revisions of assisted area status, the share of population covered under all types of aid has remained broadly constant (though the coverage of least developed regions has increased slightly from 23.9% to 24.9% of Community population and that of other regions has declined from 23.6% to 22.8% — in particular, assisted areas in the western part of Germany were reduced from 24% to 16.8% of national population, but assisted areas in Italy (under '92(3)c') were increased from 5.6% to 14.7% of population).

The most disadvantaged regions of the Community are most favoured under this policy. While the four cohesion countries have the status of assisted areas either in their entirety (Portugal, Greece and Ireland) or mostly (76% of Spain), coverage in most other Member States is between 35% and 49% of population, while in those with high levels of income per head and low internal disparities (Denmark, Sweden and the Netherlands), coverage is below 20%.

Union policy also differentiates in terms of the scale of aid allowed, which is significantly larger in regions with an abnormally low standard of living or serious unemployment problems than in others assisted. Overall, more than 66% of regional aid from national sources goes to areas classified as least developed, which covers the poorest areas of the Community.

Nevertheless, the effective scale of aid allowed is often much greater than the assistance actually given by Member States. This is particularly so in Spain and Ireland which, partly because of lack of resources, only grant assistance of 40% of the permitted level, whereas in Belgium and Germany, the figure is around 60–70%. As a result, the intended advantage accruing to the poorest countries is not realised. Recognition of this problem was one of the factors which led to regional aid ceilings being reduced.

In practice, as noted in chapter 3, a large proportion of regional aid is granted in just two Member States, Germany and Italy, mainly because of their large problem areas combined with the fact that they have the resources to spend. The poorer Member States depend to a greater extent on the Structural Funds to fund regional assistance, but even including ERDF spending, total aid per head in assisted areas in the cohesion countries is only between 6% and 30% of Italian levels. (The interrelationship between national and Community regional policies is discussed in chapter 6 below.)

Horizontal and sectoral aid

Control of State aid also extends to horizontal and sectoral assistance. Under competition rules, the scale of aid allowed is higher in regions eligible for national assistance. While, as noted above, sectoral aid now accounts for only 12% of all assistance to manufacturing industry — because of the fall in subsidies to steel, horizontal aid for R&D, SMEs, environmental protection and energy saving accounts for 38% of the total.

These forms of aid, however, particularly for R&D, are likely to have an in-built tendency to favour the richer regions of the Community, where the research centres of the major companies are concentrated. Studies of the regional distribution of Community R&D aid during the period 1983–90 confirm this. Such support, therefore, tends to run counter to cohesion objectives. Moreover, similar studies on the regional distribution of State aid for R&D in several large Member States indicate that this has also been concentrated in the most prosperous regions. In addition, government-funded R&D has been significantly higher relative to GDP in the richer Member States than in the poorer ones (see chapter 3 above).

Research and Technological Development policy

Since 1985, four RTD framework programmes have been the vehicle for RTD (research and technological development) measures in the Union (1985–88, 1987–91, 1990–94, 1994–98). It is a policy which involves significant expenditure, though the framework programmes account for only 4% of total public civilian research effort in the Union.

Although their main objective is to increase international competitiveness, the programmes also help develop RTD capacity in the relatively weak parts of the Union and strengthen their structural development. While high unemployment in Europe and the difficulty of people to find jobs are often blamed on technological progress, innovation and the dissemination of know-how are key determinants of economic development. However, the non-introduction of new technologies and the 'freezing' of existing production structures are not viable options, especially in less developed regions, where there is a major need to increase the adaptability of the work force and the pace of technological change in firms.

Given the importance of developing RTD in less favoured regions, the Commission, in 1993, outlined a first approach to increasing the synergy between RTD and cohesion policies (COM(93)203),with the objective of strengthening the RTD capacity of such areas and ensuring a high level of research effort right across Europe. This approach will be developed further in a Commission Communication on cohesion and RTD policy in 1997.

The basic principle governing the selection of RTD projects for support is itself a factor for cohesion in guaranteeing participants from the most disadvantaged regions access to international research in a Community-wide scientific and technological area.

Regional imbalances in RTD in Europe

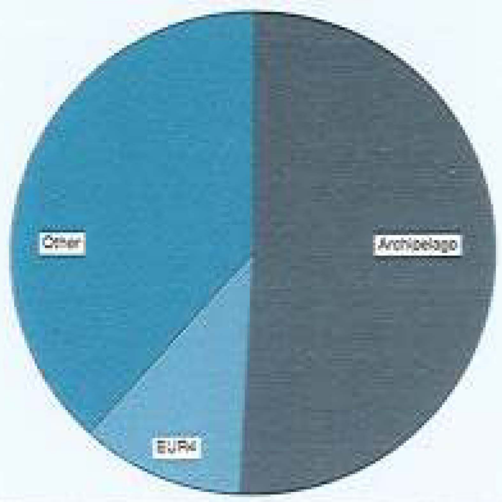
The search for a better complementarity between RTD and structural policies confronts two basic facts. On the one hand, there are disparities between regions in terms of competitiveness, which cohesion policy is aimed at reducing. On the other, there is a need to ensure that regions and local areas have the capacity to take advantage of the scientific and technological developments necessary for increasing competitiveness, notably through the dissemination of know-how linked to the pursuit of excellence.

Within the Union, Germany and France have the highest levels of public expenditure on civilian RDT. Of the 50,311 million ECU spent by Member States in 1993, Germany and France together accounted for 30,234 million ECU, 60% of the total, while Ireland, Portugal and Greece together spent only 672 million ECU between them, under $1^1/_2$% of the total, and Spain, 2,049 million ECU, just 4% of the total. The difference in public expenditure on RTD per head of population between Member States is 13 to 1 whereas the difference in GDP per head (in ECU terms) is only 5 to 1.

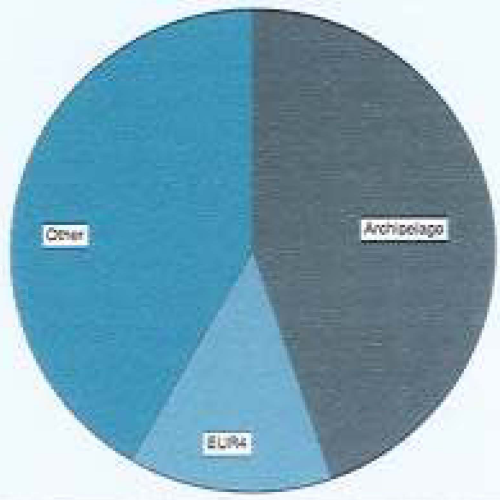
Moreover, spending is very unequally distributed within countries, so that at the regional level differences are even wider. Almost half of European research takes place in 12 'islands of innovation', in the so-called 'Archipelago Europe' running from London to Milan (and including in between Amsterdam/Rotterdam, Ile de France, the Ruhr, Frankfurt, Stuttgart, Munich, Lyon/Grenoble and Turin). These islands have dense networks of enterprises and laboratories and collaborate in the development of new products and processes.

This imbalance between regions has tended to be reduced since 1989, partly as a result of Structural Fund support, 5% of total expenditure under the Funds being devoted to measures linked to RTD.

23 Support under RTD Framework Programme, years 1987-90 (ECU mn)



24 Support under RTD Framework Programme, years 1991-94 (ECU mn)



Note: The data measure the level of expenditure in EU contracts according to the location of the contractors. They do not, therefore, show one of the main features of RTD programmes which is to bring together, via a single contract with the Commission, partners located in different Member States and regions. They can only be a partial guide to the total benefit which different regions derive from EU RTD programmes, since each partner has access to all the results of the project, or projects, in which they are involved.

This, however, has not been sufficient to close the gap with central regions in terms of the conditions necessary to benefit from the diffusion of best practice.

A positive but limited contribution to cohesion

The growth of the cohesion countries has been associated with a significant increase in both public and private expenditure on RTD. Gross domestic spending on R&D in Portugal went up from 0.4% of GDP in 1985 to 0.6% in 1992, in Greece, from 0.3% in 1985 to 0.6% in 1993, in Ireland, from 0.8% to 1.2% between the same years and in Spain from 0.5% in 1985 to 0.9% in 1994.

Union support has helped disadvantaged regions participate better in framework programmes, although the data confirm the relevance of Archipelago Europe: almost half of the total amount of contracts under the RTD Framework Programme goes to nine regions which together account for only 28% of population (Graphs 23–25). The participation of the cohesion countries in successive programmes, however, has gradually risen, even if slowly, and they have increasingly developed links with partners in the North of the Union. In 1995 alone, just over 14,000 separate links were created in the four cohesion countries as a result of framework programmes. Nearly half of the partnerships under the second and third Framework Programmes, however, were with the UK, France and Germany.

Complementarity with structural policies should enable the synergy to be improved, which is essential to raising competitiveness in cohesion countries and less developed regions and to allowing firms and research centres to participate in, and benefit more from, policies in this area (see Box on the Fifth Framework Programme).

A complete evaluation needs to go further and consider the quality of intervention and its relevance to the industrial needs of weaker regions and not just the financial contributions from Union RTD policy.

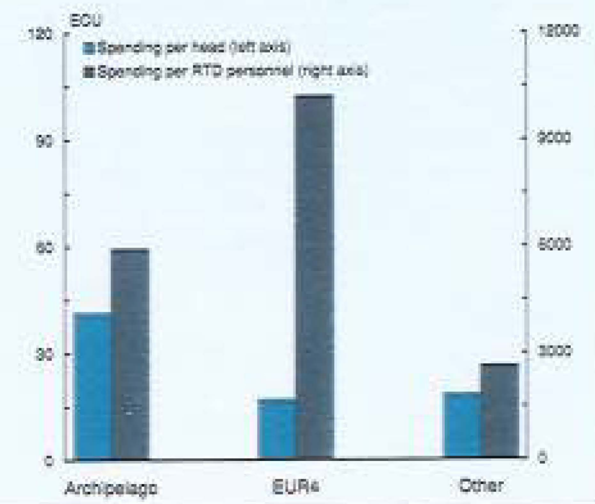
Evaluation of the framework programmes provides a number of insights into quality aspects of the participation of the four cohesion countries:

The Fifth RTD Framework Programme

The guidelines proposed by the Commission in its Communication 'Inventing tomorrow' emphasises a number of themes among the six priorities proposed which are particularly important for cohesion:

- the development of human potential, especially in relation to the training and mobility of researchers, whose experience under previous programmes has shown the value of this kind of action for less favoured regions but which remains to be developed;
- a greater effort to stimulate innovation and the dissemination of results and, in particular, to increase the participation of SMEs, which is a necessary condition for the structural development of weaker regions;
- the development of the Information Society, which raises questions about the access of those in weaker regions to advanced services, which is as important to them as for those in more developed, central regions.

25 Indicators of RTD, 1987-94



The Innovation Programme

Under the Fourth Framework Programme of Community activities in RTD, a specific programme, the Innovation Programme, has being established to disseminate the results of research activities. It has three interdependent aims:

- to help create an environment favourable to innovation and the absorption of new technologies by enterprises (including promoting Innovation Management Techniques and the European Innovation Monitoring System);
- to encourage the development of an open area in Europe for the diffusion of new technologies and know-how (including through Technology Transfer Projects and Innovation Relay Centres);
- to stimulate the supply of appropriate technologies to this area (including through Technology Validation projects and assistance in patenting and exploiting innovations).

The programme covers regional measures on innovation, such as Regional Innovation Strategies and Technology Transfer Projects. The purpose of all the measures is to help firms in Europe compete more effectively on world markets. As stated in the Green Paper on Innovation, support is best provided at the regional or local level, where, for example, small firms can be encouraged to pool resources and to make the most of their comparative advantage in order to be able to compete with larger firms.

The programme aims to cater for the true needs of firms which is essential for strengthening RTD output and making the most of the strong scientific base which exists in Europe, but which in the past has proved less successful than that in other countries in converting new ideas into tangible new products and processes.

- participation is proportionately higher for research institutes and/or universities than for the private sector, and industrial participation is largely by SMEs, mainly because these countries do not have many large firms;
- certain programmes notably ESPRIT and BRITE-EURAM seem to have attracted higher levels of involvement from cohesion countries and regions than others;
- the main benefits gained from involvement are the acquisition of scientific knowledge and skills and training in the application of this knowledge (a majority of the enterprises from these countries identified their main gain as being new products and processes launched within three years);
- as with the framework programmes generally, the rate of continuation after the end of the contract is relatively high. For example, 18% of Greek participants reported that they had formed permanent links with EU partners and 54% frequent links.

Smaller firms are a more important vehicle for involvement in EU programmes in the cohesion countries than in other countries, but they seem to have more difficulty in obtaining maximum benefit from the programmes, a problem which has been addressed in the third and fourth Framework Programmes — through, for example, measures to stimulate and simplify the participation process (in particular through the CRAFT programme), to assist with the dissemination of results and to help convert them into new products and processes.

Detailed investigation shows, not only that the southern countries have increased their participation in the framework programmes over time and have linked up with partners in the North, if sometimes only as subcontractors, but also that the best institutes tend to club together, notably those in Portugal and Greece which have formed close links with their northern equivalents. A major risk of this is that the research agenda loses its relevance to the development needs of the poorer countries. In other words, while the benefits in terms of developing scientific knowledge, skills and managerial capabilities may be real, an over-emphasis on research excellence may tend to exaggerate the divide between academic and applied research, the latter being particularly important in the poorer countries.

The framework programmes have attempted to address research issues which are directly relevant to the industrial needs of weaker regions. One example is the textile programme in the BRITE-EURAM Initiative which succeeded, through process automation, to maintain established textile firms in Europe or even to attract back some of the production which had relocated to other parts of the world in search of low wages. This suggests that programmes aimed at diffusing new process technology, even in traditional, low tech industries, may have considerable pay-off. (The dissemination of RTD results has been reinforced in the fourth Framework Programme by the provision for 1% of all specific programmes to be dedicated to this purpose — see Box on the Innovation Programme.)

Finally, reflecting an increasing attempt to create synergy between RTD and cohesion policies, the research staff of a number of institutions, newly established with assistance from the Structural Funds, are receiving help under the 'Training and Mobility of Researchers' scheme in the fourth Framework Programme, in the form of a supplementary year of grant when they return to their region and subsidies to equip their laboratories.

SME policy

SME policy is aimed at improving the business environment, fostering Community information and transnational cooperation between firms and increasing access to R&D and finance.

SMEs are a significant element in the economy, accounting in 1992 for 67% of employment in enterprises in the Union and 65% of turnover and being particularly important in distribution (89% of employment) and services generally ($77\frac{1}{2}$%) and less important in industry (where large firms account for $40\frac{1}{2}$% of employment and $52\frac{1}{2}$% of turnover). Their particular advantage as regards cohesion is that they tend to be more labour and less capital intensive than large firms and so tend to provide more jobs per unit of output, while being well suited to the weaker and more peripheral regions where capital shortages are often a problem.

The main problems faced by SMEs are the lack of start-up capital and of suitably skilled workers, especially managers. They can also have difficulties coping with a complex legal and administrative environment and may lack access to information about such issues as new technological opportunities and potential new suppliers or customers.

Information, inter-firm cooperation and access to RTD and finance are among the most important aspects of Union SME policy. European Information Centres (EICs) disseminate information on markets, customers, the potential for cooperation, subcontracting and so on. They also provide details of policy matters, such as EU funding, public procurement and environmental regulations. The network comprises 226 centres in EU countries and has links to 25 centres in Norway, Iceland, Central and Eastern European and the Mediterranean countries. There is a strong cohesion orientation with 160 of the centres (71%) located in areas eligible for Union regional aid. A quarter of the 300 thousand enquiries answered each year come from the four cohesion countries.

To promote transnational and inter-firm cooperation, the business partner search networks such as Business Cooperation Network (BC-NET) and the *Bureau de Rapprochement des Entreprises* (BRE) have been developed. Half the correspondents in BC-NET and 54% of the correspondents in BRE were from assisted regions, the most intensive users being, in order, Portugal, Belgium, Italy and Ireland.

The final policy area is access to finance and credit. The Seed Capital pilot scheme, for private venture capital investment in new innovative enterprises,

EUROPARTENARIAT and INTERPRISE

EUROPARTENARIAT and INTERPRISE programmes support the organisation of business meetings and events where representatives from SMEs can meet and discuss cooperation prospects with their counterparts from other countries. The former consists of 2 events a year with over 2000 companies at each, while the latter comprises 40–50 events a year attended by an average of 100 companies. Both are relatively concentrated in assisted regions. The organisation of events to further industrial cooperation such as round tables and fairs (IBEX, International Buyers' Exhibition in strategic sectors) is also generally of more benefit to cohesion countries.

A further policy area aims at facilitating access to RTD. A pilot action is EUROMANAGEMENT RTD, which, in 1995, funded, on a 50% basis, 47 consulting organisations specialising in research, technological development and innovation for SMEs, selecting nearly a thousand SMEs and then implemented strategic planning, analysis of needs, partner search and assistance for designing RTD projects. Some 26% of SMEs participating came from cohesion countries.

supported the creation of 23 independent investment funds, which, between 1989 and February 1995, invested 26.6 million ECU in 228 new innovative enterprises. Among the poorer Member States, however, only Spain with three funds is an active participant in the scheme. Ireland has only one fund and Greece and Portugal none at all.

The SME facility for subsidising loans, introduced by the 1993 Copenhagen European Council, was designed to support employment creation in SMEs. Take-up has been virtually 100% in the most prosperous countries, but only one-fifth of the funds earmarked for Greece and Portugal have been used. Take-up has been somewhat higher in Ireland and Spain (around 80%), but this underlines a major problem in SME policies, in that they are inherently demand-driven, so take-up is highest in Member States with the most dynamic firms (and where there is a well developed service sector). These Member States tend to be the richer ones.

This implies that, while all SME policies are directed in some degree towards improving cohesion, lack of take-up makes this difficult to achieve in practice. Greece, in particular, seems to have difficulties in providing active participants for most programmes, while the other three countries have fewer problems.

Trade policy

EU trade policy has sought to remove external barriers and to promote the orderly growth of trade on a global scale as the counterpart to the SMP which has removed internal barriers. The result of this two-track approach is that the Union has been able to avoid inward-looking, protectionist tendencies *vis-à-vis* the outside world, while exercising its responsibility as the world's largest marketplace for goods and services.

There is a wide consensus on the positive effects of liberalisation of world trade on economic growth. In the long run, the increased incomes which an open economy helps to support provides not only stronger demand for the output of less favoured areas but also greater resources for the funding of regional development. At the same time, the removal of trade barriers requires adjustments to patterns of production which can be unevenly distributed both geographically and socially. Nevertheless, given the positive effects of trade liberalisation in the long run, the case for maintaining protection of weak industries, even as a short-run device for promoting regional cohesion, is unconvincing.

In general, current tariff (and MFA quota) protection is more important for the low income parts of the Community than others. High tariff industries account for almost half of industrial employment in Portugal and Greece, but their share is less than a quarter in northern countries such as Denmark and Germany. On the other hand, non-tariff measures, such as voluntary export restraints tend to be concentrated more on the products of northern Member States.

The Uruguay Round, successfully completed in 1993, resulted in agreements to reduce trade barriers substantially, to redraw the internationally-agreed trade rules in areas such as anti-dumping and to extend the scope of world-wide rules and disciplines to new areas, notably agriculture, services and the protection of intellectual property rights. This is expected to affect prospects for growth and employment in a number of important respects. The world-wide reduction in tariffs (from an average of 5% to about 3.5% in industrial countries) is likely to stimulate trade (through increasing world GDP by an estimated 1–2%), providing increased export opportunities for EU producers and thereby adding to output and employment in the Union.

With respect to services, the new multilateral provisions are expected to provide a more secure environment for trade to expand and the basis for further negotiations for liberalisation. Since the more prosperous regions seem likely to benefit most from greater access to world markets (all cohesion countries have trade deficits in services), the initial impact may be to widen disparities between rich and poor regions. However, it is also likely to strengthen EU competitiveness with favourable implications for employment and social cohesion. The same is true of intellectual property rights and rules on technical barriers to trade.

Nevertheless, despite the long-run potential gains, the immediate pressures for modernisation and adjustment in patterns of production in the low income regions should not be underestimated. Certain sectors, such as textiles and clothing, will be more affected than others, especially in Spain, Greece and Portugal. The impact, however, will be softened in two ways. First, the phasing out of the MFA will take place over ten years with most of the changes concentrated at the end, in 2005, giving time to plan and implement adjustments. Secondly, the products to be liberalised in the first phase concern all Member States in a more or less equal way. In addition, the reduction in average tariffs (from 5.98% to 3.73% or from 7.4% to 4.5% in the case of manufactured products) will be phased in over five years and this, plus the fact that tariffs are already low in the Union, will help to ease the process of adjustment and change.

At the same time, the Union lies at the centre of a complex web of regional trade preferences, the most notable recent development in which is the negotiation of free trade arrangements (Europe Agreements) with the Central and Eastern European countries. Trade with these countries is expanding in both directions with positive effects overall.

In general, the four cohesion countries are more vulnerable to trade liberalisation because of weaknesses in their exporting and import-competing sectors. All have trade deficits in services which is one of the sectors expected to expand. The main exception is Ireland, where modernisation over the last decade means that the economy now has a comparative advantage in technology-intensive sectors (and in food processing industries). Ireland should, therefore, benefit from the growth of export markets in high-tech products as well as, with Spain and Portugal, from a possible increase in foreign direct investment, though there is now more competition for investment from, for example, the economies in transition in Central and Eastern Europe.

4.3 The network policies

The network policies of the EU seek to remove the national bias in the provision of key infrastructure and to improve the coherence and efficiency of transport, telecommunications and energy supply. They are, therefore, relevant for the competitiveness of the European economy as a whole. At the same time, these policies have effects on the geography of production and hence on cohesion, which has increasingly been incorporated among their objectives.

Network policies can be regarded as a means to reduce transaction costs (of transport and telecommunications) involved in the trade of goods or in the movement of factors of production from one place to another. Whether central or peripheral regions will gain more from such cost reductions is open to question. This essentially depends on the extent of the reduction which occurs. If these are relatively small, then it will continue to be more economic to concentrate production in central regions of the Union, since the benefits from agglomeration (in terms of economies of scale, being close to suppliers and customers and so on) will tend to outweigh the savings in labour costs from lower wages in peripheral areas. If, however, transaction costs are reduced to very low levels, then lower labour costs in peripheral regions will become more important in location decisions causing production to relocate. Over the long-term, therefore, when transaction costs are likely to be more affected, the peripheral regions could well benefit more than the more central ones.

Transport

Transport has a potentially critical effect on economic and social cohesion. Apart from its role in production and distribution, public passenger transport is very important for low income groups and for women. The Common Transport Policy, especially during the period of the implementation of the single market programme, has been oriented primarily towards liberalisation — creating an open and competitive transport market — and increasing integration through the harmonisation of fiscal, social and technical conditions. These measures have been supplemented by specific provisions — in accordance with Treaty rules — on public service obligations (PSOs) which address transport needs according to regional or social factors rather than those of the market. The promotion of public passenger transport has also become more important.

A second element deriving from the Treaty on European Union has provided for the creation of trans-European Transport Networks (TETNs), which explicitly address not only the mismatches and duplication arising from the national bias in infrastructure investment, but also the specific contribution to cohesion (Graph 26 and Table 16 in the annex show the division of expenditure between transport modes and between the cohesion countries and the rest of the Union).

More recently, the notion of 'sustainable mobility' has become the central goal of transport policy. Meeting the demand for mobility with significantly less resources, reinforcing technical emission standards, addressing the structure of the demand for mobility by, for example, integrating spatial planning priorities into transport infrastructure planning and furthering intermodal transport are now issues of considerable influence for EU transport policy.

Regarding liberalisation, the achievement of an integrated European economy requires an open transport market free of entry barriers and discriminatory practices. Transport charges do not generally account for a significant element of business costs, with the exception of a limited number of bulk commodities and services, but reliable and efficient transport systems contribute to the reduction of not just the costs but also the perception of distance. This has potentially important effects on competitiveness and on the geography of production.

EU policies, liberalisation and the cohesion countries

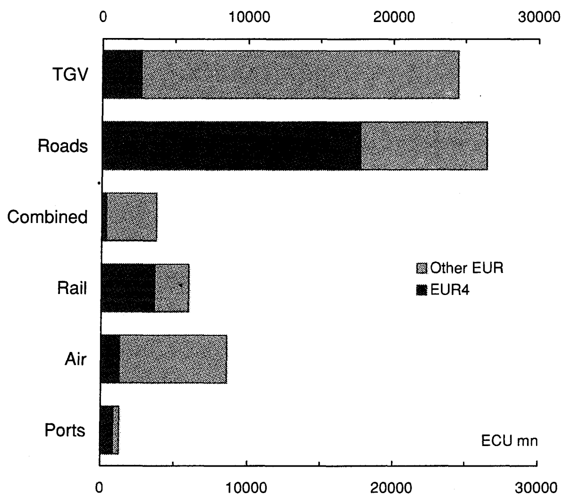
The cohesion countries are unlikely to be affected to the same degree by policy developments in each of the transport modes. Because of their history and geographical peripherality, changes affecting road transport, short-sea shipping and air transport are likely to be of most consequence for them.

Road transport is likely to remain the principal mode of transport for goods and services in the cohesion countries (where historically other forms of transport have been less important). With regard to passenger transport, while private vehicle ownership is generally lower than in non-cohesion countries, extensive networks of inter-city and rural bus services exist. For freight, road haulage accounts for a significantly larger share of inland transport in the cohesion countries than it does in the rest of the EU, while much of this transport is own account. One result is that market-based policies — such as road pricing — which favour a shift away from roads need to be examined carefully, since they may have an adverse effect on development prospects. Differentiated approaches to allow for different circumstances are necessary, which has been the approach adopted in the Commission's Green Paper on fair and efficient pricing in transport.

Sea transport has a potentially central role in the cohesion countries. Unfortunately, these countries are often at a distinct disadvantage in terms of port facilities: lower levels of efficiency (partly due to under-investment) contribute to slower turn-round times for cargoes resulting in relatively high freight charges. The Community's initiative on short-sea shipping may yield positive benefits for ports in the cohesion countries, especially for the Mediterranean countries and Ireland. Given the long distances and geographical obstacles for freight transport, the promotion of short-sea shipping — and particularly the intended coordination of efforts to introduce new technology, the development of skills, infrastructural support and new working practices — can potentially reduce transport costs and times.

Efficient, affordable air transport can make a fundamental contribution to opening up opportunities for the most geographically peripheral areas, notably by reducing journey times for business travellers. But one of the potentially more serious implications of liberalisation is the possible abandonment of air routes which are less profitable and which have been maintained by cross subsidies from profitable markets. So far, however, this effect has not emerged in practice. At the same time, new competition has inevitably been largely

26 Total expenditure on trans-European Networks by main mode



attracted to the busiest routes between the major urban centres, which tend to benefit in turn from the largest reduction in prices. For the cohesion countries, this means that the benefits tend to accrue disproportionately to a limited number of urban centres, generally the capital cities.

The opening up of new *international regional* services was one of the earliest steps in the air transport liberalisation process: the 1983 directive permitted the introduction of services between regional airports in different countries (which had some initial success). With the extension of liberalisation to the market as a whole, concern for *internal* regional services has become uppermost and provisions allow for the protection of such routes as public service obligations.

In some cases, airlines in the cohesion countries have been able to benefit by exploiting the more open market conditions to combine services. For example, an Irish airline flying Lyon to Dublin can now include Paris in its itinerary and carry French passengers flying Lyon to Paris.

Taken together, the single aviation market has helped to facilitate the creation of new air links to and from peripheral parts of Europe and between them, with positive economic effects, such as the development of tourism. In addition, Member States have made extensive use of Community public service rules in areas where market forces do not suffice. More than 100 air routes are operated in application of these rules.

More generally, geographical location means that a basic need for the cohesion countries is intermodal transport. For freight transport, this generally implies efficient road/sea or rail/sea connections in which the strength of the system as a whole is equal to that of its weakest link. Intermodal transport, is a feature which has been generally absent from transport planning at the European level until recently. Its importance for the cohesion countries can be gauged from the priorities identified in the context of the TETN Initiative discussed below. TETNs in the cohesion countries have a modal profile which differs from the rest of the EU, with the bulk of loan finance going to ports, combined transport and roads but only between 15% and 25% to rail (conventional and TGV) and air (airports and ATM). Within the total of TETN grants, cohesion countries accounted for the bulk of EU funding for roads.

Trans-European transport networks and cohesion

More generally, the TETNs have the potential to open up the European territory, generating new opportunities for the peripheral Member States and regions. An updated assessment has recently examined the effects of the TETN projects in terms of passenger transport. The conclusion was that implementation of the existing TETN programme would on average generate a 20% increase in the population accessible in a daily round trip. This average conceals divergences between different types of city. The biggest gains would be to cities located near new projects where hitherto links had been poor (improvements of over 80% are noted here). In some cases, these include cities in cohesion countries. The next most important gains are to centrally located medium-sized cities (30–60% increase), followed by large cities in cohesion and other countries alike (between 16–26%). Smaller cities in remote areas and some very large cities which already enjoy good infrastructure would show the smallest gains (10% and under).

In terms of journey time, the evidence reveals a similar picture: while cohesion countries benefit in absolute terms, they do not gain so much in relative terms. Expected improvements are strongest in the border regions of Scotland and England, southern Italy and remote areas with poorer infrastructure in France and Germany.

While capital cities in cohesion countries would experience an improvement, smaller cities in these countries would see smaller gains, particularly compared with equivalent cities close to the nodes of the TETNs. One reason is the poor local networks: continuing investment in secondary routes and links between modes is needed in cohesion countries to enable them to connect to the TETNs. A particular challenge for transport policy, in combination with cohesion policies, is to address this risk, in particular with regard to the provision of secondary connections to the major networks which have not had priority up to the present (see chapter 5).

Another more general reason for the smaller benefits accruing to cohesion countries and regions is, however, inherent in their geography. Their peripherality means that they do not have the benefits of the centre which typically has easier access to all parts of the network. The periphery tends to have access to the centre but generally poorer connections to other peripheral places. At the same time, to skew networks in favour of lagging areas could reduce overall efficiency and growth, at least in the short-term before the improvements in the productive potential of the peripheral economies take effect. Indeed, this conflict between short and long-term objectives poses an acute dilemma for policy-makers who have to decide the relative weights to be attached to the two.

Because transport provision in the cohesion countries tends to be less profitable in the short-term in purely financial terms than in the more prosperous central parts of the Union, the importance of adequate PSO provisions is, therefore, generally greater. Indeed, PSOs are essential in order to help reconcile the highly desirable, but often long-term, effects of liberalisation and competition with the inevitably uncertain, and, therefore, risky, nature of investment in transport. Cohesion-oriented policies — which have a long-term time-horizon — demand continuity and the existence of regular services over an extended period of time which is not always guaranteed in low volume, highly seasonal markets. Public provision in the poorer, less developed regions can, therefore, help balance the desirable effects of liberalisation on efficiency with the need for adequate services to be provided to all areas at an affordable price.

Telecommunications

Effective and affordable telecommunications are important for increasing competitiveness and growth, as well as improving the quality of life of Europe's citizens. These are the principal objectives of the gradual liberalisation of telecommunication markets and networks in the Community.

The Union's policy on telecommunications entails establishing conditions and timetables for opening up markets as well as defining a harmonised framework for the provision of universal services and data protection. The aim is to improve the quality of service and choice by exposing operators to market forces and to ensure the interconnection and interoperability of existing networks as well as a minimum level of service in every part of the Community. This raises key issues for cohesion countries, in particular, about how they can share fully in the benefits from liberalisation, how best regulations can counter the potentially adverse effects of liberalisation and how the Information Society can develop unimpeded.

Liberalisation

The strategy of gradual liberalisation dates back to the Telecoms Green Paper of 1987. Equipment markets were liberalised from 1988 on, value-added services in 1990 and data communications in 1993. Other aspects, such as digital mobile communications — the GSM system — have developed on a competitive basis, assisted in some Member States by the application of the Treaty's competition rules.

Full liberalisation of all telecommunication services and infrastructure will occur in 1998, with possible periods of transition of up to 5 years to allow Greece, Ireland, Portugal and Spain to carry out the necessary structural adjustment, particularly in tariffs. At the time of writing, with the 1998 deadline less than 18 months away, only Greece has requested to delay full liberalisation until 2003 and the other countries intend to open up their national markets by 1999–2000.

The full effects of liberalisation are unlikely to be felt until well into the next decade, though a few quantitative indications of the possible effects on the cohesion countries can be gained from experience in countries where liberalisation has already occurred or from *ex-ante* studies carried out in those where it is planned. Experience elsewhere, however, will not necessarily be repeated in the cohesion countries where circumstances are different.

There are reasons for optimism that in the long-term the opening of the telecommunications market and the harmonisation measures will be beneficial for the less densely populated, peripheral regions, though there might be adverse effects in the short-term.

The principal risks are that new investment will be concentrated in areas of relatively high demand and low cost and that changes in tariff structures — in particular, the rebalancing of prices to reflect the cost of providing service — will delay the development of new services in certain regions in the cohesion countries.

In practice, much depends on the nature and extent of tariff rebalancing that occurs and, more especially, on the development of offsetting arrangements to overcome the impact of price increases for particular groups of user as part of universal service obligations (USOs), which seek to maintain essential services for regional development even if they are uneconomic.

The elimination of cross-subsidisation will have three main effects: to increase access charges relative to the total charge, to reduce the price of long-distance calls and of international calls both inside and outside the Union, as well as the cost of leased lines which are the basis of business networks throughout the Union.

The effects of a relative increase in access charges is likely to be unevenly distributed between social groups and regions. In the UK, for example, British Telecom is allowed to levy an additional connection charge for very remote customers where substantial extra costs are involved (over 100 hours of labour).

Secondly, advances in transmission and switching technologies have already dramatically reduced the effect of distance on the cost of calls and the move to a more cost-based tariff structure should further reduce this. The effect on regional disparities is, however, unclear, since lower costs will benefit both central and peripheral regions. Nevertheless, it is likely that there will be a relative gain to the latter, since, although data on call patterns are not available, it might be expected that a higher proportion of calls made in a remote area will be long distance than in, for example, a large city (if only because in remote areas the number of subscribers within the local call area will be much smaller.)

The effects on social cohesion, as opposed to regional disparities, of a reduction in long-distance call charges are ambiguous. While people with high incomes who make more calls are likely to benefit most, it is also the case that long-distance and international services will become a more realistic option for lower income groups, deterred at present by high tariffs.

The third main aspect of tariff rebalancing concerns services between Member States. Mark-ups on these are particularly high and anomalous, and calls within countries generally cost far less than international calls of comparable distance. Moreover, a call from one Member State to another can still be double the cost of an identical call in the opposite direction.

While, globally, tariff restructuring will lead to lower prices, it will not necessarily narrow regional disparities, primarily because of increased access charges. The scale of the effect will depend on the extent of existing cross-subsidisation which varies from country to country. To moderate the effect, there is a need for an active approach by national regulatory authorities which have an obligation to guarantee the affordability of a universal service within the Community, together with an assessment of any additional action that needs to be taken.

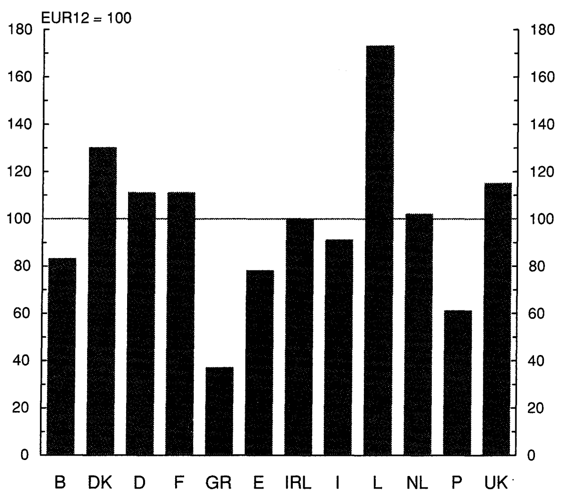
Universal service obligations

Telecommunications policy includes not only the liberalisation of the sector but also the enforcement of universal service obligations (USOs). The responsibility for establishing mechanisms for these lies primarily with national governments and regulatory authorities. (The Commission in a Communication on Universal Service of March 1996, recognised that although the process of rebalancing '*remains a fundamental element of the preparation for a fully liberalised environment*', attempts are being made to alleviate its worst effects by proposals for ensuring that services remain affordable through incorporating price caps and special targeted tariff schemes in USOs.) A key issue is whether or not to maintain a single uniform national tariff for the basic service. In most Member States, a single tariff is likely to be retained in the immediate future, though this does not mean that it will remain in the longer term.

While there is a consensus in the run-up to 1998 on the present scope of universal service obligations (specifically, a voice service at an affordable price to any user *via* a line which supports the use of data communications (modem and fax) and the provision of pay phones, directory and operator services, free access to an emergency number, touch-tone dialling, itemised billing and the possibility of blocking calls to particular numbers), the major issue in the future will concern cohesion. In the absence of requirements to provide universal geographical coverage at an affordable price, the regional pattern of development of new services and infrastructure is likely to be uneven. Even under a public monopoly, new services tend to be introduced initially in areas where demand is high and cost is low.

There is a balance in this regard to be struck between the pursuit of cohesion objectives, on the one hand, and the free-play of market forces, and the greater efficiency and faster innovation which it is likely to bring, on the other. (The Commission's Communication on Universal Service recognised that universal service is a dynamic and evolving concept and should '*combine a market-based analysis of the demand for and widespread availability of a particular service and a political assessment of its social and economic desirability'.*) In order for policy-makers to make best use of any funding mechanism for universal services (including from the Structural Funds), it is essential that they make informed choices on the scope of these and on possible future developments, such as providing broader access to the Information Society to, for example, schools, hospitals and libraries. (To assist these choices, the Commission will begin regular monitoring of the scope, quality and affordability of universal services in the Community from the end of 1997.)

27 Average annual spending on telecom services per head, 1992



Liberalisation in the cohesion countries

Telecommunications are least developed in the four cohesion countries. As noted above, after liberalisation, operators may be even less inclined than before to invest in areas where spending on services is relatively low (Graph 27), cost of investment is high, in part because of low population density, and the returns are smaller than elsewhere. Delaying liberalisation in countries with less developed networks may make sense if the purpose is to allow them to catch up. Moreover, in countries with relatively low use of telephone services, usage-based charges and special tariff schemes may be a sensible strategy for rapid development of the network (subsidising access where comparatively few people are connected to the network is likely to be more efficient than in countries where most are).

Whereas most other Member States are in the final stages of development of their telecommunication services and USOs are primarily for social reasons, in the cohesion countries, where the system, and a mass market, is still developing, USOs serve an important economic function and low charges can help stimulate network expansion.

By the same token, however, the cost of USOs seems to be significantly higher in these countries than in the rest of the Union. According to one study, while for most Member States, USO costs in 1992 ranged from 0.5% to 3% of turnover, for Spain the figure was 5%, for Portugal, over 7% and for Greece, over 15% (by Analysys in 1994, though the figures should be regarded as indicative only and could be subject to a wide margin of error, since they depend very much on the particular assumptions and methodology used which are often not revealed).

As well as USOs, accompanying measures may be required to help accelerate the development of the networks in the cohesion countries, possibly using resources from the Structural Funds, and avoid significantly adverse effects from liberalisation (as acknowledged in the Commission's 1995 Green Paper on infrastructure).

Trans-European networks, the Information Society and cohesion

The development of telecommunications on a Community-wide scale is a potentially important force for European growth and closer integration, especially given the dramatic increase in the possibilities for the electronic transfer of information. The present focus of policy is on the convergence of technology to create a 'common information area' in Europe through the trans-European networks telecommunication action (TEN-Telecoms). This action, unlike those for energy and transport, relates to advanced applications and services of public interest rather than to infrastructure, including a network of city information highways, a tele-medicine application, a distance education and training scheme, access to cultural heritage, generic services, teleworking and electronic commerce for SMEs.

The basic bottleneck addressed by TEN-Telecoms is not so much 'missing links' in the network, but the lack of availability of applications and services matching the needs of business and people. In this regard, uncertainty about commercial viability, because of the innovative nature of the application or service in question or the difficulty of organisation, can deter private initiative. Union intervention is directed at reducing uncertainty and the financial risk involved and at encouraging services of public interest to be launched on a trans-European basis under public-private partnership. Development of TEN-Telecoms is demand-driven, projects being specified through open calls for proposals, on the basis of a given set of criteria which include strengthening social and economic cohesion.

In summary, there is some risk that without intervention in certain areas, the modernisation of the Public Switched Telephone Network (PSTN), and the development of broadband networks, in particular, will not occur at the desired rate and that, as a result, the system will be incapable of carrying important services such as the Internet to certain regions. Since many services are revenue-generating, loans and/or private capital can be expected to fund some of the new developments. Given the sums involved, however, there is a role for intervention under the Structural Funds to finance at least part of the costs (see chapters 5 and 6).

Energy

Energy is a key element in regional development. The sector is important in its own right, value-added amounting to just under 5% of Community GDP and accounting for around 2% of employment and significantly more in energy-producing regions.

The poorer Member States are particularly vulnerable to energy developments, since, because they import more and employ more in their distribution networks, these have a greater potential effect on costs.

Much of energy policy is the responsibility of Member States. As with the other network policies discussed above, the main initiative at Union level which has implications for cohesion is liberalisation, identified in the 1995 White Paper in terms of the need to complete the internal energy market. The White Paper also proposed measures to guarantee security of supply and protect the environment.

Liberalisation

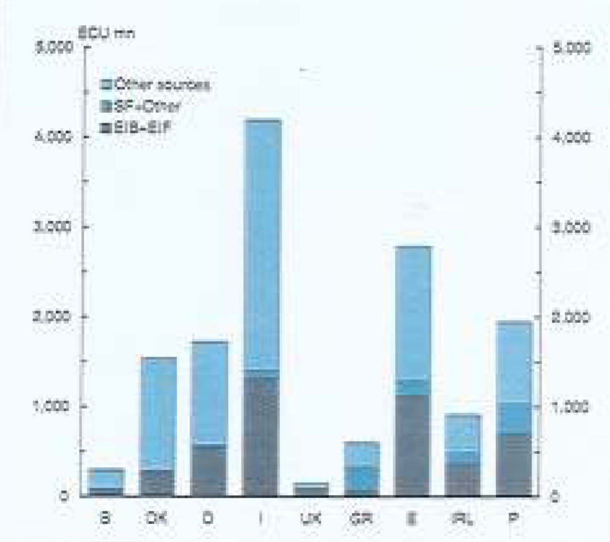
Liberalisation is likely to lead to a range of efficiency improvements because of increased competition and the better use of infrastructure which it will encourage. According to a recent study for the Commission, annual cost reductions are likely in electricity alone of between 4–6 billion by 2000 and 10–12 billion ECU by 2010 and in energy supply overall of 6–8 billion ECU by 2000 and 14–19 billion ECU by 2010, figures equivalent to 0.15–0.5% of GDP. Since the cohesion countries have relatively little indigenous energy supply and so fewer constraints in using the lowest cost source, it is arguable that they will benefit most from these reductions. However, experience in the UK, where the market was liberalised first, suggests that though large savings are possible, these may take some time to be passed on to users.

As UK experience also underlines, existing pricing structures generally entail substantial cross-subsidisation, a fixed price being charged per unit of consumption, despite unit cost being higher for small consumers and in rural areas. In the absence of the intervention of public authorities or a regulatory body, a system based more on the actual costs of supply is likely to lead to higher relative charges in both cases. However, in the UK, electricity prices for small and rural consumers have also fallen in real terms after liberalisation. On the other hand, some estimates of the effects of full liberalisation of the British gas market indicate that the smallest consumers (generally the poor and elderly) could experience relative price increases of 80% if full-cost pricing were introduced, though this might not mean prices rising in absolute terms if energy prices overall were reduced substantially as a result of increased competition. In some parts of the UK, the market for gas has been opened for captive sectors (SMEs and households). This experience will be monitored closely elsewhere in the Union.

Community financial involvement in energy outside the structural policies tends to be limited; nevertheless, it attempts in general to take cohesion objectives into account. Thus, more than half of trans-European energy network funding for feasibility studies has gone to cohesion countries, while they accounted for a significant share of EIB loans (Graph 28 and Table 19). Under the network policy and the regional energy planning initiative, peripheral regions are likely to gain from increased choice and security of supply. Energy/environmental programmes such as ALTENER (for the development of renewable sources of energy) and SAVE (for promoting the rational use of energy) have also in some degree incorporated cohesion objectives in their wider aims. Programmes, such as THERMIE, which help to promote energy diversification, also benefit regions in the cohesion countries with their high dependence on oil.

The long-term trend in the industry, as elsewhere in the economy, is towards increased capital intensity and a smaller work force, particularly in solid fuels. Liberalisation is likely to accelerate this trend. For example, a coal-fired power station employs 1,000–2,000 people while an equivalent gas-fired power station employs 300–600. Changes in subsidy and preferential purchasing arrangements in Member States may, therefore, lead to significant rationalisation in the mining industry and to substantial job losses in regions where coal production is important.

28 Funding for TENs energy projects



4.4 Quality of life policies

Although many of the policies which have been reviewed so far address social considerations, they generally do so through a primary preoccupation with economic, or more specifically efficiency, matters. But Union policies also take into account human and social aspects reflecting a broader concept of quality of life, including the important issue of the sustainability of the Community's economic development in terms of environmental protection and resource use.

Social policy

Social policies directly address, by their nature, the issue of integration and cohesion. They, therefore, play an important role in promoting European cohesion, between social groups and regions. They cover three broad types of activity.

First, there are significant interactions between the single market (and more broadly, European economic integration) and social policy. Indeed, it has generally been recognised that social policy, and systems of social protection, in particular, has to be developed in parallel with a single market in order to support competition and the efficient operation of market forces and to ensure that the necessary — and continuous — restructuring of economic activity and employment can take place without it generating unacceptable social problems. Indeed, closer economic integration in Europe is unlikely to be possible without adequate social provisions.

Right from the beginning, initiatives in the social field have played an accompanying role in the completion of the single market. By guaranteeing a number of specific rights to the individual — mainly workers during the first phase — protecting them and forbidding competition between firms on certain grounds, the initiatives have offered new opportunities for certain groups in the labour market while discouraging activities which adversely affect workers, so contributing to social cohesion. These initiatives were aimed, in the first instance, at bringing about free movement of workers (implying the abolition of discrimination based on nationality, the safeguarding of social security provisions for migrant workers and the mutual recognition in different countries of qualifications and professional diplomas), equal treatment of men and women (including equal pay for work of equal value) and acceptable levels of health and safety at work.

With regard to the latter, measures taken at European level have enabled less advanced countries to make substantial progress in adopting minimum standards in a short space of time. In addition, the provision of Community-wide information on employment opportunities and labour market conditions (through the EURES system) has made it easier for workers to move between countries. At the same time, ever closer economic integration has led to the need for further action at European level, in the form, for example, of introducing information and consultation procedures in transnational firms.

Secondly, social policies are not limited to legislative provisions. They also can take the form of incentive measures, encouraging cooperation between the groups involved to tackle common problems on a transnational basis, improve common knowledge, develop exchange of information and good practice and promote innovation. Many action programmes have been implemented in areas such as education and training, equal opportunities for men and women, poverty and the fight against exclusion, health policy and rights for the disabled. In these areas, the Community has acted as a catalyst for policy change and an instrument for cohesion at the European level. The role of the Community in promoting such initiatives and establishing standards should be further developed in the future.

Thirdly, European social policy is also more generally about the promotion of fundamental social rights and the development of a European social model based on a common set of values. A significant step in this direction was taken by the adoption in 1989 of the Community Charter on the Fundamental Social Rights of Workers (though one Member State has not endorsed it). In addition, dialogue between the social partners has also developed at European level over the past decade — the importance of this been enshrined in the Maastricht Social Protocol — and a directive on European Works Councils was adopted in 1994 to promote this in transnational firms.

European social policy is increasingly centred on jobs and under the European employment strategy (described above) a framework has been established for trying to ensure that all relevant policies — macroeconomic as well as structural — contribute and reinforce each other in the fight against unemployment. A monitoring procedure has also been set up to review the effectiveness of different policy measures and approaches. The three goals are the integration of young people into working life, the prevention of long-term unemployment and increased equality of opportunity for men and women in the world of work. By tackling these problems, the strategy is intended to improve the efficiency of European labour markets.

The strengthening of employment and social policies at European level in the future will help to reinforce their impact on cohesion as well as the credibility of the Union, which very much depends on achieving acceptable levels of employment and opportunity for all European citizens — a 'Europe for all'. At the same time, social policy needs also to be regarded as a productive factor, with the potential for increasing competitiveness and growth through providing essential support for those at risk from restructuring and economic change as well as contributing to labour market flexibility. This means defining a new balance where economic and social policy are mutually reinforcing, where the pursuit of social cohesion strengthens rather than weakens economic performance and where social rights, which are closely related to basic civil and political rights, are assured as an essential component of EU citizenship.

Environment

The environmental policies of the EU reflect a concern with a basic component of the quality of life for European citizens. Today, the aims of these policies are increasingly set in terms of sustainable development (see chapter 2).

EU environmental policies have traditionally been implemented by legislative measures, but there is also a number of other types of instrument, such as international agreements to which the Community is a party, informational measures, voluntary agreements as well as direct support for projects *via* the LIFE programme.

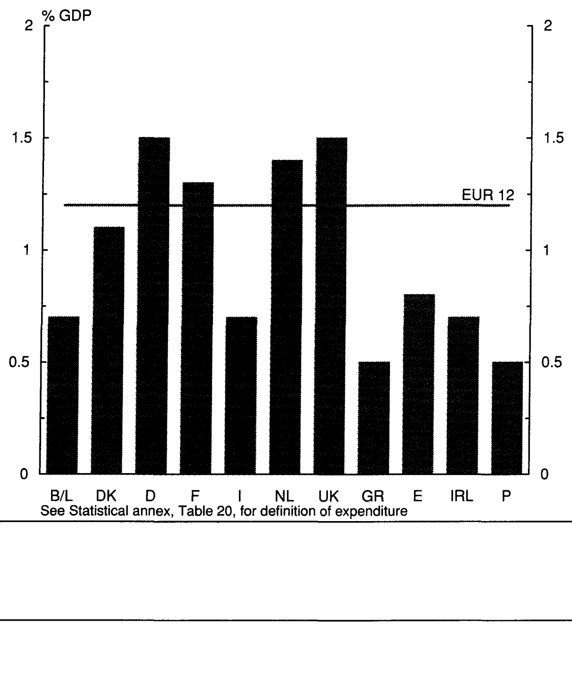
EU environmental policies have generated a substantial body (amounting to over 200 items) of legislation. This has mostly been in the form of directives, defining minimum environmental quality standards, emission levels or specifications for products traded within the European single market. Naturally, the legislation has a compliance cost, although this can be offset by the benefits of environmental protection.

The balance between benefits and costs is not necessarily uniform across the Community in terms of both their extent and their timing. Thus the effect on Member States and regions depends upon the extent to which the legislation is suited to their requirements and on the magnitude of compliance costs in their particular circumstances.

Environment policy and the cohesion countries

The impact of environmental rules on the least developed parts of the EU depends on three aspects:

29 Expenditure on environmental protection, 1992



See Statistical annex, Table 20, for definition of expenditure

- the quality of the environment prior to implementation of the legislation in question;
- the availability of infrastructure for the management of water resources, waste management, etc.;
- the relative importance of economic activities affected by environmental legislation.

As regards environmental quality, the cohesion countries are distinguished from the rest of the Union in terms of geography and resource endowment as well as their economic development. Along with certain other peripheral areas in the North of the EU, regions in the cohesion countries have an exceptional coastal endowment. In Ireland, there still exist semi-wild landscapes and undisturbed ecosystems, while in Spain, Portugal and Greece, there is an unusually large number of indigenous species. This does not mean that they have no problems: Spain, for example, suffers from a high degree of soil degradation and erosion and in Ireland the eutrophication of surface water is an increasing problem. Problems of water supply and waste disposal are also becoming increasingly serious in the southern countries.

At the same time, pollution in the cohesion countries is less in relation to both population and GDP than in the richer EU Member States. Their starting position is, therefore, generally more favourable in terms of environmental quality than in most other parts of the Union. Efforts to promote faster growth and convergence of productive capacity and real income levels, however, create inevitable risks for the environment. Although a high quality environment can be a factor for growth in sectors such as tourism, some food processing and high-tech industries, where mobile labour is attracted by the quality of life, growth in GDP is likely to be associated with increased problems of pollution and environmental degradation unless deliberate measures are taken to prevent this.

Research studies (by, for example, ERECO in 1993) show that expenditure on environmental protection, including on infrastructure, is lower in almost all the cohesion countries than elsewhere in the Union, both in absolute terms and relative to GDP (Graph 29 and Table 20). Only in Spain is spending close to the EU average. The cohesion countries have substantial requirements for investment in waste water treatment facilities (broad estimates are shown in Table 21). Constructing and upgrading these is, in many cases, necessary for compliance with Union environmental regulations, such as those on urban waste water (Directive 91/271). The cohesion countries also lag behind in the development of waste recovery facilities and have a long way to go before complying with the rules recently introduced on packaging and packaging waste.

The key issue concerns the effect of EU environmental policies on growth, competitiveness and employment in the cohesion countries. To assess this is by no means straightforward. Though growth tends to be accompanied by increased demand for energy and natural resources and higher levels of emissions and industrial waste from increased production and greater use of transport, there is no inevitability about this. More efficient and less polluting methods of production can be introduced to save on energy as well as safeguard the environment. Moreover, as real incomes increase, people tend to attach more importance to cleaner water, better air quality, a more attractive environment and so on.

To translate this preference into reality and to ensure that cleaner and more energy-efficient techniques are adopted in the production process, however, requires deliberate policy action in the form of controls, fiscal incentives (taxes on polluting activities, for example) and public expenditure. It cannot be pretended that this is costless, that the necessary change in production methods and the shift of resources into more environmentally-friendly activities can be achieved instantaneously without adverse effects, even if temporary, on employment and growth potential. In the longer term, however, such changes are essential if the development of the European economies, including that of the cohesion countries, is to be sustainable. In the longer run, moreover, these changes are likely to enhance growth potential and job creation rather than damage them.

According to a 1994 study, if all the environmental policy measures now under consideration in the Union — such as a carbon/energy tax and legislation to raise fuel quality standards and lower vehicle and other emissions, measures to increase the use of renewable energy and directives on nitrates, water and sewage — were to be implemented, there would be significant environmental gains. Any possible adverse effect on GDP, moreover, could be avoided by a suitably-designed, combined package of fiscal measures and charges, aimed at imposing the social costs of pollution and environmental damage on those responsible for these, together with changes in producer and consumer behaviour as a consequence of the changes in the structure of prices and better information. Indeed, if all the changes required actually occurred, both GDP and employment could be increased over the long-term.

The effect on individual Member States depends on their prevailing structure of economic activity and their competitiveness in producing the goods and services which stand to benefit from the measures taken. In the case of the cohesion countries — such as Spain, which is the only one explicitly covered in the study — a slight decrease in GDP could result because of their dependence on agriculture and road transport, both of which would experience a steep increase in costs, the growing importance of their manufacture of cars (Spain, in particular) and their relative unimportance as producers of monitoring and emission-control equipment and of 'green products' generally. Moreover, because they tend to lag behind in terms of meeting environmental standards in certain areas — especially waste disposal and water supply, as noted above — some compliance cost can be expected. On the other hand, these adverse effects on GDP could be offset by the energy savings induced by higher taxes.

The extent of environmental degradation in the cohesion countries tends for the most part to be less than elsewhere in the Union, which not only means that the costs of clean-up are lower but it could also further increase their attractiveness as a business location as more weight is attached to the quality of the environment in locational decisions.

Although the results of the study are based on purely hypothetical scenarios, they illustrate the particular problems facing cohesion countries in trying to pursue a development strategy aimed at raising GDP and productive potential towards the level in other parts of the Union without unduly damaging the environment. These problems need to be taken into explicit account both in the design of the Union's environmental policies, which need to allow for the uneven impact of measures in different regions as well as the different starting-point, and in the design of cohesion policies, which can help the poorer Member States and regions meet the cost of environmental protection — even if this may only be short-term — and ensure that their development path is a sustainable one.

Education and vocational training

Community action programmes in education and training were set up to bring improvements through innovative and transnational actions. They are aimed at supporting the successful completion of the single market (free movement of people) and raising competitiveness, as well as enhancing opportunities and the quality of life of individuals. They, therefore, have direct implications for (mostly social) cohesion. The main Community funding for education and training comes from the Structural Funds (discussed in chapter 5). Other programmes in this area are comparatively modest in scope, amounting to around ½% of the Community Budget.

Leverage is important for maximum success, and the programmes are intended to act as catalysts for innovation on a European scale through exchange of information and experience between Member States. There are many programmes — ERASMUS and LINGUA in the field of education, PETRA, FORCE, EUROTECNET and COMETT in vocational training. They cover areas such as cooperation between universities and industry, expert and student exchange, training for young people, women and other disadvantaged groups in the labour market and foreign language tuition. Two of the largest programmes — PETRA and ERASMUS — serve as examples.

PETRA is targeted on young people, providing support for training and work experience in other Member States, developing networks of trainers and supporting the exchange of good practice. ERASMUS is aimed at promoting cooperation between universities, the interchange of students and teachers and the mutual recognition of degrees.

Of the training institutions participating in partnerships under PETRA, about 30% comes from cohesion countries, nearly double their share of Union population. Moreover, the benefit to cohesion countries is greater than this proportion suggests, since training systems there tend to be the least developed. On the other hand, most of the training material produced so far has not transferred well from one country to another. Cross-fertilisation schemes under ERASMUS also favour cohesion countries, but the overall scale in budgetary terms is very small.

The main direct effect of the programmes was in terms of exchange (with indirect effects on co-operation and development from transnational research and pilot projects). PETRA is small relative to the target population (37,000 young people participating in the exchange scheme between 1992 and 1994), with a bias towards cohesion countries (23% coming from these). Evaluation suggests that the programme had a significant effect on participants in terms of language learning, broadening of horizons, self-confidence and ability to adapt to different circumstances — all of which are important assets in the labour market. ERASMUS is much larger in relation to the target population, 106,000 students in the academic year 1994/95 participating in the scheme, or 1% of those in higher education (implying that 3–4% of the target population are likely to participate at some point in their university careers, 10% being the long-term target). Students from cohesion countries are over-represented, accounting for 22% of participants.

As with PETRA, surveys of students indicate that they tend to gain considerably from the experience. For the universities, the range of benefits include raised teaching standards through the pooling of expertise and experience, improved teaching of foreign languages, more effective dissemination of information, improved academic recognition and better internal administrative procedures. New or intensified collaboration in the field of research has also been shown to result from academic contacts established.

4.5 Concluding remarks

The above analysis suggests that, where Union policies have a significant expenditure dimension — the CAP and RTD — at least some if not the majority of cohesion countries have been among the major beneficiaries. Other policies which create a framework for change — perhaps most notably with regard to competitiveness and liberalisation of telecommunications or transport — will not necessarily have an even distribution of the benefits, both geographically and socially. In general, such policies seem not to be to the *absolute* disadvantage of less favoured regions or social groups, but they tend to benefit them less *relative* to central regions or more favoured groups.

In these circumstances, a primary obligation is to ensure that efforts are made to maximise the cohesion effects of these policies in the context of the pursuit of their other objectives. Possible avenues to be investigated in this regard are discussed in the conclusions to this report. But it has to be clearly acknowledged that it is neither possible nor desirable for other policies to pursue cohesion objectives where this involves considerable efficiency losses to the Union as a whole. In these circumstances, national and Union structural policies perform an essential role in creating the conditions for regions and social groups to share the benefits of a more efficient and productive European economy.

Chapter 5
Community structural policies and cohesion: a shared responsibility

5.1 Introduction

The role of the Europe Union in promoting economic and social cohesion is reflected in two major Treaty changes over the past decade: the Single European Act (1987) and the Treaty on European Union (1993). The chapter on economic and social cohesion in the Single Act provided the Treaty basis for the fundamental reform of the Structural Funds in 1988. The Treaty on European Union (Article B) went a step further, the strengthening of economic and social cohesion becoming one of the three priorities of the Union alongside its economic objectives of the Single Market and EMU. The Treaty also created the Cohesion Fund for less prosperous Member States and amended the European Social Fund to accommodate new forms of intervention (see Objective 4 below).

The purpose of this chapter is to review the results of EU structural, or cohesion, policies which have been in operation, in their current form, for some seven years since 1989. The review is divided into three sections. Section 5.2 describes the nature and purpose of structural policies for cohesion. Section 5.3 assesses the results, indicating the extent to which the policies have yielded significant benefits in terms of generating economic activity and employment for Europe's more disadvantaged regions and social groups. Section 5.4 examines the delivery system developed by the EU.

5.2 The nature and purpose of community assistance

Community intervention in support of cohesion has taken on a significant financial dimension over the past decade. Together, the Structural Funds and the Cohesion Fund account for around one-third of the budget for Community policies (Table 23) and amount to nearly 0.5% of annual Union GDP (Table 24).

The implementation of Community cohesion policies is supported by six major financial instruments. The Cohesion Fund and the loans of the European Investment Bank are based on a project-financing approach and governed by their own specific rules, while the four Structural Funds operate within a single Community-wide framework according to common principles: concentration, programming, partnership and additionality — see section 5.4 below.

The Structural Funds

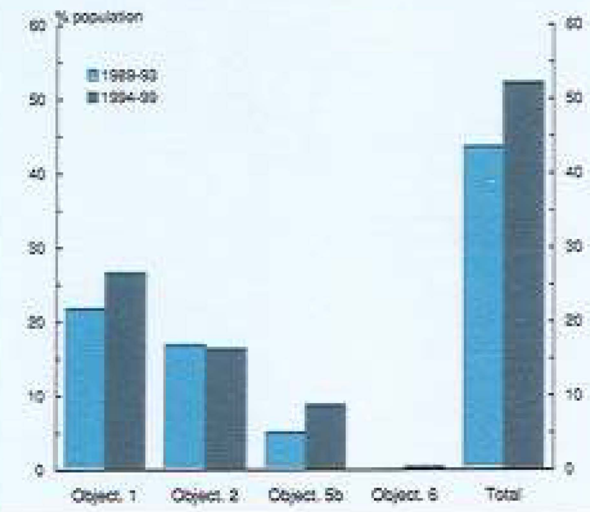
The evolution of European Union cohesion policies has led to the creation of four Structural Funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Guidance Section of the agricultural fund, EAGGF and the Financial Instrument for Fisheries Guidance (FIFG).

The ERDF established in 1975, is aimed at strengthening economic potential in the assisted regions, supporting structural adjustment and helping to promote growth and lasting employment. To attain these objectives, it supports productive investment, infrastructure projects and actions for developing the indigenous economic potential of regions through co-financing operational programmes, assistance to large projects, global grants, technical assistance and preparatory studies. It also encourages transborder cooperation and exchanges of experience between Member States.

The resources of the ERDF amount to 80.5 billion ECU in the current programming period, 1994–99, as against 35.4 billion ECU in the period 1989–93. This represents 45% of total Community structural intervention in the two periods (if the Cohesion Fund is excluded from the total, the ERDF is 48% of the four Structural Funds). Spain (24.1% of ERDF resources), Italy (15.2%), Greece (12.4%), Portugal (12.4%) and Germany (12.2%) are currently the largest beneficiaries, as they also were — with the exception of Germany — in the 1989–93 period.

The European Social Fund (ESF) was established by the Treaty of Rome. Since the 1988 reform, it has had the objective of combating long-term unemployment and improving the employability of young people and, since 1993, of promoting adaptation to industrial change. It contributes to the financing of vocational training and employment support measures and to improvements in education systems. It aims to integrate those excluded from the labour market, promoting the principle of equal opportunities and the fight against social exclusion. It also finances accompanying measures such as the development of certification systems, the training of trainers and public officials, technical assistance and innovative actions.

30 Geographical coverage of Structural Funds by Objective, 1989-93 and 1994-99



The ESF accounts for 30% of Community intervention in the current period, as against 31% in the former one. Spain (20%) and Germany (15.9%) are the largest beneficiaries.

The Guidance section of the European Agricultural Guidance and Guarantee Fund was established in 1962 as part of the Common Agricultural Policy (CAP). It is intended to promote structural adjustment in agriculture, which has been increasingly undertaken in the context of the overall reform of the CAP, through measures to modernise production and develop rural areas. The Fund accounts for 23.7 billion ECU, or 15.4% of Community funds, in the current period as opposed to about 12 billion ECU between 1989 and 1993 (17.6% of Community funds).

The Financial Instrument for Fisheries Guidance (FIFG), a specific fund established in 1994 to replace a number of separate financial instruments operating since 1976, was granted 2.9 billion ECU (1.9% of total Community funding). Spain, Italy, France and Portugal are the principal beneficiaries, sharing 69% of the available finance.

Acting together, the Structural Funds are today focused on:

- four regional Objectives which absorb 85% of the funding (Table 25):

  Objective 1 — for the development and structural adjustment of regions where development is lagging behind, including rural areas. This constitutes the major priority of Community structural policies. About 26.6% of the Community population live in regions covered by this Objective and it accounts for more than two-thirds of the funding (Graph 30);

  Objective 2 — for the conversion of areas affected by the decline of traditional industries. This is the second regional policy priority. 11% of the total financial means are reserved for this Objective which covers about 16.4% of the Community population;

Objective 5b — for the development and structural adjustment of rural areas. 5% of total funding is earmarked for this Objective which covers 8.8% of Community population;

Objective 6 — for the problems of very sparsely populated areas. This covers 0.4% of the Community population and accounts for 0.5% of total financial resources;

- three Community-wide Objectives which absorb 15% of total financial resources:

Objective 3 — facilitates the integration of young people and the long-term unemployed into the labour market, while reducing the effects of social exclusion. 9.4% of total resources are devoted to this Objective. Young people unemployed and the long-term unemployed represent, respectively, 1.3% and 2.4% of the total Community population;

Objective 4 — is an anticipatory or preventive measure to assist the adaptation of workers to industrial change. 1.6% of total resources are earmarked for this Objective;

Objective 5a — helps to promote the adjustment of the agricultural and fisheries sectors. 4.4% of total resources are devoted to this Objective, outside the Objective 1 areas, with 3.8% for the larger agricultural sector and 0.6% for the fisheries sector. The number employed in the primary sector in the EU is currently over 8 million or 2% of the total Community population.

In addition, 9% of the Structural Funds are reserved for Community Initiatives. These are decided by the Commission in partnership with the Member States and follow a thematic approach to add emphasis or explore innovative possibilities. The main themes applying to the current set of Initiatives are:

- trans-border and interregional cooperation (*INTERREG, REGEN*);
- the promotion of innovative capacity and help for the development of small and medium-sized enterprises *(STRIDE, TELEMATIQUE, PRISMA, SME*), as well as for local development in rural areas (*LEADER*) and areas dependent on fishing (PESCA);
- experimental policies for the environment (*ENVIREG*) and to tackle the crisis in parts of major urban areas (*URBAN*);
- reinforcement of national policies on specific issues: adaptation to the anticipated effects of industrial change (*ADAPT*), the acceleration of adjustment in areas dependent on activities undergoing restructuring: steel, shipbuilding, coal mining, textiles and defence (respectively, *RESIDER, RENAVAL, RECHAR, RETEX, KONVER*) and a strengthening of efforts to improve the ability of specific groups to participate to the full in the labour market (*EMPLOYMENT, NOW, HORIZON);*
- a Special Support Programme, agreed in 1995, to assist the process of peace and reconciliation in Northern Ireland.

Finally, some 1% of the total finance for the Structural Funds is reserved for technical assistance and innovative measures. A large part of expenditure on the latter is decided by the Commission on the basis of calls for tender requesting proposals for projects under pre-defined themes. Currently these concern internal and external interregional cooperation, urban policy, spatial planning, technological developments (including the Information Society) and endogenous development (including cultural activities).

The Cohesion Fund

The Cohesion Fund was established in the Maastricht Treaty and came into operation only in 1993. The purpose of the Cohesion Fund is to help the less prosperous Member States — as opposed to regions — prepare for EMU, and the budgetary disciplines which that implies, while maintaining efforts to promote catching up. The Fund can thus be seen as a form of compensation for the weakest Member States for taking on substantial spending commitments while seeking to control their budget deficits.

Four Member States benefit from the Cohesion Fund at present: Greece, Spain, Ireland and Portugal. It has been allocated 14.5 billion ECU for the period 1994–99, resources which come on top of the allocations under the Structural Funds. The Fund finances transport infrastructure projects which contribute to the development of trans-European networks and environmental projects which meet the objectives of the Community's environmental policies.

The European Investment Bank

The European Investment Bank contributes to regional development, with more than two-thirds of its lending activity — about 44 billion ECU from 1991 to 1995 — devoted to eligible areas (Table 26). More than half of the Bank's loans have gone to Objective 1 regions, while in recent years, the EIB has stepped up its lending activity in Objective 2 and 5b areas, which now account for 43% of its financing for regional development. Most of the financial resources have been allocated to infrastructure projects, many of which help to complete European transport and energy networks or protect and improve the environment.

The scale of intervention

One comparison for the appreciation of the scale of assistance under EU cohesion policies is that of the Marshall Plan, the archetypal structural aid programme for the reconstruction of post-war Europe, which was equivalent to 1% of US GDP and contributed on average about 2% of the European annual GDP over the period 1948–51. The Community's effort is some 0.5% of Union GDP per year but it is a longer-term commitment which will have amounted cumulatively to 6.5% of Union GDP over the decade 1989–99, compared to 4% of US GDP committed by the US between 1948 and 1951.

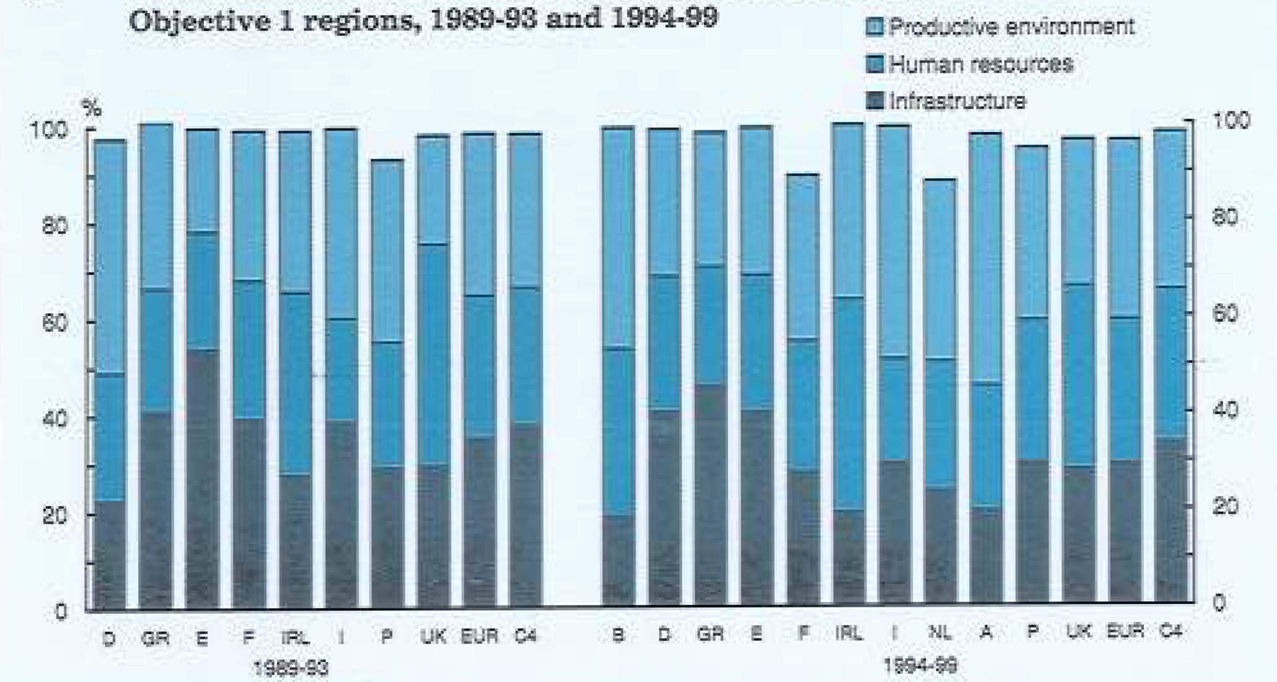
Areas of intervention

Three broad areas of intervention are covered by policies under the Structural Funds and Cohesion Fund (Tables 28 to 31 and Graphs 31 to 33): infrastructure, human resources and productive investment. For Objective 1 areas — the priority in political and financial terms — there is a fairly even balance between these three priorities, although amounts devoted to infrastructure under the Structural Funds have been falling over time in favour of investment in physical and human capital directly linked to competitiveness and production. In the old industrial regions or agricultural regions situated in mature economies, infrastructure is typically more developed requiring less financial support at the EU level.

Current expenditure in the Objective 1 areas is split as follows:

- Infrastructure: 30% of the Structural Funds are spent on this. Investment is eligible for support in transport, telecommunications and energy networks as well as in water supply and environmental protection. Since it is intended to reduce infrastructure gaps, expenditure is heaviest in the four poorest Member States. Basic communications investment is a priority to improve accessibility while other investment

31 **Distribution of Structural Funds by broad area of expenditure in Objective 1 regions, 1989-93 and 1994-99**



encourages energy diversification. A new role has been to support the achievement of trans-European networks. Important trans-European transport networks are located in the poorest countries of the Union. The resources of the Cohesion Fund are used exclusively for investments in major infrastructure projects in transport and the environment.

- Human resources: 30% of the Structural Funds are devoted to strengthening education and training systems and supporting labour market policies. The main measures eligible include support for mainstream education and R&D, vocational training, equal opportunities, employment and self-employment and measures aimed at the integration of those most excluded from the labour market. As indicated above, the addition of new forms of intervention regarding the prevention of unemployment and adaptation to industrial change have widened the scope of human resource policy.

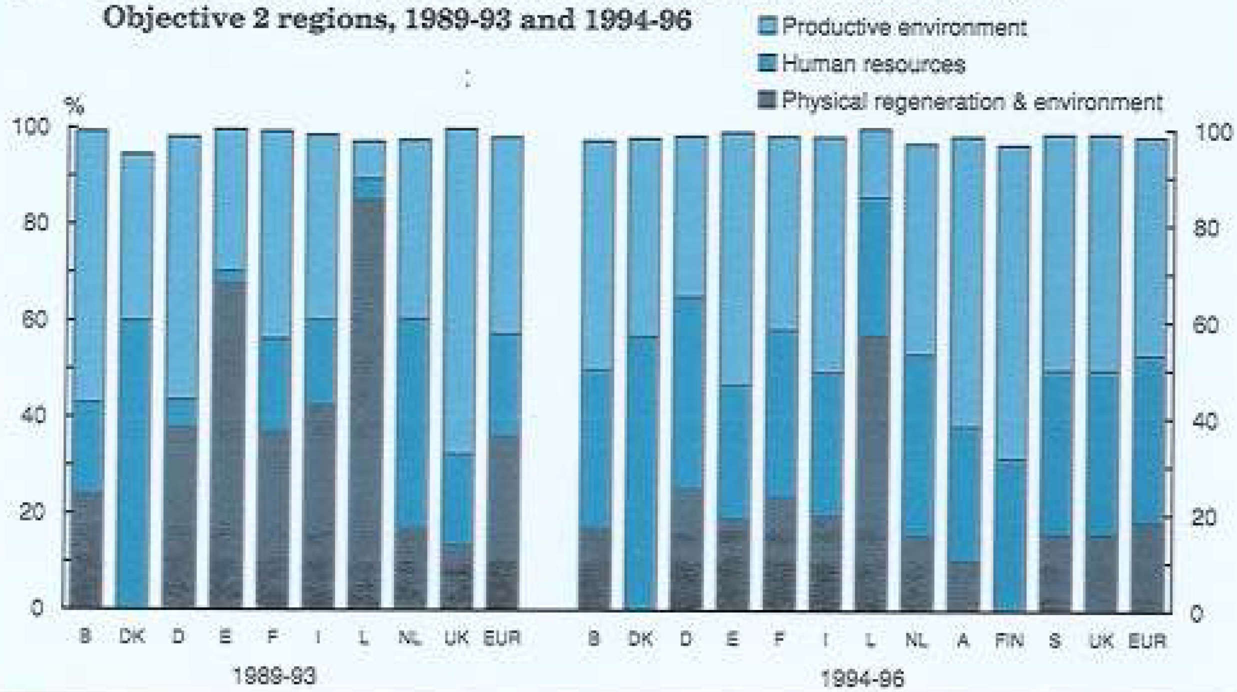
- Productive environment: with 40% of the Structural Funds this is now the dominant intervention area in Objective 1 regions. It is largely concerned with building a dynamic business environment through support for national investment aid schemes for industry, with particular emphasis on building an internationally-competitive small and medium-sized enterprise sector. In addition, many other ancillary activities are eligible, notably the promotion of research and technological development, the development of new activities including services such as tourism, the reclamation of derelict industrial sites, the improvement of agricultural and fisheries structures and local initiatives.

5.3. A decade of achievement

The task of evaluation

In this section, the results of the interventions under EU cohesion policies are reviewed. These include a broad range of concrete improvements to the situation of the Union's more marginalised regions, localities and social groups, which have opened doors to new opportunities on a wider European scale. In addition, other outcomes arising from cohesion policies are discussed, especially the role they have played as a force for change and innovation, for the empowerment of the grassroots and in making a contribution to the wider process of European integration.

32 **Distribution of Stuctural Funds by broad area of expenditure in Objective 2 regions, 1989-93 and 1994-96**



The results are most readily set out in summary form by attaching numbers, or quantifying, the extent of the changes which have occurred. A considerable effort has been made to describe and analyse the results in this way, but as past experience in Member States has demonstrated, quantifying the impact of policies is complicated.

First, the evaluation methodology itself is subject to ongoing development and, at present, different experts adopt different approaches. Secondly, the impact of EU policies is difficult to distinguish from the effects of other factors such as Member State economic policies or the business cycle (indeed, in some cases the impact of cohesion policies seems to have been to mitigate some of the effects of recession). Thirdly, even if the regulations stipulate that Community assistance should be *additional* to national efforts, this is hard to verify and levels of investment which would have been undertaken in the absence of the Structural Funds cannot be known. Fourthly, some of the results are based on estimates from the Member States (eg the number of jobs created or maintained) and these are often not directly comparable or easy to verify.

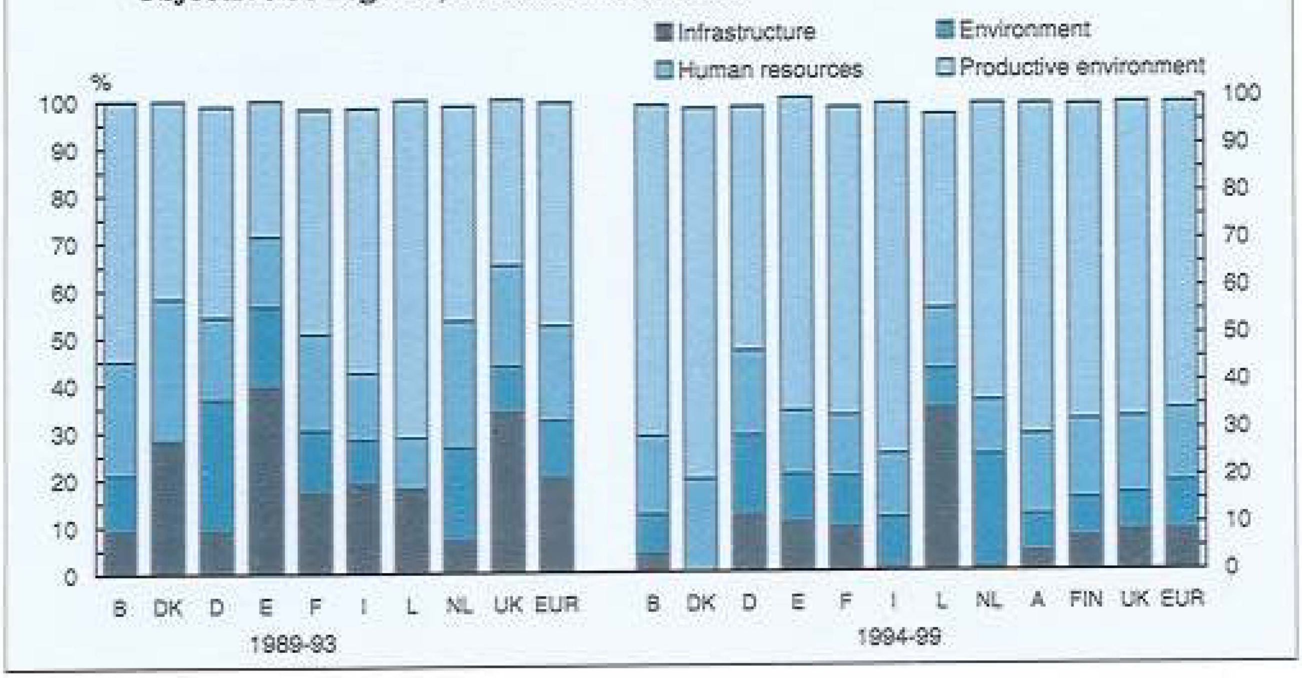
In any case, the temptation to consider only those benefits which can be quantified should be resisted, because to do so would be to ignore the full depth and breadth of the effects of EU cohesion policies and, in particular, how they have contributed to European solidarity and cohesion. A concern with quantified results can only ever be part of the analysis; *qualitative* elements need to be given due consideration.

So far as the quantification of results is concerned, an attempt has been made to evaluate the impact of structural policies in the 15 Member States and their eligible regions for this report, involving detailed macro- and microeconomic assessments by the Commission assisted by outside experts. Two types of macroeconomic assessment have been undertaken (see below).

First, the redistributive effects of EU finance have been assessed, in terms of the extent to which they have been successfully targeted on the weaker parts of the Community. While this does not indicate the degree of efficiency in the use of the resources, it provides essential information on the way resources have been deployed to help the weaker parts of the Union.

Secondly, at the most aggregate level, macroeconomic models have been used to quantify the effects of structural intervention. Here the focus is on the four largest recipient countries where the scale of

33 Distribution of Structural Funds by broad area of expenditure in Objective 5b regions, 1989-93 and 1994-99



transfers is large enough to have a discernible impact at the macroeconomic level.

The microeconomic assessments (see below) consider the extent to which the goals defined under the different Objectives of the Structural Funds have been attained. Since EU policies are largely directed at improving efficiency — 'the supply-side' — it is important to examine the effect of intervention on factors such as infrastructure or human resource endowment in the recipient countries or regions.

Finally, the unique features of the EU delivery system for cohesion policies are underlined, given their particular contribution to European integration (section 5.4).

Global results

Trend analysis

Analysis of the trends in the regions eligible for the three regional Objectives of the first programming period reveal some encouraging performances (see Table 29).

Objective 1 regions as a group experienced convergence in terms of GDP per head, closing the gap with the rest of the EU by nearly 3 percentage points over the 5-year period 1989–93. On the other hand, their unemployment rate deteriorated markedly affecting one in six of the work force in 1993 compared to one in seven in 1989.

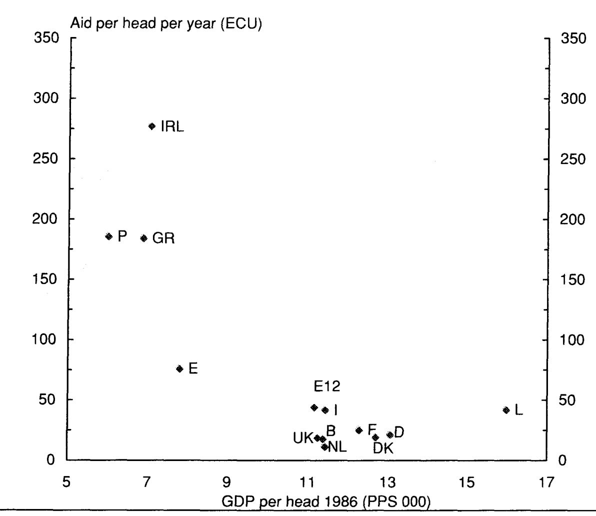
High unemployment is the major defining characteristic of Objective 2 regions. While unemployment rose on average in these regions between 1989 and 1993, reflecting the recession of the early 1990s, the rate of increase was less than for the Union as a whole. Average income per head in these regions appears to have fallen relative to the rest of the Union over this period.

Objective 5b regions also converged towards the rest of the Union during the period 1989–93, notably with regard to unemployment, but also in relation to levels of GDP per head.

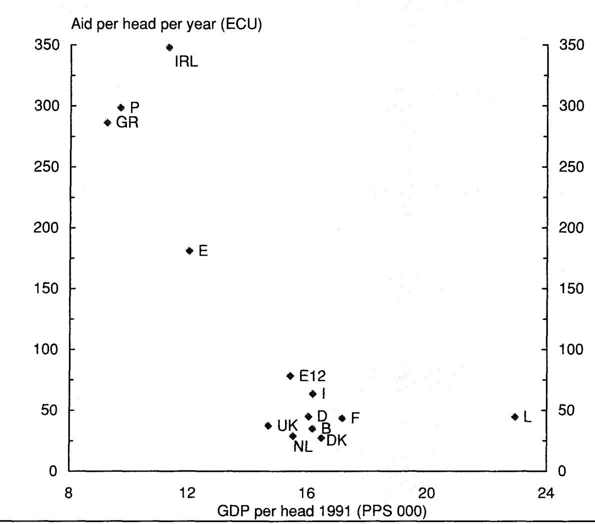
Redistributive effects

Community structural policies have the effect of transferring resources from the richer Member States to the poorer ones. The scale of aid to the cohesion countries, in both the previous and present programming periods, has been many times larger than expenditure in the rest of the Union (Graphs 34 and 35). The concentration of expenditure in these countries can be illustrated by means of Lorenz curves which show the distribution of EU transfers in relation to the levels of income or GDP in Member States or regions (more specifically, the percentage of transfers going to countries or regions which account for a given percentage of Union GDP). Redistribution from rich to

34 Structural aid and GDP in Member States, 1989-93



35 Structural aid and GDP in Member States, 1994-99



poor is indicated by a concave curve. The more concave the curve, the greater this redistributive effect. A convex curve, on the other hand, would suggest that resources are transferred from poor to rich.

A number of curves have been constructed in order to illustrate the redistributive effects of the Structural Funds:

- for structural transfers to Member States (Structural and Cohesion Funds);
- for structural transfers plus EIB loans to Member States;
- for structural transfers to Objective 1 regions (NUTS II);
- for structural transfers to Objective 2 regions (NUTS III).

Redistribution between Member States

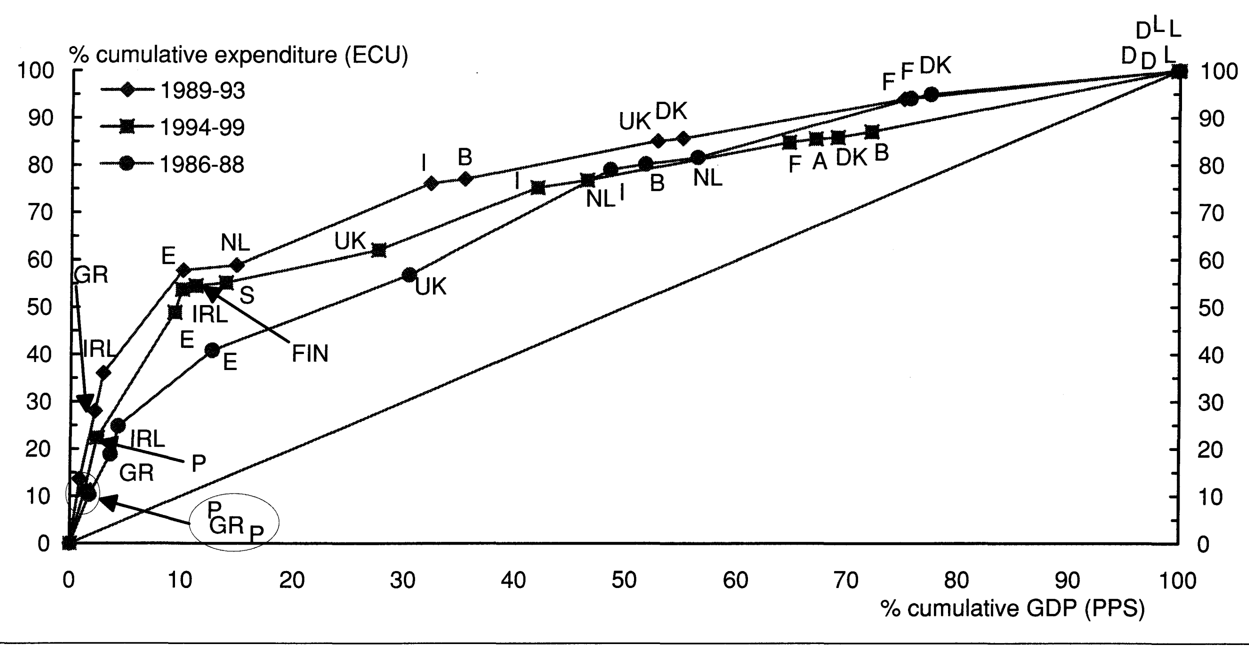
The distribution of all structural transfers (Structural Funds and, from 1993, the Cohesion Fund) is set out in relation to GDP per head in Member States for the three periods 1986–88 (before the reform), 1989–93 and 1994–99 (Graph 36).

A comparison of the three curves shows that the 1988 reform of the 'Structural Funds significantly increased the redistribution of transfers to the less prosperous Member States, which was achieved through the creation of Objective 1 which ensured that resources were concentrated on the economies with the lowest levels of GDP per head.

Transfers in the period 1994–99 seem to be less concentrated despite the creation of the Cohesion Fund for the least prosperous Member States. This is essentially explained by the wider coverage of eligible areas in the more prosperous Member States, notably under Objective 1 (adding the new German Länder and other regions in the North of the Union) and by the fact that the curve for the period 1994–99 includes the three new Member States.

For the period 1989–93, it is also possible to compare the redistributive effects of Structural and Cohesion Funds, on the one hand, and EIB loans, on the other (Graph 37). The redistribution effect of EIB actions is less than that of the Structural and Cohesion Funds. This is partly explained by the working of the market for capital and its response to the budgetary constraints in poorer countries. The ability of the least prosperous Member States to borrow despite the advantageous terms of EIB loans tends to be more limited.

36 Concentration of Community structural assistance by Member State, 1986-88, 1989-93 and 1994-99



Objective 1 regions

For the group of Objective 1 regions, the Lorenz curve confirms the progressive incidence of the distribution of the Funds, which is more marked in the present period than in the period 1989–1993 (Graph 38). For the previous programming period, there was a particular absence of a progressive response to different levels of prosperity among the weakest regions (those with the lowest GDP on the left side of the graph). This is explained in part by the fact that the new German Länder had not been fully incorporated into Objective 1 at this time but received interim assistance, under a special programme, at lower rates than mainstream Objective 1 regions.

Objective 2 regions

For these regions, the Lorenz curve has been constructed on the basis of a cumulative distribution of the three basic criteria for eligibility for Objective 2 assistance (unemployment rate, share of industrial employment in the total and the loss of jobs in industry). To do this, the three criteria have been combined into a synthetic index constructed as follows for each region:

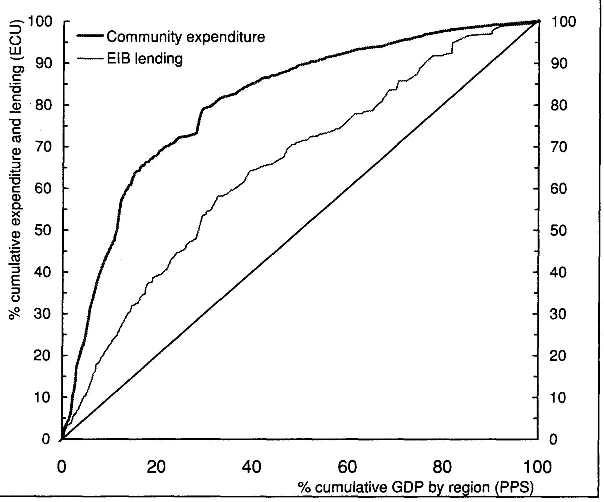
SI = (Ind - Ch + Un)/3

where
SI = synthetic index for the region;
Ind = the share of employment in industry in the region;
Un = the harmonised rate of unemployment in the region;
Ch = the change in employment in industry in the region.

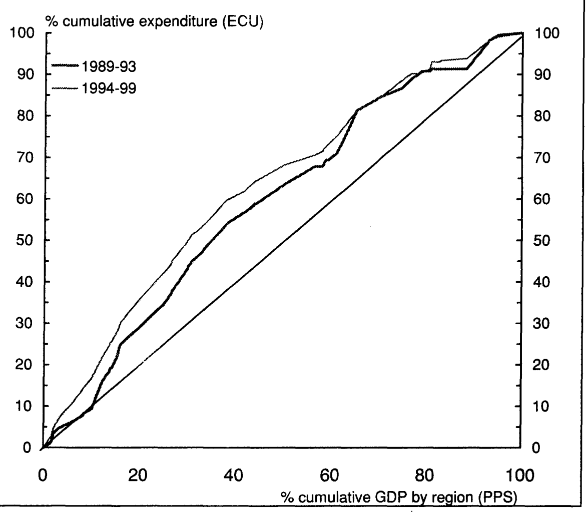
Each variable has been adjusted to give them equal weight in the construction of the index. The indicators included in the index are those which were calculated for the programming period 1994–99.

The two curves (Graph 39) indicate that, though a redistribution effect is apparent for the first period, it is almost completely absent for the second period.

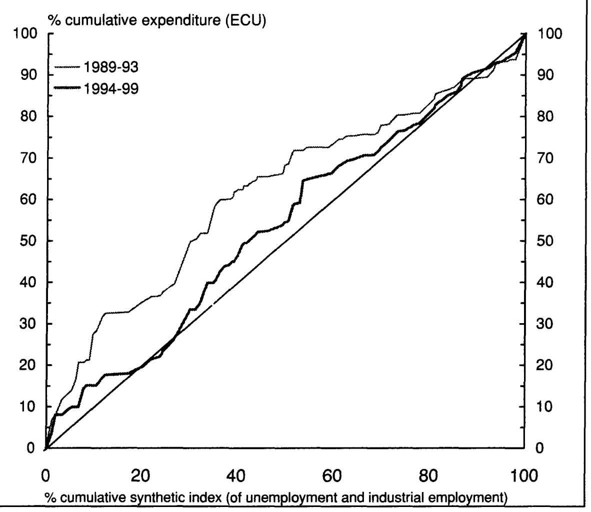
37 Concentration of Community structural assistance and EIB lending, 1989-93



38 Concentration of Community structural assistance in Objective 1 regions, 1989-93



39 Concentration of Community structural assistance in Objective 2 regions, 1989-93



This implies that for this second period the gravity of the problems, as measured by the three Community criteria, were taken into account to only a limited extent in the allocation of regional assistance and/or in the selection of regions. This reflects adjustments to the method of determining eligibility contained in the revised regulations of 1993, where less weight was given to the three basic criteria in the choice of areas eligible for Objective 2 and more to the priorities of Member States.

In effect, structural policies with 0.3% of EU GDP for 1989–93, achieved an income equalisation (in terms of GDP per head) of 3%. For 1994–99, 0.45% of EU GDP results in an equalisation of 5%. This equalisation effect of about 10 times the original volume of public finance is of the same order of magnitude as estimates for explicit redistributive mechanisms between Länder in Germany in 1990 and between the different territories of Canada and Australia (see European Commission (1993): Stable money, sound finances). It is also considerably higher than the effects achieved in federations, such as the US, which make extensive use of grants (to states) for pre-determined purposes (e.g. education), where the equalisation effect is 1 to 5 times the financing volume (though, because of the much larger volume of resources transferred, the global impact is much larger in these countries).

The results of the macroeconomic models

In analysing the effect of policy, it is important to draw a distinction between the four poorest Member States, wholly (Greece, Ireland, Portugal) or largely (Spain) eligible as Objective 1 areas, and Objective 1 regions in more developed and prosperous Member States. Effects in the latter are more difficult to quantify both because they are on a smaller scale and because they tend to receive large amounts of aid from national, regional and other redistributive policies.

In theory, the investment carried out under EU cohesion policies has two main effects:

- it adds to total demand, so stimulating output and employment, through Keynesian-type mechanisms;
- it improves so-called *supply-side* efficiency, strengthening production structures and competitiveness.

The scale of these can only be satisfactorily assessed by using an economic model. But it should be emphasised that there is no definitive, universally accepted model available for this purpose, given the diversity of expert opinion about how precisely economies work. A key controversy concerns the extent to which public intervention genuinely *adds to* economic activity, rather than *displacing*, at least partly, private activity. There is, accordingly, a range of models to choose from, each incorporating slightly different mechanisms and behavioural assumptions and focusing on different aspects of economies.

The results obtained from these models will inevitably differ. Nevertheless, important insights can be gained into the effects of policies through the use of models. In particular, the processes through which policies affect output, real income and employment can be clarified and some quantitative impression can be obtained of the response of these to the measures taken. Two different model-types are presented here.

The first is a so-called input-output model (the Beutel model), which attempts to capture the technical relationships between sectors of production, as well as the processes through which changes in demand affect supply, and to trace the repercussions of changes affecting one sector on others parts of the economy. The second model-type examines demand and output in a less disaggregated way and focuses on global patterns of consumption and investment behaviour and the way in which they respond and adjust after policy intervention. Results from two different versions of the second type have been used in the present analysis (the 'Quest' and 'Hermin' models).

Both types of model illustrate the way in which Community structural policies have affected output and employment in the countries to which assistance has been predominantly directed and give an indication of the scale of these effects.

According to the input-output model, in the absence of Structural and Cohesion Funds support, GDP growth in the four cohesion countries would have been, on average, almost $^1/_2$% a year lower during the 1989–93 programming period than it actually was (1.7% as against the 2.2% growth achieved). The beneficial effect varies between the countries principally according to the scale of transfers relative to GDP, which was larger in Portugal, Greece and Ireland than in Spain. Whereas GDP growth in the latter is estimated to have been boosted by almost $^1/_2$% a year, in Portugal and Greece, it was raised by almost 1% a year and in Ireland by only slightly less. Given the increase in the scale of assistance in the present period, 1994–99, the increase to GDP growth is likely to be somewhat greater (just over $^1/_2$% a year on average).

Much of the significance of structural assistance for growth comes from the fact that it tends to be concentrated on investment, in human as well as physical capital. Between 1989 and 1993, fixed investment associated with Structural and Cohesion Funds expenditure in the four cohesion countries amounted to more than 8% of the total capital formation in these countries. Though the proportion was only around 5% in Spain, it is estimated to have been as high as $13^1/_2$% in Portugal, 16% in Greece and $17^1/_2$% in Ireland. In the present programming period, average support for investment could reach 14% of the total in the four countries together.

The boost to growth from Community-supported investment also helped to create or safeguard jobs. According to the model estimates, the number of jobs dependent on structural assistance over the previous programming period was an average of $2^1/_2$% of the total labour force in the four countries or over 600,000. In Spain, as would be expected given the proportionately smaller scale of support, the figure was lower at just under $1^1/_2$%, but in Portugal, the boost to jobs is estimated at just under $4^1/_2$% of the total (3.3% in Ireland and 3% in Greece).

Higher growth also means higher imports from other Community countries and increased trade. Overall it is estimated that more than a quarter of the amount transferred to the four countries through structural assistance returned to the other Member States concerned in the form of imports and that by 1999, this figure could rise to an average of almost 35%.

A key feature of the Quest macroeconomic model is that it incorporates explicit assumptions about how companies and individuals react both to *present* policy as well as their *expectations* about *future* policy. In the model, the positive effects stemming from increased structural intervention can temporarily wear off in the medium term as private investors anticipate upward pressure on real interest and exchange rates as a result of increased demand and thus reduce their own investment. Meanwhile, since the improvements in the supply-side of the economy, from investment in infrastructure, productive capacity and labour force skills, tend to take a number of years to materialise, they bring long-term gains to the potential for growth.

The estimates from this model suggest that the beneficial effects on output and employment over the first programming period are lower than from the previous model because of the above features. The boost to GDP growth in the cohesion countries is, therefore, estimated to have been about a third lower in each case than suggested by the first model. As the longer-term effects from investment materialise, however, GDP is estimated to be increased by just over 1% in Spain and 2–3% in the other three countries by the end of the decade over and above what it otherwise would have been. More importantly, the rate of growth which all of the countries can sustain over the long-term is higher and, in consequence, unemployment lower as a result of Community support.

The Hermin model similarly stresses the long-term impetus to growth which results from supply-side improvements, notably through investment in education and training systems while it is more sanguine about the demand effects. Thus, by the end of the decade, the combined contribution of demand and supply-side effects is expected to lead to levels of GDP which are 9% higher than they would otherwise have been in Ireland and Portugal and nearly 4% higher in Spain.

Overall, the estimates produced by the models are varied but positive about the role of structural assistance as a significant factor underlying the convergence of the cohesion economies towards output and real income levels in the rest of the Community, with the expectation that this process is likely to continue in the future. The results illustrate, moreover, how cohesion policies, by raising investment and economic capacity in the weakest regions, contribute to raising the economic potential of the Union as a whole.

Results by Objective

The global effects discussed in the previous section are reflected in a vast range of projects on the ground which have changed — sometimes fundamentally — lives and opportunities in the regions which they have touched. Perhaps most important of all, the projects themselves were generally selected by people on the ground; this involvement and empowerment of local people and organisations is one of the most important achievements of EU structural policies since 1989, as discussed below.

It is not possible to describe in detail what has been achieved in every region and locality. The following attempts to summarise some of the more important specific effects on the regions receiving assistance, differentiating by Objective. It draws on evaluations carried out by the Commission since 1989.

**Objective 1:
modernising the regional economy**

In view of the volume of resources targeted on the priority Objective 1 regions (currently some 70% of the total), these are the obvious starting point for analysis. Community strategies in these regions were designed to tackle basic structural problems rather than to redistribute income and hence to accelerate growth and create durable jobs.

For purposes of analysis, three groups of regions can be identified: the four cohesion countries discussed in the previous section, the two large Objective 1 regions in other countries (Southern Italy, Eastern Germany) and the small Objective 1 regions in the UK, France, Belgium and the Netherlands.

The cohesion countries

The four cohesion countries are the least developed in the Union and include, especially in Spain and Ireland, areas with some of the highest levels of unemployment. Community aid has contributed to strategic solutions to the problems, supporting investment for growth and competitiveness.

The Community Support Frameworks (CSFs) in these countries have mostly operated in the framework of national policies where priorities were defined in terms of sectoral considerations, as for the CSFs in Ireland and Portugal, by regional and spatial planning considerations, as in Spain, or a mixture of both, as in Greece. Hence in Ireland and Portugal, the CSFs were aimed at supporting the economic base while in Spain, they were directed more broadly at spatial restructuring through major infrastructure investment. In Greece, policy tended to encompass both of these aims.

The most visible impact of CSFs is on basic infrastructure, where there has been notable progress in reducing disparities with the rest of the Union:

- a major effort was made in the period 1989–93 to improve port and airport facilities in order to reduce barriers to trade within the Single Market, although some key projects, such as Spata airport in Greece, have only just begun. In Spain the development of Andalucia and Canarias, in particular, has benefited from such investment;

- substantial effort is continuing to assist the development of the strategic road networks in the cohesion countries — for example, through the improvement of four key road corridors in Ireland and the completion of the Corinth — Tripoli — Kalamata motorway in Greece. The length of major roads scheduled to be constructed or improved under the two CSF periods together amounts to 900 km in Greece, 400 km in Ireland, 1,960 km in Portugal and 14,000 km in Spain;

- an index measuring motorway provision for the four countries rose from 43.3% of the EU average in 1988 to 53.1% in 1991, whilst that for other roads rose from 69.6% to 72.8%. This, however, understates the strategic significance of the projects under way. In Greece, 60% of the major TENs-related projects are scheduled to be completed by 1999. In Portugal, interregional journey times have already been reduced by around 30%, whilst in Spain a standardised index of accident victims was halved between 1988 and 1994. But, in some cases, realising the wider development benefits of the investment will depend in part on an upgrading of the secondary road network which often remains poor;

- major investment is going into upgrading the quality of heavy rail systems, particularly installing double-track lines, electrification and other measures to improve operating speeds. However, the priority being given to rail investment in most northern Member States means that no improvement in disparities is evident: the increase in double-track lines in the four cohesion countries between 1988 and 1990 of 4.2% compares with an average increase of 16% in the other Union countries; similarly there was an increase of 2% in the networks electrified over the same period in the cohesion countries as against 4% elsewhere. Nevertheless, investment is tending to increase the use of the system, reversing a pattern of long-term decline. Between 1988 and 1991, rail passenger kilometres in the four cohesion countries increased by over 10%. In Athens and Dublin, moreover, investment is now going into metro/light rail systems to reduce problems of urban congestion;

- in all regions, major investment has gone into telecommunication systems, installing digital exchanges and fibre optic links and this is reducing disparities in provision significantly. By 1999, the number of lines per 100 inhabitants is expected to rise to 56 in Greece (from 33 in 1987), 38 in Spain (25) and 47 in Portugal (16). The proportion of main lines connected to digital exchanges is being increased and it is projected that by 1999, rates of digitalisation will have reached 80% in Greece, 65% in Spain, 100% in Ireland and 75% in Portugal. Substantial reductions in call failure rates, repair times and waiting lists are occurring as a result. In Greece, waiting times for new connections have been reduced from 700 days in 1988 to 330 days in 1993 and in Portugal from 330 to 120 days. By 1999, they should fall to only 7 and 30 days, respectively. By 1999, a substantial proportion of the regions in these countries will have efficient systems, although organisational improvements may be needed to ensure that the benefits of the investment feed through into more competitive call charges;

- progress in energy diversification, notably by reducing oil dependence, has been made, but more needs to be done in this area. Deliveries from the new natural gas distribution system should begin in Greece in 1997 and, by 1999, 12% of electricity might already be generated from this source. In Portugal 600 kilometres of gas pipeline will have been laid by 1999 and gas will account for 7.5% of total energy consumption. Investment has also gone into modest development of renewables and, in Ireland, the current CSF may help to finance a new peat-fired power station. Greece, Spain and Ireland have all seen both absolute and relative reductions in their energy use relative to GDP in recent years (from 165.4%, 103.8% and 126.9% of the Union average respectively in 1988 to 158.3%, 87.5% and 120.8% of the average in 1991);

- as regards the environment, key support has been provided in improving systems of water supply and in increasing the capacity of waste water treatment facilities. In Greece, the number of towns with waste water treatment systems will more than double between 1993 and 1999, by which time 71% of the population will be covered; in Ireland, the proportion of urban waste water treated in accordance with EU standards will rise from 20% in 1993 to 80% in 1999. In Portugal, the proportion of the population connected to a potable water supply system will rise from 61% in 1989 to 95% in 1999 and the population connected to the sewerage network will rise from 55% in 1990 to 90% in 1999.

Human resource constraints represent a major obstacle to convergence in the four cohesion countries. As indicated in chapter 2, the Portuguese labour force is characterised by low productivity and low educational attainment levels. There are similar problems of low productivity in Greece, while in Ireland and Spain, labour markets are characterised by high unemployment.

These problems were actively addressed in the CSFs where great importance was attached to improvements in human capital and better labour utilisation. The effects of policy carried out jointly with Member States are evident in:

- the significant increase in the rate of participation in education among the young in the period 1989–92. By 1999, it is estimated that, with the exception of Portugal, the rate of participation of 15 to 24 year olds will approach the EU average. Substantial progress has already been made in Portugal, where participation increased by 41% in post-compulsory secondary education and by 34% in third level education during the previous programming period;

- particular emphasis has been placed on the strengthening of education and training systems, which has reduced disparities in access, particularly in Portugal (where capacity has increased by around 20% and 40% of schools have been modernised) and Greece (where around 22,000 new training places were established, a large proportion in the peripheral areas). The Structural Funds have also supported the development of improved links between school and work. In particular, there has been an improvement of the apprenticeship system in Portugal and Ireland (the number of people receiving Community assistance amounting, respectively, to 12% and 50% of the total number of students in post-compulsory secondary education), of workshop-schools in Spain and the establishment of a network of Institutes for technical and professional education in Greece;

- the Structural Funds have also supported adult training and other active labour market measures in order to help the workforce adapt to the specific skill requirements of the various sectors undergoing change, workers threatened with unemployment being the main beneficiaries in Greece and Portugal. In addition, they have been concerned with improving qualifications and helping the unemployed and the most vulnerable groups in the labour market into work, particularly in Ireland and Spain, where a large proportion of the unemployed have benefited from measures alternating periods of training with periods of employment. The increase in active labour market measures in the four cohesion countries will enable a sizeable proportion of the work force to benefit from training and subsidies (between 4 and 7% in the period 1989–99);

- Community policy has, in addition, led to a rise in the share of R&D in GDP, from an estimated 0.7% in 1989 to 1.2% in Spain, from 0.4% to 0.7% in Greece and from 0.5% to 0.8% in Portugal. The number of people employed in research and technical professions has increased correspondingly.

So far as the productive sector is concerned, structural assistance has been directed at improving the conditions for existing firms and encouraging new enterprises, especially SMEs. Strategies to attract foreign investment have also been important, notably in Ireland, partly as a means of encouraging technological transfer, but also in Spain and Greece, where existing aid schemes have been supported. In Portugal, where manufacturing has been historically highly dependent on traditional sectors, while a great deal of employment is still in agriculture, promoting industrial restructuring has been a priority under a coordinated programme (PEDIP). This funded more than 7,000 industrial projects, involving investment of 3.8 billion ECU. Firms assisted under this programme achieved productivity increases of around 5% a year and employment growth of 2½% a year.

Progress in eliminating disparities in productivity and in adapting the industrial structure in cohesion countries towards higher added value activities has been achieved and further improvement can be expected in the future. Changes in GDP per head in these countries are linked to their different rates of productivity growth. This was particularly high in Ireland in the large foreign-owned sector, which generates over half the manufacturing value-added. In Spain, some regions experienced productivity growth while in regions where employment in services grew more rapidly, average productivity actually declined. In Greece, macroeconomic problems — high inflation and a large public sector deficit — seem to have unfavourably affected investment.

For rural development including agriculture, the thrust of related measures was the same in all four countries, aimed at redirecting production towards products in demand, improving product quality, increasing farm productivity, modernising agricultural structures and improving the conditions for the processing and marketing of agricultural products. The proportion of employment in agriculture in rural parts of the cohesion countries is still twice as large as the Community average (four times in Greece).

In Greece, the CSF was aimed at encouraging more young people to enter farming. In Ireland, the CSF encouraged diversification into alternative crops, land use and forestry. Rural development programmes complemented the specifically agricultural measures. The CSF in Ireland enabled peat production to be developed, improving the domestic energy balance as well as increasing job creation. In Portugal, the CSF supported the establishment of Development Centres in rural areas, while in Spain measures were directed against rural-urban drift by encouraging the development of viable economic activities in rural areas.

In the period 1989–93, substantial progress was also made in all four countries in modernising basic infrastructure in rural areas, notably sewerage and water supply.

In the fisheries sector, significant reductions in fleet capacity in the cohesion countries have been accompanied by measures targeted at improving fish processing and marketing activities (notably in Spain, Portugal and Ireland), fishing port facilities (particularly in Portugal) and aquaculture investment (especially in Greece and Ireland).

Objective 1 regions in Italy and Germany

Both Italy and Germany have traditionally had an active regional policy, which in the former has always been directed towards the South — the Mezzogiorno — while in the latter, since 1990, the focus has been on the new Länder.

Economic conditions in the Mezzogiorno bear a closer resemblance to the four cohesion countries than to the rest of Italy. The area faces severe barriers to business development from socio-cultural factors and has a particularly weak manufacturing sector which has depended on direct transfers from the North.

Here, the emphasis in Community policies has been on infrastructure investment, in particular, the development of a natural gas distribution network and the upgrading of telecommunications which have directly improved the quality of life of the population as well as conditions for business. Aid to industry under CSF programmes accounted for more than 20% of total expenditure and provided assistance to about 2,200 SMEs, generating around 10,000 new jobs. A notable example is the special aid scheme for young entrepreneurs (known as Legge 44/86) which has supported the creation of more than 400 SMEs and which is aimed at helping to establish a more entrepreneurial culture in the Mezzogiorno.

Community aid has also been used to help young people and the long-term unemployed obtain qualifications in agriculture, crafts, tourism and services and for training initiatives and to promote the development of rural communities in the worst affected regions, such as Calabria and Basilicata.

Programmes, however, have been subject to considerable delay in implementation, partly because of administrative inefficiency and institutional constraints.

In the new Länder, the main aim of CSF assistance has been to improve the basic conditions for self-sustaining growth and to help rebuild the economy taking account of the need for environmental improvement.

Community measures have emphasised job creation, partly offsetting the negative consequences of the restructuring process (which led to the loss of some $3^1/_2$ million jobs between 1990 and 1995). Between 1991 and 1993, 224 thousands jobs are estimated to have been created or maintained.

Within the human resources programme, measures have mainly been directed at the problem of unemployed women who accounted for 86% of total unemployment at the end of 1995. Women represented 77% of Objective 1 beneficiaries, young women being particularly targeted alongside older men. Though this should have facilitated the integration of women, measures have been relatively more effective in improving the situation of men in the labour market. In fact, for male beneficiaries, participation provided greater access not only to jobs in general, but also to durable, more highly qualified employment.

In both Italy and Germany, a considerable effort of adjustment has been required in the less developed regions. For Italy, in particular, this demands more efficient management of the finance received from the Structural Funds, a faster rate of absorption and more transparency to demonstrate that the principle of additionality is respected in practice.

Smaller Objective 1 regions

Objective 1 regions in the rest of the Union differ in terms of economic structure and the problems they face: extreme peripherality in the case of the French DOM (and underdevelopment), peripherality and, occasionally, difficulties in regard to accessibility in the case of Corsica (FR), Burgenland (A) and the Highlands and Islands and Northern Ireland (UK), advanced industrial decline in Hainaut (BE), Nord (FR) and Merseyside (UK) and an absence of local economic opportunities in Flevoland (NL).

The diversity of these regions needs to be emphasised. Some clearly are not underdeveloped regions in the classical sense or similar in this regard to other Objective 1 areas. Hainaut (BE), Nord-Pas de Calais (FR), Northern Ireland and Merseyside (UK) are mature regions in an economic sense which have experienced acute decline in an industrial base typically established in the last century. Unemployment rates are well above the EU average in all these cases. On the other hand, infrastructure endowment in these regions is not a constraint on economic development.

Corsica (FR), Burgenland (A) and Highlands and Islands (UK) are smaller, less densely populated regions with a high dependence on agriculture and a small, undynamic manufacturing sector.

Only in the DOM is the pattern of economic activity more typical of less developed regions. These areas suffer multiple handicaps: dependence on traditional agriculture, a limited manufacturing base, high unemployment and, perhaps above all, extreme remoteness from the markets of the rest of the EU.

Community programmes are adapted to circumstances but are focused mostly on generating alternative opportunities in the local economy (rural tourism, for example, has been a major area of economic diversification and job creation in Corsica). As a consequence of high unemployment in many of these areas, or the absence of qualified labour, a significant effort has been directed at combating social exclusion and marginalisation of young people and the long-term unemployed.

In view of the satisfactory level of endowment in general, there are fewer strategic infrastructure projects. Because they are different from the others, the DOM are an exception in this respect and the construction of ports and airports has been necessary to improve accessibility. These have helped alleviate some of the distance costs suffered by local manufacturing enterprises and primary producers.

Objective 2: promoting the business culture

Given their dependence on old, declining industries, such as textiles and clothing or coal-mining and steel production, the Objective 2 regions face particular difficulties in meeting the challenges of international competition and in sharing in the Union's general prosperity including the opportunities created by the single market. While unemployment, and hence labour availability, is generally substantially above the EU average, skills are often mismatched to the demands of the modern economy. Meanwhile, dependence in a previous era on a few major employers has limited the development of an active entrepreneurial culture based on small businesses.

The immediate priority for Community assistance has been to help to put economic development policy more firmly on the political agenda in these areas. In view of the need to reduce dependence on outmoded activities, the emphasis has been on restructuring and diversification. The means adopted have focused on the need for self-help by underpinning the conditions for the development of an indigenous business culture. This has been tackled on a number of fronts.

First, Community-funded aid schemes for business have enabled the number of firms benefiting to be increased significantly. In the UK, some 300 thousand SMEs will have received assistance by the end of 1996, of which more than half were supported over the period 1989–93. This had a considerable impact on employment and 240,000 jobs in net terms are estimated to have been created or preserved between 1989 and 1993 as a result of Objective 2 intervention.

Secondly, firms have been helped to increase productive efficiency and encouraged to develop new markets, both essential for long-term survival. For example, an assessment of aid schemes in Haute Normandie (FR) in 1993, found that Community assistance considerably increased available funding for developments in research and advanced technology and helped diversification into up-market products less subject to the vagaries of price competition. More generally, aid programmes have led to an emphasis on technology transfer and innovation, especially in traditional sectors, which was rarely the case before.

Thirdly, support for business has been accompanied by training schemes to tackle the shortage and the rapid obsolescence of skills. The upgrading of the skills of both the employed and unemployed as part of the process of adaptation to structural change has been a priority, including the acquisition of new business skills as part of the change from economies dominated by large firms to ones where SMEs play a strategic role.

Beyond industrial restructuring, the economic and urban environment has shown visible signs of improvement. In many areas, derelict industrial sites have been transformed into more attractive locations for new businesses with the help of Community programmes. Moreover, there is evidence of increased conversion for leisure use (in the broadest sense). The degradation of sites from industrial decline still continues. There remain large abandoned sites, particularly in steel areas, and much conversion remains to be done in the current period.

Physical regeneration of industrial sites is also linked to policy measures on urban renewal. A number of programmes have also focused on the problem of water for communities in mining areas and have helped provide more efficient systems of supply. These measures improve the living conditions of the population. They also help to raise general awareness of the problems by involving local people through partnerships, which in turn contributes to an inclusive approach to development and to restoring self-confidence (see section 5.4 below).

The quantification of these effects is at an early stage. Systematic statistical data are being compiled for the evaluation of past programmes (1989–93), and will be published in due course. Early results suggest that the policies have had some highly favourable effects on the regions concerned although the availability and quality of data vary. In some Objective 2 regions, where relatively sophisticated management systems have been developed, very detailed information on outputs across a broad range of CSF priorities can be obtained.

According to evaluations, there were some 900 thousand beneficiaries of ESF-supported training programmes between 1989 and 1993 in Objective 2 programmes. The ERDF and ESF have contributed to creating or safeguarding about 850 thousand jobs over the period 1989–93. After making adjustments for deadweight and displacement effects, it is estimated that a total of 530 thousand net additional jobs can be attributed to Objective 2 programmes.

In addition, these programmes slowed down the pace of decline in industrial employment in the assisted regions by helping to maintain jobs at a level that was between 1½% and 2½% higher than it would have been in the absence of intervention. At the same time, the Structural Funds also made a significant contribution to diversification in Objective 2 areas, since the new employment generated by 1993 represents up to 1% of the jobs in non-industrial sectors.

Objective 3: improving labour market access

Objective 3 is aimed at complementing and reinforcing national expenditure on human resource development at a time of rising unemployment and job insecurity. The sums involved are substantial: in non-Objective 1 countries they finance between 3% and 15% of Member State labour market programmes while in Objective 1 countries the figure rises to 50–60%.

Achievements under Objective 3 can be best measured by 'coverage rates' (number of beneficiaries as a proportion of the potential target group). For the previous programming period, coverage rates varied from 21% in Spain to 60% in Belgium for young people and from 9% in Denmark to 32% in Portugal for the long-term unemployed. These rates confirm that the main Objective 3 target groups have been reached and that young people were more extensively covered by Objective 3 intervention relative to long-term unemployed.

Although employment is not an explicit aim of Objective 3, placement rates are a commonly used indicator of its impact. At Community level, an average of 50% of mainstream target groups were placed, although net effects (ie after allowing for the fact that some would have found a job anyway) amounted only to 10%. These results are in line with those of active labour market policies in general. Moreover, available data in terms of net impact indicate that displacement and deadweight effects are much lower for groups which are more excluded (unqualified young people, very long-term unemployed, migrant workers and so on). The fact that estimates of Objective 3 net placement rates were not significantly higher than national averages suggests that the policy was not successful in reaching the most vulnerable groups during the previous programming period.

This issue has been addressed in the framework of the 1993 reform of the Structural Funds. Objective 3 guidelines were adjusted to include: the diversification of the types of action to be co-financed (greater stress on mediation and job counselling measures as well as on different types of employment aid); a widening of target groups, with the purpose of reaching the most seriously excluded and the development of the 'pathway to integration' approach, which combines different types of measure tailored to each individual.

These changes have had an impact on national policies, focusing renewed attention on those most disadvantaged in countries where traditionally they were not a priority, such as the southern Member States. Community intervention has been decisive in shaping policy choices and it has been a source of innovation and experimentation in labour market and social inclusion policies.

The institutional framework of Community intervention has also affected organisation and administrative practices in Member States. For example, the implementation of the partnership principle has not only increased coordination between national and Community level policy but also internally, both horizontally (with the social partners, for example) and vertically (between different levels of administration). Spain is a clear example, territorial organisation giving rise to the creation of coordination mechanisms for dialogue with the Community. Even in countries where such mechanisms already existed (such as Denmark), a strengthening and extension of partnership was evident during the previous programming period.

The Structural Funds have also led to the improvement of training and employment services, in terms of general administrative organisation, training of trainers and other staff and the development of systems of certification at national and Community level. Other changes concern improvements in the structures of administration for designing, monitoring and evaluating measures for improving the skills of the work force, especially in countries where no such bodies existed before.

Objective 4: preparation for economic change

Objective 4 is relatively new — having been introduced after the policy review of 1993 — and in most countries was only implemented in late 1995. Its impact should be assessed mainly in terms of its innovatory nature. It aims principally at improving the management of human resources with regard to industrial change, in particular by concentrating on workers threatened by unemployment in SMEs.

Given the innovatory nature of measures under this Objective, implementation has not always been straightforward and has varied significantly between Member States. In some, it has sometimes been difficult to establish needs and to tailor Objective 4 aid to the existing labour market situation and/or policies. It has also proved difficult to concentrate assistance on SMEs rather than large enterprises and to target it on those most at risk of unemployment working in these. In addition, the requirements for co-financing have sometimes been an important constraint on both private and public sector participation in Member States.

Despite these caveats, positive effects can already be detected in three areas:

- a redirection of policy towards a more preventive approach to unemployment. In many Member States, forecasting models are being developed, employment observatories by industrial sector are being set up or extended (eg in Greece, Belgium, the Netherlands and Austria, where this is occurring at a regional level, with tripartite discussion of economic and labour market issues). New initiatives are also being undertaken at the company level. In Denmark, for example, labour market monitoring has been developed, coupled with efforts to promote the use of the data by companies and with help to firms to apply the results of forecasts to their human resource policy. In Ireland, companies obtaining support under Objective 4 are required to devise a business development and training plan;

- the acceptance by workers of the need to adapt to industrial change. From the experience in some Member States (Denmark and Austria), greater needs than expected have emerged for general or generic skills and less for vocational or technical training, while It also seems to be important for training to lead to formal qualifications (e.g. as recommended by an evaluation study in Ireland);

- improving training systems. Measures include the development of courses and types of training methods which can be used to establish training structures at company level. Particular attention has been paid to the training problems faced by SMEs. For example, in Germany there are plans to establish cooperation structures between SMEs for training purposes.

Objective 5a: improving structures in traditional sectors

Agriculture

The agricultural sector has been subject to substantial change in recent years, including the development of new production techniques, increased productivity and competition and changes in the pattern of demand. These have led to a significant reduction in the number of agricultural holdings — from 8.6 million in 1989 to 7.8 million in 1993. The reduction was particularly large in Portugal (18%) as well as in Luxembourg, France, Spain and Belgium (over 10%). At the same time, the average size of holdings increased, although, in the Union as a whole, small holdings of between 1 and 5 hectares still account for 60% of the total. The rationalisation required in the future needs to be accompanied by a reduction in the average age of workers in the sector, since in 1993 over half of farmers were over 55.

Objective 5a is aimed at bringing about a restructuring of agriculture across the Union, continuing the measures co-financed by the Community Budget over a number of years to maintain agricultural activity in rural areas. It is specifically directed at preserving viable farming income by creating new opportunities on or close to the farm. The measures include both direct transfers to farmers in the most disadvantaged areas and transfers designed to restructure and develop the sector.

Direct compensation to farmers is focused on those in mountainous or other naturally disadvantaged areas, where the decline of agriculture threatens serious depopulation and 'desertification' and where agricultural income is less than half that elsewhere. The system of support enables farmers in these areas to maintain a reasonable level of income. The areas concerned cover 56% of usable agricultural land in the Union. In the 15 counties of the Union, around 1½ million farmers are in receipt of this compensation, representing a quarter of the holdings located in these areas.

Numerous measures to restructure and develop the sector have been funded by the Community. These focus, first of all, on the planned improvement of farms themselves. Subsidies are granted to increase the competitiveness of agricultural holdings by adapting structures of production to the needs of the market and to promote product quality. They also encourage the diversification of activities which could generate additional income (such as rural tourism, the sale of farm products and the use of wooded areas), as well as the improvement of working conditions, hygiene and animal welfare and the natural environment. In the last few years, an average of 40,000 improvement plans a year have been approved, half in Objective 1 regions. In 1993, 60% of these were directed at supporting investment in holdings located in disadvantaged areas.

The Community also offers support for young farmers to set up in business not only to provide a job for them but also to reduce the average age of the agricultural work force, younger farmers being more receptive to modern farming techniques and better able to adapt to changes in production and the need to diversify activities. In the last few years, help has been given to 23,000 young farmers a year, some 1.8% of the total in the Union. At the same time, the early retirement of farmers of 55 and over has been encouraged. For the period 1993–97, more than 210,000 farmers and agricultural workers will be assisted in this way.

Finally, the Community funds investment in the downstream processing and marketing of agricultural produce with the aim of improving product quality and enabling producers of primary products to benefit more from the added value from processing. Rationalisation and modernisation are essential; in 1990, over 90% of the 253,000 firms in the agro-food sector had less than 20 employees and 6% between 20 and 39. In deciding the assistance to be given, account is taken of market developments and the projects for assistance are selected accordingly. In general, priority has been given to investment involving technical innovation, enabling costs to be reduced, labels of origin to be produced and biological products to be encouraged.

These measures account for most of the resources deployed under Objective 5a. The other measures include support for producer cooperatives, for service centres providing mutual aid, management and accounting advice and for vocational training.

Fisheries

Structural intervention in the fisheries sector is intended to facilitate adjustment. Measures include payments for the permanent reduction of the fishing fleet, assistance for its modernisation, for aquaculture investment and aid for downstream activities such as processing.

Structural measures for fisheries have been in place since 1970, but they have only been brought together in the form of the Financial Instrument for Fisheries Guidance (FIFG) since 1994. The largest beneficiaries have been the fishing communities in Spain and, to a lesser extent, those in Italy, Portugal and Greece.

The integration of fisheries into the Structural Funds in 1994 was intended to reinforce the efforts to improve conditions in an industry undergoing extensive restructuring. Before the FIFG was established, measures suffered from a lack of strategic focus and planning, with aid being insufficiently concentrated. Nevertheless, a number of achievements are evident:

- significant reductions in the over-capacity of the fishing fleet have been achieved. Over the period 1991–94 the tonnage and capacity of the Community fleet were reduced by around 10.5% and 7.4%, respectively, mostly in Spain, Portugal, Denmark and Germany. Although these reductions were within the global objectives set out in the Multiannual Guidance Programmes (MAGPs), the overall situation conceals wide variations between Member States;

- health and safety conditions onboard ships and in processing plants have been improved;

- the development of fish farming has been encouraged, with notable success in Greece, Italy, Ireland and the UK (Scotland), and has contributed to local economic development.

In the current period, there is a continuing focus on reducing fleet capacity in accordance with the targets set out in the MAGPs and on the coordination of measures for fishing communities most affected by reductions.

Objective 5b: restoring the rural economy

The continuous decline of employment in agriculture and of the share of agricultural production in GDP create real problems for the maintenance of jobs and population in many of the Union's rural areas, where prosperity and the environment are threatened. Safeguarding rural areas is essential to the balanced development of the Union as a whole and calls for the creation of new economic activities or the expansion of existing ones.

Objective 5b is aimed at promoting rural development by assisting structural adjustment in areas which are particularly vulnerable. It includes areas outside those covered by Objectives 1 and 6 with low incomes or other handicaps, such as a location on the periphery or in remote islands or mountainous areas, an uncompetitive structure of agricultural holdings, on ageing work force or with pressures on the rural environment.

The assisted areas are sparsely populated and the challenge of providing access to services is accordingly especially difficult.

Through the integrated programmes, the Community has helped to restore the economic potential of rural areas and their capacity to provide viable jobs. Around 70% of EU funding is currently directed at the development of the economic base of rural areas. There are three main priorities: first, support for the development and diversification of agriculture and forestry — including the promotion of quality products and the restructuring of production away from the use of exhaustible resources; secondly, the development of new SMEs, where the Union has supported the establishment of industrial sites and the creation of services for assisting businesses; thirdly, the development of rural tourism which can be a source of additional income for farmers and their families.

These measures are complemented by others to improve labour force skills or protect the natural environment. Measures also contribute to improving the built environment through the regeneration of villages. This represents a potential opportunity for job creation while protecting the local heritage and improving the quality of life.

Global estimates suggest that over the period 1989–99 as a whole, more than 500,000 jobs will be created or preserved in Objective 5b areas as a result of Community programmes. Of 20 Objective 5b regions examined in more detail, the data suggest that population has stabilised in around half of them and increased in six. GDP declined in only two of the regions and increased or remained the same in the rest.

Objective 6: innovation and accessibility

The new Objective 6 created on the accession in 1995 of Finland and Sweden addresses problems of extreme peripherality, climate and low population density. These regions typically benefit from relatively well developed infrastructure, especially as regards transport, energy and modern telecommunications. However, unemployment is high and the regions are highly dependent on public sector employment.

Objective 6 programmes have been used as the opportunity to address these deficiencies. Innovation has been at the heart of the strategies adopted for the period 1994–99, and expenditure on research and technological development and the new information and communication technologies has been a top priority. In Finland, this accounts for over a third of Community assistance.

It is, of course, too early to assess the results of these programmes. The indications so far are that there have been beneficial effects from both the measures themselves and the programming process, which has encouraged creativity through the decentralisation of management to the regions.

Community Initiatives

Through Community Initiatives, the Union has been able to focus attention on particular European problems and opportunities concerning regional and social development, emphasising actions to promote the development of networks and cooperation between regions across national frontiers. They have sometimes been among the most valuable and innovative actions under the Structural Funds, helping to set a new policy agenda for mainstream programmes and having particular appeal to local people and organisations. They have also been very popular which has produced its own set of problems in relation to the volume of themes requested for new Initiatives.

Given the limited resources available in relation to the variety of issues which have been addressed, leverage has been the guiding principle in the use of Community finance. Accordingly, Community Initiatives focus much less on major 'hardware' investment itself and more on seeking to create the conditions for national public and private investment in the priority expenditure areas. Detailed evaluations for most Community Initiatives for the first programming period, 1989–93, are now underway, while a number of new Initiatives were introduced only recently.

Community Initiatives have had a particular role in emphasising the trans-border, transnational and interregional dimension. There can be few more important priorities in the process of European integration than the removal of the traditional barriers between Member States which have distorted economic structures and reduced opportunities, especially for border communities.

With regard to cross-border cooperation, *INTERREG I* (1989–93) achieved considerable success measured in terms of interest aroused, with some 31 programmes funded. Their unique contribution has been to promote the development of coherent regional strategies across national frontiers. In this way they have attempted to overcome national barriers to economic and spatial development which have traditionally reduced opportunities for border communities or led to a wasteful duplication of effort. Over half, 56%, of the resources funded projects directed at publicising cross-border opportunities, underlining the extensive benefits of a Europe without borders. Initiatives for cross-border mobility were less in evidence, but 11% of the projects were aimed at developing new practices in economic cooperation based on the transfer of information and know-how; 8% were concerned to improve the management of natural resources and, therefore, the attractiveness and quality of life offered by border areas; 6% were aimed at developing university and research centre networks and promoting cross-border tourism. Most of these projects contributed to job creation directly, partly through the development of SMEs.

INTERREG II will carry this forward and seek to promote programmes which are genuinely cross-border in content. It has considerably increased resources, in particular for actions in Objective 1 regions, and it will also help fund the completion of energy networks to provide connections with wider European networks funded under the *REGEN* Initiative.

During the first programming period, *REGEN* exposed the limits of a uniquely national approach to planning. It led to a strengthening of collaboration (for example, between Greece and Italy and between Spain and Portugal), encouraged the diversification of energy sources and services (creation of gas distribution systems) and promoted the establishment of networks.

In order to establish cooperation between EU regions and regions in Central and Eastern Europe adjacent to the Union, the implementation of projects financed under the external aid programme *PHARE* has been linked to *INTERREG*. More recently, an innovation has been to introduce a spatial planning dimension in Community Initiatives for the first time (*INTERREG IIc*) which will open up possibilities for developing transnational cooperation (around the Baltic Sea, the Alps, the Mediterranean and the Atlantic). The *REGIS* initiative aims at improving integration of the remote regions of the Union by strengthening their economic base and consolidating links with the rest of the Union.

Community Initiatives have also given impetus to innovation, the transfer of know-how and the integration of R&D in regional policies in the less developed areas. Under *STRIDE*, 68 new research centres were created and over 100 others were re-equipped or upgraded. Almost 300 new products and processes and 46 patents were generated through research activities and 4,400 jobs are estimated to have been directly or indirectly created. Under *TELEMATIQUE*, 17,000 SMEs in a wide range of industries developed advanced services (databases for open use and support for distance working to 32,000 new users). *PRISMA* has contributed to the creation of a single market by improving standardisation and quality control procedures. It has financed some 300 projects for certification and quality services which have produced systems used by some 4,500 organisations for checking materials and products to ensure that they conform with EU standards. These three initiatives are reflected in the *SME* Initiative for the second programming period (1994–99) aimed at assisting SMEs, especially in Objective 1 regions, to adapt to the single market and international competition.

Rural development projects designed and managed locally in rural areas have been supported under *LEADER*, which is aimed at disseminating good practice through innovative measures, exchange of experience and transnational cooperation. Through a 'bottom up' integrated approach to rural development, it helped to set up 217 Local Action Groups in the first phase, while for the period 1994–99 the number of Groups may increase to some 700. The design and implementation of transnational projects has been promoted using the European rural development network, which offers a permanent facility for the exchange of experience and know-how.

In 1994, the Commission launched the *URBAN* Initiative, aimed at social and economic regeneration of cities and at improving the environment. *URBAN* has sought to maximise the involvement of the grassroots, empowering local communities and encouraging local people to determine priorities and to take responsibility for their own areas. It has generated considerable interest, receiving some 133 applications for funding.

Other Community Initiatives (*RESIDER, RENAVAL, RECHAR, RETEX* and *KONVER*) are narrowly focused on areas with particular sectoral problems and aim to help local economies dependent on such sectors diversify. Given their small budgets in relation to the size of the problem, their main contribution has been to secure private investment in areas which have suffered from progressive disinvestment and which were seen as unattractive. Evaluations suggest that Community funding was essential to releasing resources for virtually all of the *RECHAR* projects undertaken and for 95% of *RESIDER* and *RENAVAL* projects. In financial terms, they have had a high leverage effect, inducing public and private funding of over $2^1/_2$ times the amount provided by the Community and helping support about 5,000 projects in the areas concerned. Given their success, some of the Community Initiatives (*RECHAR, RESIDER, RETEX* and *KONVER*) were renewed in the second programming period with certain adjustments, such as an extension of their geographical scope and the addition of new measures.

The two major Community Initiatives for the development of human resources — *EMPLOYMENT* and *ADAPT* — aim to focus attention throughout the Union on a skilled work force as a key element in the strategy presented in the Commission's 1993 White Paper.

The *EMPLOYMENT* Initiative consists of three inter-related programmes:

- *NOW*, which promotes equal opportunities for women in the labour market;

- *HORIZON*, which addresses labour market opportunities for the disadvantaged and the disabled;

- *YOUTHSTART*, which promotes the labour market integration of young people under 20, especially those without basic qualifications or training.

From 1997, a fourth programme, *INTEGRA* will be added, concentrating specifically on social exclusion; after its introduction, *HORIZON* will focus exclusively on helping the disabled.

The *ADAPT* Initiative is aimed, in conjunction with Objective 4, at helping the work force adjust to structural change and, with effect from 1997, will be reinforced by a special priority measure concerned with the social aspects of the Information Society (*ADAPT-bis*). (The Commission and the Member States agreed at the outset a specific transnational framework and timetable for implementing the two initiatives in two phases, 1995–97 and 1997–99.)

The response at the local level to the Initiatives has been substantial. In the first phase, 2,400 projects were launched under *EMPLOYMENT* (770 under *NOW*, 1,100 under *HORIZON* and 500 under *YOUTHSTART*), while 1,350 projects were accepted under the first *ADAPT* Call for Proposals. A further 5,000 projects are expected under the second Call for Proposals to be launched in January 1997.

It is estimated that, under *EMPLOYMENT* and *ADAPT*, over 1.1 million people will directly receive training or other forms of support to improve their job prospects in an increasingly competitive European labour market.

ENVIREG, aimed at environmental protection, which has funded about 800 projects across Europe, has given an impetus to the integration of the environmental dimension into existing programmes and has led to healthy competition between local and regional authorities.

In 1994, the Commission launched the *PESCA* Initiative, aimed at helping fishing communities cope with the economic and social consequences of decline by contributing to the diversification of activity and the creation of new jobs.

Finally, the European Union established a Special Support Programme in 1995 to help underpin the peace process in Northern Ireland through a variety of measures to promote opportunities for reconciliation between the communities both in the province and in the six border counties in Ireland. This initiative has been an opportunity to make a major breakthrough in terms of a raising the involvement of local and community groups.

Although Community Initiatives reflect considerable diversity, experience so far suggests that their strengths have been to foster cooperation and the formation of new partnerships, generate a spirit of experimentation and innovation and encourage the involvement of the grassroots (a 'bottom-up' approach) and the wider dissemination of best practice. They have been an important force for European integration.

The experience acquired during the first programming period as well as the first results of the present period suggest that three of them in particular — *INTERREG, LEADER* and *URBAN* — have succeeded in translating the intentions of their authors into effective action. These initiatives, and the partnerships which they have been responsible for establishing, have strengthened the integrated nature of local development policies and have had a marked effect on the ground, mobilising those concerned into action. In the future, they are expected to lead to an exchange of experience and know-how in respect of projects which can be implemented generally in different parts of the Union.

INTERREG, in particular, represents an unprecedented example of regional cooperation under the Structural Funds, and this will be developed further in the present programming period, while the 'bottom-up' approach of *LEADER* has made it possible to mobilise people in local areas and attract private capital, which has had significant multiplier effects. In addition, the *URBAN* Initiative has encouraged a number of Member States to implement a multi-sectoral approach to urban problems and will help problem areas to be integrated into the overall process of economic development.

As a result, these Initiatives have succeeded in their aim of adding value to Community cohesion policies as whole, maintaining an identity which is distinct without becoming submerged within the mainstream programmes.

Pilot projects

Pilot projects initiated under the Structural Funds promote a concerted approach to innovation, experimentation and diffusion of know-how across regions in Europe. They have demonstrated the scope for mobilising individuals and organisations at local level in both the public and private sectors with limited resources as well as the potential of partnerships for development and employment creation.

Since 1984, the Commission has co-financed the creation of European Centres of Business and Innovation (EC BIC) in assisted areas of the Union and their formation into a network within the European Business Network (EBN). These centres, which are the product of local partnership, provide to innovative SMEs in the areas in question a wide range of essential services, from the identification of potential new ideas to their concrete development.

Since 1996, the *TACIS* programme provides the possibility for cross-border cooperation, including a linking with the *INTERREG* programme, with a budget of 30 million ECU.

5.4 The delivery system: a force for change

An important part of the gains from cohesion policies stems from the delivery system developed for the implementation of structural intervention. The system has its origins in the 1980s, notably, in the Integrated Mediterranean Programmes in France, Italy and Greece and in a small number of integrated regional policy programmes in the UK and the Netherlands. Lessons learned from these innovative programmes formed the nucleus of the reform of structural policies in 1988 and the system has been further developed since then.

The delivery system has a number of key elements:

- it is *targeted* on particular types of activity, particular localities or social groups;
- it is based on *medium-term programmes*, responsive to, often locally-defined, needs;
- it is supported by systems of *financial management and control* and encourages the development of an *evaluation* culture;
- it is driven by *subsidiarity* by involving those who benefit from the programme, for whom this represents the most concrete expression of the European Union in practice;
- it has a leverage effect through attracting additional resources from the public and private sectors.

Targeting

By targeting resources and attention on particular types of investment and on particular areas and social groups, the delivery system increases the effectiveness of European structural policies. Experience since 1989 has shown the virtues of focusing on an objective measure of need and confirmed the importance of comparability across the Union and of adopting a common set of criteria for determining the allocation of finance.

This has important side-effects. It ensures that policies are genuinely European in scope and that the amount of European aid is determined in the same way whether policies are being applied in Bilbao, Birmingham or Berlin. It also helps minimise the inflationary effect of expenditure since the increase in demand induced is matched by an increase in investment and hence productive potential. This will be especially important in the context of a single currency.

Medium-term strategic programmes

The strategic, or 'programming', approach adopted under EU structural policies has itself been an innovation for many Member States since its introduction in 1989. It is an approach with three distinct phases: the diagnosis of problems, the formulation of a strategy and the definition of concrete objectives to be achieved. As such, it has been recognised as an effective tool for the management of public funds and, in some cases, it has been adopted by Member States for implementing their own policies. It has also led to some administrative reorganisation in some Member States (a more regionalised approach in the UK and Portugal and a more efficiency-oriented approach in Greece, for example).

The programming approach has enabled medium-term, or 'multi-annual', development planning to be implemented and has encouraged the poorer Member States, in particular, to consider not just present policy pressures but to plan for the future in a longer-term perspective with guaranteed finance from the Union.

Above all, perhaps, it has helped encourage a spirit of innovation and experimentation in policy. Experience has shown that the task of designing and implementing such strategies often motivates those involved and releases local potential, stimulating the development of policy measures tailored to local circumstances. The innovative nature of the measures implemented can present a considerable management challenge to the Commission and the national and regional administrative authorities concerned.

This diversity in the measures undertaken is one of the reasons for the number of programmes to tend to increase, which itself poses additional management problems; it remains an ongoing challenge for the Commission and Member States to strike the correct balance between the imperatives of effective management and innovation.

Programmes are the means through which different European, national and regional structural measures are integrated, and there has been marked progress in this area since 1989 with almost all European regional policy programmes furthering Community policies for industry, training, transport, environmental improvement, research and development, small businesses and tourism.

Financial management, control and evaluation

The effectiveness of EU cohesion policies requires that they be used for the purposes for which they were intended. To help achieve this, the Commission has attached top priority to ensuring that appropriate systems are in place in Member States for *financial management and control.* If they are not, the targeting of EU resources is undermined and public confidence in the programmes is eroded. This is particularly important since cohesion policies account for a third of the Community Budget.

Arrangements for financial management and evaluation emphasise the shared nature of responsibility for policies and for the efficient use of resources. The Commission has overall responsibility for implementing the Community Budget, but, reflecting the decentralised nature of the delivery system, Member States have the main regulatory responsibility for ensuring effective financial management and control.

The prior need in this regard is to have an unambiguous understanding of the respective responsibilities of the Commission and the Member States. This is currently underway through the signing of protocols dividing tasks and coordinating auditing schedules and methodology.

A role for the Commission is to ensure that appropriate systems are in place for effective financial control. The Commission makes on-the-spot checks and system audits to ensure the efficient use of EU resources. Other improvements will be developed in the context of the wider exercise inside the Commission (known as Sound and Efficient Management 2000, or SEM 2000) to improve the management of resources. The existing spot checks and system audits will be backed up by an improved follow-up of the findings. The exploitation of the opportunities offered by new information technology will help in this regard as well as in increasing transparency.

The cohesion policies introduced after 1988 also included provision for *evaluation* of measures, both *ex ante* and *ex post.* For many Member States, the systematic assessment of results was not a standard part of the policy-making process. The Commission has, therefore, been a force for the diffusion of an evaluation culture, drawing on best practice from across the Union.

Evaluation has improved over time. In the first generation of programmes introduced in 1989, *ex ante* evaluation and the quantification of the results expected were inadequate. This was a serious weakness with knock-on effects on *ex post* evaluation, which is normally based on this.

For the current generation of programmes, much effort has been made to correct this weakness. Particular emphasis has been given to identifying quantified indicators to establish a baseline against which the effect of measures can be assessed, as well as creating networks of expert support, regular publications on best practice and case studies.

Subsidiarity and partnership

The notion of subsidiarity in public policy reflects a recognition of the virtues of decentralisation, involving the relevant authorities at all levels in the pursuit of agreed objectives and the sharing of responsibilities for decision-making between central and lower tiers of government closer to the grassroots. This is important, since it means the involvement of those nearest to the problems for which solutions are being sought.

The notion of shared responsibility and partnership extends to the social partners, the precise arrangements for their involvement, together with that of different levels of government, varying between countries.

Partnerships formed with the Commission have played a fundamental role in EU cohesion policies. By acting as a mechanism for dialogue they have helped ensure that political priorities determined at European level are transmitted all the way down to local level.

Although the form of partnership differs between programmes and Member States, it has proved a robust and adaptable means of implementation, at national level (in the case of Ireland, for example, under Objective 1 policies) and at local level (many programmes under the *URBAN* Initiative being operated by local partnerships). It is also adaptable to all types of programme (the *INTERREG* Initiative even requires cross-border partnership) and to different national circumstances.

The development of a vigorous partnership that is genuinely accountable helps ensure that programmes are adapted to the needs of beneficiaries, that there is support for policies among the people and that a wide range of measures are co-financed.

Leverage

Programmes financed from the Structural Funds are supplemented by additional resources from public and, increasingly, private sources in Member States. Indeed, there is a formal requirement that Community structural aid should not substitute for national expenditure. Such leverage effects are often the direct result of the devolution of policy implementation and of the mobilisation of support from widely drawn groups of the population as described above. This mobilisation is itself often reflected in greater contributions of matching finance coming from public and private sectors with a corresponding improvement in the effectiveness of programmes.

Chapter 6
Ways forward

6.1 The ongoing need for European Union cohesion policies

Policies to promote solidarity exist in all Member States of the Union. There are two major reasons why this should be so.

First, there is a need to compensate for major inequalities in the capacity of regions to generate income and in the ability of different social groups to compete effectively in the labour market. These inequalities tend to diminish only slowly over time. Economists have identified many reasons for this, in particular, differences in factor endowments (in the skills of the labour force or the provision of infrastructure), the rate of technical progress, or the rate of diffusion of new products and processes, the effects of economies of scale and so-called externalities (which arise from the concentration of activities in a particular place), transport costs, imperfections in the competitive process and unequal access to technical know-how. All of these, especially in combination, are capable of preventing a balanced distribution of the gains from trade and economic integration. As the evidence of Chapter 2 confirms, distance from the centre of economic gravity appears to be one of the more convincing explanations for disparities in regional income in Europe, but not of unemployment.

Secondly, the idea of a 'people's Europe' guarantees certain rights to individuals with corresponding obligations on the State. Neither regional location nor social position are permitted to circumscribe life-chances.

The solidarity policies of the Member States reflect a political desire to maintain the European model of society which, as discussed in chapter 1, is based on the social market economy. With closer economic integration, the European Union shares responsibility for the maintenance of this model of society, which calls for active cohesion policies at European level.

EU cohesion policies contribute to the maintenance of the European model of society at a number of levels.

At the *economic* level, they contribute to reducing disparities between regions and social groups, allowing more of the population to contribute to economic growth. Even though European integration is a historical process without precedent, generating substantial overall economic gains, there has been the risk that the competitive forces unleashed by the introduction of the single market could overwhelm some of the weaker parts of the Union and the weaker social groups unless they adjust in order to be able to take advantage of the new opportunities. Unassisted, such adjustments can take an unacceptably long time to be accomplished, since the starting point is the often severely disadvantaged position of the weakest Member States and regions in terms of infrastructure, productive potential, the capacity for innovation and the skills of the labour force (chapter 2). The alternative to assistance is large-scale migration of labour, which is not only socially undesirable but tends to reinforce regional disparities since the most skilled and able are likely to be best equipped to find a job elsewhere.

The disparities at European level are much wider than those which exist in any Member State. Moreover, it is in the poorer Member States that budgetary resources to remedy structural problems and reduce disparities tend to be the most scarce.

At the *social* level, cohesion policies help to improve access to employment, both in general and for the most disadvantaged groups. More than anything else, the existence of high levels of unemployment and the growing incidence of poverty act to undermine the European model of society. Increasing employment has become a top priority in the Union. Cohesion policies make a direct contribution to this by promoting restructuring and development and creating durable jobs. In addition, cohesion policies explicitly address the equally important issue of who takes up those jobs, by attempting to equip young people, women and those who have been out of a work for long spells to compete more effectively for employment.

At the *political* level, cohesion policies are an expression of mutual support between Member States. They underpin the notion of *European* solidarity, creating a new framework of opportunity which is both additional and complementary to the national one. This is not simply a matter of resource transfer, but a Community approach, or method, which seeks to make the fullest use of the potential of the Union economy as a whole by implementing best-practice techniques and taking decisions as close to the grassroots as possible. By involving a wide range of people and organisations at regional and local level, Community cohesion policies give the most concrete expression to the principle of subsidiarity.

Against this background, the Commission remains determined to maintain, and where possible strengthen, the Union's structural policies for promoting the overall harmonious development of the Community.

At the same time, cohesion policies must be open to critical and continuous appraisal to ensure that they are as effective as possible. This chapter addresses policy weaknesses and identifies areas for possible improvement in the future. Such improvements could in some degree already be introduced during the current programming period, but it is equally important to begin a reflection on areas for more fundamental change, which can be addressed in the context of future developments linked to preparations for the new programming period scheduled to begin after 1999.

The following analysis addresses, first, ways of increasing the effectiveness of EU cohesion policies and, secondly, and without prejudging the content of future policy, some of the challenges for the future.

6.2 Raising effectiveness

Targeting the problems: the concentration of resources

An appropriate starting point for the analysis is the targeting, or concentration, of resources on the most serious problems. Through concentrating resources, the Union has been able to mobilise funding to have a significant impact on the worst-affected areas and social groups. More generally, concentration of support on physical and human capital has ensured that, in all Member States, each ECU from the Community is specifically targeted on investment for the future.

Concentration is, therefore, the key principle underlying the effectiveness of cohesion policies.

Enough geographical and financial concentration?

An excessive dispersal of resources generally limits the effectiveness of what is spent, although there is an inevitable temptation to spread resources thinly among both regions and social groups.

So far as population coverage under Objective 1 is concerned, the rule requiring unanimity among Member States for the adoption of the list of eligible areas makes the rigorous enforcement of economic eligibility criteria more difficult at the margin (the Commission proposed majority voting as the general rule in its submission to the Inter-Governmental Conference 'Reinforcing political union and preparing for enlargement'). Political compromise in 1993 led to the inclusion under Objective 1 of 7.4 million people, 8% of the total eligible population, living in regions with GDP per head of more than 75% of the Union average (ie above the threshold for eligibility established in the relevant regulation). The regions in question, however, did have GDP per head well below the average and some were suffering a trend decline in economic performance as confirmed by subsequent data (see chapter 2). Some regions have since been successful in catching up, moving from below to above the 75% threshold over recent years.

The system has largely succeeded in achieving concentration on the most serious problem areas in two programming periods. If this is to remain the case, it may have to be re-examined in the future.

As regards financial allocations under Objective 1, some of the variation in aid intensity (Union funding per head) between Member States reflects the application of objective criteria. Some of the variation, however, reflects the 'weight of the past'. In other words, it has proved difficult to remove inertia entirely from the system in order to adjust allocations to changes in objective needs, although in conditions where the sums involved are large it is also desirable to avoid abrupt changes. Overall, the EU funding per head in Objective 1 areas has increased by around one-third in real terms between programming periods.

Under Objective 2, 16.4% of the Union's population lives in currently eligible areas, only slightly above the 15% established as a guideline in the preamble to the regulation (Table 34). This is marginally below the coverage in the previous period (16.8%). The additional resources made available to Objective 2 for the 1994–99 period have, therefore, been used to raise the amount of aid per head. The distribution of finance between Member States reflects objective criteria and the Member States have also carried through a similar methodology to allocations at the regional level. Just under one-fifth of the population covered by Objective 2 is not, however, eligible for assistance under national schemes of regional aid.

Under Objective 5b, 8.1% of the population is currently in eligible areas, up from 5% in the previous period. The extra resources made available for the second programming period have been absorbed by this increase in coverage, so that aid per head has remained virtually unchanged (Table 34). Even so, choices made in one or two Member States meant that some of the more populous medium-sized urban centres in rural regions were not included, even though they could have provided a natural location for the promotion of new activities (and SMEs), including producer services, in the development programmes. The extended geographical coverage under this Objective in the current period is a reflection, in particular, of the change in the selection method for the period 1994–99, and only half of the regions eligible under Objective 5b are eligible under national schemes of regional aid.

Objective 6, created on the accession of Nordic Member States in 1995, has an extensive geographical coverage but, because it assists areas of very low population density, only comparatively few people live in eligible areas — 0.4% of the EU total — while aid per head of population is below that in Objective 1. Over 99% of these are covered under national regional policies.

Overall, the present situation is one where just over half (50.6%) of the total population is eligible for the four regional Objectives of the Structural Funds, while 47% of the population is covered by regional aid schemes. In view of the need for resources to be of a certain amount in order to be effective, the preceding analysis suggests that there may be a case for a more determined application of the principle of concentration. It is essential that under all the regional Objectives, the most serious problems and disadvantaged regions are identified and targeted.

First, as discussed in chapters 3 and 4, improved coordination between the determination of eligibility under the regionalised Objectives of the Structural Funds and the decisions on eligibility for assistance under Member State regional policy (ie derogations for regional aid under competition policy rules) may be necessary. The fact that a region is eligible for assistance under the Structural Funds should be one of the criteria for eligibility for national assistance. At present, 7.1% of the population lives in regions which are covered by EU regional Objectives but not by national regional policy, while 3.2% lives in regions eligible for the latter but not the former. More coordination would enable Member States and the Commission to address these inconsistencies.

Secondly, the intensity of EU aid, in terms of expenditure per head, may have to be more finely tuned to the position in eligible regions to ensure that the resources made available reflect objective needs. This, however, needs to be balanced against the need to avoid abrupt changes in the level of financial aid to Member States and regions. This also would imply that when lists of assisted regions are reviewed, there should be a phasing out of assistance (rather than it being brought to a sudden halt).

Concentration is equally an issue for the non-regional Objectives. For Objective 3, the difficulty has been to establish a real policy dialogue to help focus the efforts at the Union level on the most vulnerable groups in the labour market so as to increase the effectiveness of assistance and raise its visibility. In the case of the recently introduced Objective 4, the desired concentration of assistance on SMEs and the involvement of other social and business partners have been difficult to achieve in practice.

More performance orientation?

In addition to greater concentration, a more focused application of the Structural Funds results might also increase their effectiveness. This was an issue taken up by experts in the Commission report *Stable Money — Sound Finance* which suggested a number of possible modifications to the operation of the Structural Funds, including avoiding fixed *a priori* allocations to Member States, with more incentives for the achievement of verifiable targets. Targets suggested concerned project realisation, the overall improvement made in structural adjustment and the achievement of macroeconomic policy aims.

But performance orientation in these terms has its limits. The allocation of resources must focus on those most in need, whether regions or social groups. As shown in chapters 2 and 3, social and economic disparities remain substantial, even if there has been significant progress in narrowing them in some cases, and their reduction must be the overriding aim. A fundamental requirement is that any performance criteria should only be related to the achievement of cohesion objectives and not to other ends.

The essential precondition for increased performance orientation is the existence of clearly defined cohesion objectives, which today may need to take employment developments into account. Other requirements include more efficient financial control, a renewed drive against fraud and irregularities and further improvements in monitoring and evaluation. The Commission has already made 'sound and efficient management' one of its major political priorities during the present period and, for the Structural Funds in particular, progress has already been achieved. Nevertheless, the impending review of structural policies for the period after 1999 is an appropriate occasion to consolidate and deepen the progress already made.

Any move away from fixed *a priori* allocations to Member State would have to be treated with caution. On the one hand, it is probably true that the quality of programmes could be improved by more competition for scarce public resources. On the other hand, as discussed in the previous chapter, medium-term programmes can only be developed against a background of predictability and stability and those involved in the planning process must have a clear idea of the amount of Community financial assistance they can expect. The option of allocating resources to Member States only after they have submitted their plans seems unrealistic for largely practical reasons. Nevertheless, while the point is a sensitive one, the advantages and disadvantages of some additional degree of flexibility in the allocation of resources to take account *inter alia* of changing circumstances would seem to merit further consideration.

The absorption issue

Successful concentration of financial support depends on Member States being able to take up the funds. There is little point in making the resources available if for one reason or another Member States are unable to make use of them. Absorption constraints in countries and regions arise for three main reasons:

- physical absorption problems arise where the receiving authorities do not have the administrative capacity to absorb the funds on offer, to identify suitable programmes and projects and to manage their implementation;
- budgetary absorption problems arise where, under matching funds arrangements, Member States are unable to raise the counterpart finance because of budgetary constraints;
- macroeconomic absorption difficulties potentially take various, but generally less tangible, forms, such as inflation, the crowding out of private investment by EU-funded public expenditure, an unduly large growth in imports and the leakage of transfers from investment into consumption.

These are far from being theoretical constraints. The implementation of cohesion policies has sometimes encountered significant absorption problems (see European Commission (1996): *Seventh Annual Report on the Structural Funds*, pp 202–206). Some easing of these might be achieved by more flexible financial procedures. The absorption problem, however, needs to be considered with the issue of additionality, taking into account the general context of a more restrictive budgetary policy environment within which structural policy has to operate.

Additionality

In the existing system, the principle of *additionality* is one of the important means for achieving better performance. It is intended to ensure that Community support for economic development does not replace national government efforts. On the other hand, additionality has not been made a compulsory element of the Cohesion Fund as one of its prime purposes is to help the Member States concerned meet budgetary targets for satisfying the conditions for monetary union.

While there have been improvements in the current programming period on the verification of additionality (a clearer and more practical definition was included in the revised regulations), it has been a complicated methodological task.

It might be argued in the extreme that the principle of additionality is outdated in view of the overriding concern today for budget discipline. But experience has shown that the means chosen for reducing budget deficits is often determined by political expediency, resulting in cuts in public investment rather than in current expenditure, with detrimental effects on growth, running counter to the essential aim of Union support.

The *principle* of additionality protects against the substitution of Union aid for national spending. In the light of experience gained in the current programming period, the methodology could be adapted, taking account, for example, of demands by some Member States that verification should be related to the relative scale of Union assistance in the programmes under consideration.

Another possibility could be that the Commission would be concerned to ensure that appropriate leverage exists in relation to Union financing and less concerned as to the source of finance within Member States, possibly taking into account private sources.

This should not pre-empt a reflection on other possible ways of increasing Member State involvement and their responsibilities for ensuring a successful outcome from the implementation of structural policies.

Better financial engineering

With tight constraints on public finance, a combination of increased use of loans and greater private sector participation could provide additional resources for cohesion policies.

In financing development programmes, the balance between grant aid and other sources of funding remains an important issue. Greater recourse to loans would contribute to introducing market discipline and stimulating more efficiency while lowering some of the costs of failure involved in financing projects largely or exclusively through grants. Where projects are revenue generating, it seems appropriate to increase the scale of loan finance. Where revenue returns are very long-term, which is perhaps more likely to be the case in the poorer countries, the scope for loan finance (and private capital) may be more limited.

The experience of the European Investment Bank (EIB) suggests that a new balance needs to be struck between grants and loans, since, in particular cases, EIB activities seem to have been limited by the (too) ready availability of EU grants.

Future improvements should seek to raise the level of involvement of EIB and other loans as well as the guarantees and equity participation of the European Investment Fund, and to deepen private sector involvement through public-private partnerships. The latter implies a more systematic use of the seed-capital and development-capital funds available in the regions, some of which have been created or supported by the Structural Funds themselves, while not precluding an ongoing search for other innovative approaches to financing programmes.

Overly complex programming procedures?

As discussed above, the strategic, or programming, approach adopted under EU structural policies has been a key aspect of the delivery system. Since the first programmes were introduced in 1989, the difficulties encountered do not concern the principle itself, but there have been some teething problems in practice, while the process remains overly complex in certain respects.

When the first programmes were adopted, the exercise was affected by shortage of time, which meant that in some cases the Community Support Frameworks were composed of a series of loosely connected proposals for discrete action. Steps were taken in the second programming period, which began in 1994, to improve the preparatory phase, notably through a more systematic identification of regional strengths and weaknesses, a more careful reflection on the strategic priorities to tackle problems and on their coherence and a fuller quantification of the objectives to be achieved.

In responding to the procedural problems, the so-called Single Programming Document (SPD) was introduced for the current period. Outside the main Objective 1 areas, this gave Member States the option of dispensing with the procedure for committing resources which formerly required two decisions on the part of the Commission — the first to approve the Community Support Framework, the second to approve the individual programmes within it — in favour of a single decision based on a SPD setting out the strategy and the operational means of achieving it.

Further streamlining

Possibilities for further simplifying and streamlining programming procedures need to be examined. First, there is the question of the appropriateness of the programming approach in all cases. For certain kinds of intervention, such as those involving small amounts of money or which depend on a significant input from the grassroots, it may be better to use a global grant procedure, appointing a qualified intermediary to handle implementation, and to reduce the involvement of the Commission in day-to-day management. For large projects, on the other hand, such as major infrastructure investment, separate identification in the programming process and individual appraisal might be called for (including consideration of the appropriate balance between grant and loan finance).

Secondly, in the mainstream case where programming remains appropriate, transparency and administrative effectiveness could be enhanced by addressing the various aspects of the problem in a more coherent manner. At present, within an individual regional authority area, or group of areas, it is possible that different parts may be eligible for Objectives 2 and 5b, while assistance under Objectives 3, 4 and 5a might also be given, implying a considerable administrative overhead in terms of coordination between the five different Funds and other sources of finance. Community Initiatives might also add further layers of administrative complication.

It, therefore, seems necessary to examine existing systems to ensure that there is an efficient balance between quality and simplicity.

In the drawing up of the programmes, opportunities for synergy with the other non-structural policies of the Union need to be considered. Coordination is, therefore, important to ensure that the lessons learned from the non-structural policies can be incorporated as appropriate — including the transfer of best practices — and to ensure that the programmes maximise complementarities.

Finally, the success of the SPD method depends on the way that it is implemented in practice. A smoother decision-making process, avoiding undue delays in the commitment of Community resources, depends in part on the Member States undertaking sufficiently detailed work in each of the preparatory phases of the programming process referred to in chapter 5 above, while the Commission must also avoid unjustified delays in its approval procedures.

Community Initiatives

Actions under Community Initiatives are aimed at pursuing common aims, encouraging experimentation and innovation in areas which otherwise tend to be insufficiently emphasised in the programmes. They include Initiatives to promote cross-border, transnational and interregional cooperation, as well as those which address European problems, such as the crisis affecting urban areas or the restructuring of the European defence industry.

At the same time, there remains a perception that the effort has been dispersed across an excessively large number of Initiatives, often in response to specific demands from the Member States, implying a need to define more restrictively their fields of intervention. In addition, experience and best practice developed through the Initiatives need to be transferred more systematically and effectively than at present into mainstream policies and programmes. Finally, procedures require simplification and the Initiatives need to be made more amenable to transnational cooperation between countries, regions and local areas.

Subsidiarity and partnership

In the implementation of EU structural policies, the major expression of the principle of subsidiarity is the operation of partnerships in the Monitoring Committees. However, these have only just begun to contribute creatively to problem analysis and to the assimilation and local implementation of new Community guidelines and priorities (in areas such as employment, the environment and equal opportunities). The situation is improving rapidly in certain Member States where Monitoring Committees have seized the initiative, organising separate but complementary initiatives of their own, improving the dissemination of information, undertaking rigorous problem analysis and so on.

A basic need is one of information on the functioning of partnerships in practice and, by analysing this, it should be possible to identify best practices and their transferability.

In some cases, where partnerships are less developed, it would be helpful to the operation of the Monitoring Committees to make a distinction between decision-making and consultative partners, the former consisting of the authorities responsible for co-financing, the latter being mainly the social partners and representatives of interest groups. This might allow the political authorities responsible to take a more objective and constructive view of the latter and embrace their involvement more whole-heartedly.

Finally, there might be other ways of increasing the commitment of the partners to the overall aims of EU cohesion policies, in particular, by greater efforts to explain the Union's priorities, more informal opportunities for dialogue (on the lines of the informal working group set up by the social partners in 1995) and pilot actions in conjunction with certain national and/or regional authorities (eg *territorial employment pacts).*

6.3 Policy Challenges

Priority concerns for current Structural Funds programmes

In their effort to reduce regional disparities and to promote economic and social cohesion, Community structural policies seek to address the political priorities of the European Union and the main preoccupations of its citizens. The actions under these policies are, therefore, selective rather than 'catch-all' — and a complement to Member States' own actions. The policies have proved to be flexible and adaptable in response to changing circumstances and recognise that there can be no single remedy for all structural problems and all circumstances.

Mobilising the required effort on the part of the Member States in pursuit of the main priorities is an additional issue. In procedural terms, one way of ensuring that agreed EU priorities are better understood is through the issuing of guidelines in advance of the preparation of the plans. This has been a feature of the preparation for Objective 2 for the period 1997–99, and experience suggests that its generalisation to other Objectives may be worthwhile.

During the current programming period, four priority areas have emerged which EU cohesion policies have specifically sought to address: employment creation, competitiveness, environmental protection and equality of opportunity between the sexes.

Employment

The fight against unemployment and the creation of new jobs to provide work for over 18 million unemployed is an overriding priority for the European Union and the Member States. The 1993 White Paper stressed an approach which combined an emphasis on developing the competitiveness of the European economy with a renewed search for employment opportunities in growth sectors including those in non-traded activities at the local level in the cultural, social and environmental fields.

The Essen European Council in 1994 took up these ideas and identified five main priority areas for short to medium-term action to increase employment through coordinated multi-annual programmes. Of these, four — promotion of investment in vocational training, increasing the employment intensity of growth, improving the effectiveness of labour market policy and strengthening measures to help those particularly affected by unemployment — fall within the scope of the Structural Funds. The Madrid meeting of the European Council underlined 'the mutually beneficial effects of greater coordination of the Union's economic and structural policies'.

EU cohesion policies have helped to focus more attention on employment and Member States have increased the importance attached to job creation. The Structural Funds play an important role in promoting employment; not only do they boost demand for goods and services in recipient regions in the short-term but, by raising economic potential and improving the skill level of the work force, they provide support for the creation of durable jobs over the long-term. It is within such a time-frame that the major part of the contribution of the Funds to employment growth must be expected. This applies to Objective 1 regions, where policies address the persistence of major gaps in basic infrastructure endowments. These contribute to short-term job creation during the construction phase while the fact that the individual projects are generally part of a coherent development strategy geared to competitiveness and growth which is sustainable and, ultimately, self-sustaining, helps to ensure that they contribute to longer-term, durable, jobs. As discussed above, the results of macro-economic model simulations for Objective 1 regions and the global estimates for Objectives 2 and 5b suggest that the effects on employment are substantial.

The Structural Funds promote job creation in a number of other ways. Aid to SMEs is an important aim in many programmes, and these are the major source of private sector employment in the EU. Promotion of tourist-related projects leads to an inflow of spending power and the creation of local jobs. Supporting the adaptation of workers to industrial change helps to develop a preventive rather than a purely reactive approach to saving jobs. Training the unemployed not only gives them a better chance of a job but helps to create a pool of skilled labour and expands the human resource potential of the EU as a whole by integrating those who were previously excluded. In addition, by promoting indigenous development, EU policies have helped to create self-sustaining local economies, including those in rural areas, providing employment in social, cultural, commercial and craft activities which are not affected by global competition.

The effects of recession, and economic changes more generally, mean that reinforcing the job creation aspect of EU structural policies must remain a priority. To this end, the Commission has proposed (in its Communication 'Community Structural Assistance and Employment') to use available margins of flexibility within the programmes for the period up to 1999 to increase the rate of job creation of expenditure, by offering support to the main sources of employment — the SMEs — and promoting new sources of job opportunities.

Meanwhile, the Heads of State meeting at the European Council in Florence in June 1996 invited Member States, on a Commission proposal, to implement coordinated actions at the local level specifically focused on new employment (Employment Pacts). A number of areas or cities which could participate in pilot projects in 1997 were agreed.

Competitiveness

One of the main contributions of structural policies is to raise the competitiveness of structures of production. As explained in Chapter 1, improving competitiveness is not a euphemism for uncertainty and job insecurity. On the contrary, increasing productivity and competitiveness is part of the process by which economies generate increasing wealth over time to raise living standards and the quality of life. Competitiveness is not, therefore, an end in itself but a means of consolidating the European model of society.

Structural policies contribute to raising the productivity of both labour and capital by increasing efficiency and reducing costs. Investment in upgrading infrastructure, including the investment forming part of trans-European networks, improves accessibility and reduces distance costs for business. Assistance to the private sector is designed to stimulate innovation and to support investment in new capital equipment. EU policies attach priority to efforts to support RTD, especially to encourage product and process innovation in SMEs where the finance required is more limited. Combined with efforts to improve the skills of individual workers through training, this raises productive potential. This is supported by modern thinking in regional economics which stresses the role of these 'endogenous factors', emphasising the need for the transfer of knowledge and know-how to weaker regions and the promotion of innovation.

As a result, the links between competitiveness, growth and employment creation are being made more explicit. Regions which succeed in raising their productivity and increasing their cost advantage will be more competitive by definition, which is a precondition for further growth and employment creation. Competitiveness is not only a matter of costs but involves other dimensions. In particular, the development of a solid SME base — a priority under EU structural policies — appears to be central to long-term competitiveness, although there are many external economic factors as well as social and institutional ones which affect their performance.

Environmental protection

The impact of the Structural Funds on the environment and their coherence with the Union's environmental policy, is one of the most closely monitored aspects of their activity. As the Commission has emphasised (COM (95) 509), development has both positive and negative effects on the environment, but the environment itself is a major factor for regional development. There are many cases, notably in the cohesion countries and in Eastern Germany, where considerable resources have been targeted on improving the environment, on the grounds that this is a prerequisite for sustainable growth. Moreover, as noted above, many Objective 2 programmes include measures to improve urban areas blighted by the dereliction left by former industrial activities.

The challenge for structural policies is to ensure that economic development is *reproducible* in that it does not exhaust non-renewable resources. All major project proposals are now required to include an assessment of costs and benefits including those relating to the environment. While specific effects can be measured by changes in indicators such as water quality, air purity, disposal of waste and so on, it is much more difficult to balance, for example, a possible increase in water pollution resulting from a particular investment project against a reduction in traffic emissions. Nevertheless, the Commission is committed to developing indicators and environmental assessment techniques to enable better prediction and monitoring of environmental effects of structural policy measures.

Since the Communication on *Cohesion Policy and the Environment* (1995), progress has been achieved in the implementation of measures aimed at increasing the environmental dimension of Structural and Cohesion Fund measures. Half of Cohesion Fund expenditure will be devoted to environmental projects and, in its guidelines on the new Objective 2 programmes (1997–99), the Commission has stressed the environment as a main priority. Current studies to identify preventive measures and best practice in Objective 2 areas will be used for later programme negotiations.

As part of the drive to make sustainability a primary objective of regional development strategies and raise the environmental quality of programmes and projects, the Commission has also intensified its efforts to encourage Member States and regions, through the Monitoring Committees, to adopt better environmental appraisal, including holding environmental training seminars.

Equality between men and women

Cohesion policies are also aimed at reducing inequalities between men and women, an objective which has been reinforced following the policy review of 1993, which explicitly established the promotion of equal opportunities as one of the priorities of the Funds, to be taken into account at every stage of the process.

Here cohesion policies appear to be working with the grain of labour market trends, since employment for women, unlike that for men, increased over the period 1989–94 while activity rates rose by even more, again in contrast to those of men. The increase in both was especially marked in the cohesion countries. Concerns remain, however, about the quality of some of the jobs which have been taken up by women.

Under the Social Fund, particular attention has been paid to equality of opportunity since 1989, as well as to the issue of job quality. This includes actions under the Community *NOW* Initiative (New Opportunities for Women) which was launched in 1991 providing management training and supporting local networks of small firms. These measures, however, with limited funding, remain essentially experimental in nature. The next step must be to build on the lessons learned and to integrate similar types of project into the mainstream programmes of the Structural Funds.

A renewed impetus for using more fully the talents of women in traditional male activities has resulted from the accession of Finland and Sweden to the EU. Nearly all of the measures in the various Swedish programmes pay particular attention to the principle of equal opportunities and the participation of women in the activities being promoted. These programmes contain many examples of highly innovative projects helping to realise the potential of women as entrepreneurs, which could be taken up as best practice in other regional development programmes. The Structural Funds play an important role in supporting measures aimed at providing a full package of services such as information, financial assistance, training and on-going consultancy.

Local or regional business service centres for women entrepreneurs could make available a whole range of shared services at a lower cost and, at the same time, serve as a forum for encouraging commercial partnership. Progress has also been made in other areas, such as through the *URBAN* Community Initiative, which explicitly includes measures for increasing equal opportunities.

Maintaining relevance

It is important to ensure that the priorities identified remain relevant to the circumstances existing at the time. It is inevitable that the current priorities will be added to or, in some cases, replaced by others, at some time in the future, including the ongoing examination of the relevance of the Objectives of the Structural Funds themselves.

The Objectives have already been subject to adjustment at the time of the review in 1993. Then, the major innovations were two-fold: a recognition of the particular difficulties facing communities dependent on fisheries and a refocusing of labour market policies towards retraining workers in sectors undergoing technological change. With the accession of the Nordic countries in 1995, a new Objective 6 to cover sparsely-populated regions was created. The general approach has been successful on the whole and recognition of its virtues has helped shape the regional policies operating in certain countries.

New challenges continue to emerge. Sectoral change driven by new technology has quickened. The globalisation of economic activity and financial services only serves to accelerate the rate at which the changes occur. It has given rise to new problems and new opportunities.

In Europe, industrial restructuring has taken its course and employment in many regions is now significantly less dependent on traditional industries, such as steel, coal and shipbuilding, than 20 years ago. More recently, new problems of restructuring have arisen, for example, in the defence industry.

Economic activity depends to a greater extent than before on intangible investment in highly-skilled activities, such as research and information technology. Economies with a highly-trained labour force and good communication infrastructure stand to gain from these developments.

This has major geographical and social implications. Many of the new activities have requirements which could favour the large metropolitan areas and/or the most highly qualified workers. They, therefore, pose a new set of future challenges to the Union's efforts to promote a more even distribution of opportunities between regions and to ensure that all social groups have access to these.

Structural policies will have to respond through appropriate investment in infrastructure and in human resources to strengthen education and training, facilitate adjustment to the demands of new organisation of work and to promote regional and local initiatives and more effective labour market policies.

The development, and the widening application, of information and communication technology (ICT), is also a factor. Again there are geographical and social implications. The speed of introduction of ICT varies between countries, regions, sectors, industries and enterprises. The benefits, in the form of increased prosperity, and the costs, in the form of the burden of change, are unevenly distributed between different parts of the Union and social groups.

ICT is also an opportunity to create an inclusive society. It requires an approach which recognises that the Information Society should be about people and that it should be used as a tool to unlock the power of information, not to create inequalities between the 'info rich' and the 'info poor'. Structural policies and policies to develop the Information Society need to be more closely integrated and to promote involvement at local level; territorial employment pacts could be an important vehicle to exploit the opportunities.

Many of the problems of adjusting to change appear to have fallen on some of the Union's major urban areas. There is a very real danger of a further fragmentation within European cities, rising unemployment and social exclusion being accompanied by a deepening of the social divide between haves and have-nots. In some Member States, the urban problem is already regarded as the major challenge to national cohesion and they new integrated urban policies have been designed and implemented. A more focused approach may also be necessary at Union level.

Meanwhile, the rural areas of the Union continue to face the many handicaps described in chapter 5. Seizing new opportunities will depend on an integrated, comprehensive rural development policy. A starting point is to recognise the diversity of rural circumstances, and of the need for sustainability and to develop policy responses which seek to balance economic, social and environmental concerns. It requires partnership between public and private sectors and the involvement of local people and organisations to exploit the particular economic potential of individual areas, including their natural and cultural potential.

The urban and rural problems are also part of a broader question of persisting imbalances in the use of European territory as a whole. This is reflected in severely congested urban centres, the absence of genuinely trans-European communications and energy networks, the unsustainable use of resources and depopulation in rural areas. This results in part from the problems generated by the historical legacy of separate development — and development planning — within the confines of 15 nation states, which has led to inconsistencies and imbalances at the spatial level which have yet to be fully and systematically addressed. Accordingly, there is a case for more resolute action in *territorial planning.* This is very much the purpose of the actions proposed under the new *INTERREG IIc* Community Initiative.

In this context, there is also a need to pursue more concretely the priorities which have been developed in past discussions between the Commission and the Member States in the context of the work on *Europe 2000.* These have been elaborated in the 'European Spatial Development Perspective' (ESDP) which represents a shared vision of the problems and opportunities, though in accordance with the principle of subsidiarity its policy guidelines are purely indicative. Further discussions on the ESDP are planned for 1997.

All of these developments suggest that it will be necessary to review carefully the priority Objectives of the Structural Funds before the next programming period beginning in 2000 to make sure they are relevant to the problems facing Europe's citizens.

One of the conclusions to emerge from this report is that rapid change has become endemic. Consequently, there seems to be an unavoidable need to adopt more flexible approaches in the process by which priorities for structural policies are defined and implemented. The existing system permits only occasional and limited review and programming priorities, once established, are relatively rigid.

In the current programming period which ends in 1999, the Commission will make the fullest use of the margin of flexibility which exists, while fully respecting commitments agreed by the European Council meeting in Edinburgh in 1992. The mid-term review in 1997 and the financial leeway created by the process of adjusting planned resources for inflation provide some room for manoeuvre and an opportunity to change priorities. The Commission has encouraged the Member States to exploit the opportunity in favour of the top priority — the fight against unemployment.

Chapter 7
Conclusions

The contours of the global economic landscape have changed radically over the past two decades. Globalisation of production and financial markets and rapid technological progress have led to far-reaching changes in national and regional economies, in patterns of employment and in the organisation of work. These have had positive effects, although unemployment and greater social exclusion have become structural problems of the Union economy over recent years.

The Union, meanwhile, is entering a critical period in the history of its integration process, with monetary union, enlargement and future financing high on the agenda.

In the face of the challenges, the Member States and the Union need to work in partnership to help the adjustment to new circumstances and to seize new opportunities for the benefit of all regions and people.

The primary responsibility for improving economic and social cohesion falls on the Member States. Efforts to maintain fiscal discipline and to combat the recent rise in public debt need to be continued. This should be done in a way which guarantees the maintenance of structural programmes which invest in the future, while ensuring that incentive systems, fiscal or otherwise, favour job creation.

At the same time, and as recognised by the Member States themselves when they signed the Maastricht Treaty, the harmonious development of the Union as a whole cannot be achieved through national policies alone. The Union's structural policies address cohesion directly while its other, non-structural, policies can also make an important contribution.

The most far-reaching of the non-structural policies has been the Single Market Programme which has swept away many of the obstacles to trade and helped to create an integrated European economy. Fears that this would overwhelm the poorer Member States have not been borne out in practice.

Many of the Union's non-structural policies have the potential to make a greater contribution to cohesion.

For the market policies of the Common Agricultural Policy, the Commission confirms its intention to continue resolutely the approach begun with the 1992 reforms in such a way as to develop further the environmental and social aspects in the context of a more integrated rural development policy, thus contributing even more effectively to cohesion.

For EU competition policies:

- the Commission has reacted positively to the need for more flexibility in the granting of state aids by revising the *de minimis* rules and by creating a framework which addresses specific urban problems. It is the intention of the Commission to pursue its efforts to increase efficiency and transparency in the management of state aids;

- permitted aid ceilings for investment in the poorest regions of the Union tend to exceed levels affordable from national budgets, while lower aid ceilings are exploited more fully in richer Member States. The question arises as to whether a concerted effort should now be made to achieve a general reduction in expenditure on state aids;

- within the context of the concentration of resources on the most disadvantaged regions, the

Member States and the Commission need to address, in partnership, inconsistencies between the regions which are supported under national regional policies and those which are supported under Union regional policies. Eligibility for Union regional aid should in the future become one of the criteria for allowing assistance under Member States' own regional policies.

For the Union's RTD policy, which aims at promoting European competitiveness through scientific excellence, efforts to develop research activities and capabilities in the weaker parts of the Union must be continued. Innovation, mobility of researchers as well as increasing linkages and networks between RTD facilities in the Member States are particularly valuable to structural development. Efforts to ensure the widest diffusion of results and the pursuit of research attuned to the strengths of the weakest regions are also important. It is essential that the scientific and technological base of the less advanced regions be further strengthened as a major factor in helping to close the development gap with the richer regions.

For Union network policies in transport, telecommunications and energy supply, the basic need is to ensure that the whole Community shares in the benefits from innovation and liberalisation:

- public service contracts and/or universal service obligations must be maintained and current targets achieved to ensure that regional and social needs are met in conditions where the market alone would not otherwise meet them;

- in transport, Union actions for intermodal networks must continue to promote sustainable mobility and ensure good linkages with local networks to maximise cohesion benefits. The advantages of public/collective transport for cohesion should be fully recognised;

- in telecommunications, steps may be required to promote access on favourable terms to new services in schools, hospitals, libraries, etc. Such measures should include adequate training and provision of the necessary equipment;

- in energy supply, greater effort is required to increase access to different energy sources in view of the greater dependence on oil in the poorest Member States.

For social policy, further efforts need to be made: reducing unemployment and promoting fundamental rights, and, in particular, equal opportunities, will remain high on the Union's agenda.

For Union environmental policies, the challenge for the cohesion countries is to strike a balance between the push for economic growth and the need to protect the environment in order to ensure sustainable development. This challenge can be met by accompanying environmental measures in the form of an appropriate package of fiscal incentives, charges and public expenditure.

Finally, in addition to improvements in the policies themselves, opportunities for synergy with the Union's cohesion policies need to be more systematically identified and addressed in order to make a more effective contribution to reducing economic and social disparities, while respecting the primary objectives of these policies.

The starting point for the Union's structural policies must be to guarantee long-term support for the poorest regions, in view of the profound disparities which persist between the lagging regions (Objective 1) and the rest. Solidarity with these regions is an important basis for progress not just for social reasons, but in order to increase the economic potential of the Union as a whole. Catching-up tends to be a slow process, necessitating a long-term commitment.

The problems affecting other parts of the Union must also be recognised: rapid economic and structural change, including changes affecting rural areas, urban deprivation, social exclusion, congestion and other territorial imbalances and the unsustainable use of scarce resources. The Union must be ready to support the process of adjustment affecting different regions, local communities and social groups, to accelerate their adaptation to new circumstances and to promote employment.

The Union's response to these problems is a strategic one which seeks to promote, in partnership with the Member States, investment in new areas of growth and sustainable development, to improve physical and human capital to raise competitiveness while helping SMEs exploit their full potential for job creation and develop their innovative capacity.

Effectiveness must be ensured through the quality of strategic responses and by the streamlining of the delivery system. There are a number of key areas for reflection:

- scarce resources must be better targeted on the most serious problems and problem areas while addressing priority concerns which are relevant to the prevailing economic circumstances;
- a greater degree of performance orientation could be introduced into cohesion policies by directly linking performance criteria to the attainment of cohesion objectives. The Commission and the national authorities must cooperate further to improve programming, to increase the transparency of policies and to ensure that effective monitoring, control and evaluation systems are in place;
- more effort should be made to increase the use of loans and private sources of finance;
- opportunities must be more exhaustively explored for networking across regions and across borders to attain common goals and to exchange experience and best practice;
- in view of the complexity of present procedures, all avenues for the simplification of the financing and implementation of the measures need to be explored;
- strengthened subsidiarity should go hand-in-hand with widely drawn partnerships, which should play an active role in the programmes.

With regard to the content of the Structural Fund programmes themselves, four priority concerns have emerged which Union cohesion policies have specifically sought to address: employment creation, which is the overriding priority for the Union and the Member States, competitiveness, environmental protection and equality of opportunity between the sexes.

Finally, structural policies as whole must become more flexible than at present in order to adapt to changing circumstances and, in particular, to be able to respond to new challenges and opportunities as they arise.

In seeking to prepare the way forward, it is important to begin dialogue now. This Report is intended to lend structure to this dialogue. It will be used to launch a debate involving the other institutions and bodies of the Union which are preparing their own position papers on the future.

It will be complemented by further initiatives. The first is the organisation of a major conference — a Cohesion Forum — in Spring 1997 which will provide a platform for a debate on structural policies with representatives of all interested parties.

Secondly, during 1997, the Commission will complete the mid-term review of progress under the different Objectives since 1994. This will provide an opportunity to adapt the programmes to new priorities for the remainder of the period, as well as serving as an experimental basis for actions to be taken after 1999. Meanwhile, new strategies recently negotiated for Objective 2 (only) for the period 1997–99 will be in place, which will give the Commission the opportunity to see how far they reflect a more focused approach to the major priorities which have been agreed with the Member States.

The Report should, therefore, be seen as a further contribution to the process of improving the effectiveness of Union action to promote economic and social cohesion.

Statistical annex

List of the tables

Table 1
Regional disparities in income, productivity and unemployment in the Union, 1983 and 1993

	GDP per head (PPS, EUR15=100)		GDP per person employed (EUR15=100)		Unemployment (% labour force)	
	1983	1993	1983	1993	1983	1993
Between Member States						
Best-off	134.8	160.1	124.2	124.3	3.3	2.3
Worst-off	55.1	63.2	51.3	58.6	17.4	22.3
Best-off/Worst-off [a]	2.4	2.5	2.4	2.1	5.3	9.7
Standard Deviation	17.2	12.8	13.5	14.4	3.1	4.6
(Gini coefficient)	(0.089)	(0.059)				
Between Regions						
Best-off	184.0	189.0	398.0	420.4	1.7	3.2
Worst-off	39.0	37.0	32.1	36.6	22.5	33.3
Best-off/Worst-off [a]	5.0	4.5	12.4	11.5	13.2	9.0
10 Best-off	154.0	158.0	146.0	156.0	3.8	3.9
10 Worst-off	44.0	48.0	49.4	48.6	19.4	26.4
10 Best-off/Worst-off [a]	3.2	3.1	3.0	3.2	5.1	6.8
25 Best-off	140.0	142.0	131.3	130.7	4.8	4.6
25 Worst-off	53.0	55.0	63.3	63.1	17.2	22.4
25 Best-off/Worst-off [a]	2.5	2.5	2.1	2.1	3.6	4.9
Standard Deviation	26.8	27.2	18.0	17.6	4.2	6.0
(Gini coefficient)	(0.149)	(0.153)				

[a] *For unemployment, highest unemployment rate/lowest unemployment rate*

Table 2
Regional disparities in income and unemployment by Member State, 1983 and 1993

	GDP per head				Unemployment				Employment
	PPS (EUR15 = 100)		Regional disparity (standard deviation)		% labour force		Regional disparity (standard deviation)		Annual % change
	1983	1993	1983	1993	1983	1993	1983	1993	1983–93
B	105.4	113.6	14.5	17.1	11.1	8.9	0.5	1.4	0.4
DK	108.6	112.0	-	-	8.9	10.1	-	-	0.2
D (W)	116.5	107.9	20.7	24.5	6.9	5.9	1.7	1.9	1.0
GR	61.9	64.5	6.6	7.6	7.1	8.6	0.7	2.4	0.8
E	70.5	77.8	12.7	15.3	17.5	22.8	3.9	5.5	0.8
F	113.4	109.1	27.0	27.9	8.1	11.7	1.6	2.0	0.1
IRL	63.6	80.2	-	-	14.0	15.6	-	-	0.2
I	101.6	103.5	23.4	24.6	7.7	10.3	2.8	5.9	0.1
L	131.9	162.2	-	-	3.5	2.7	-	-	2.5
NL	102.7	103.6	27.7	11.8	9.7	6.6	-	0.7	1.9
A	107.6	112.0	-	-	4.1	4.1	-	0.9	0.6
P	55.1	68.2	15.0	20.2	7.8	5.7	-	1.9	0.3
FIN	100.7	91.4	-	-	6.3	17.5	-	2.2	-1.8
S	112.3	98.2	-	-	3.9	9.5	1.4	1.1	-0.4
UK	98.7	98.9	18.4	19.0	11.1	10.5	3.6	2.4	0.6

Table 3
Income distribution and poverty by Member State

	Adjusted wage share [a] (% GDP)		Personal income distribution (Gini coeff.) [b]		% population living below poverty line [b]		
	1983	1993	early 1980s	late 1980s	Reference years	early 1980s	late 1980s
B	76.5	73.1	0.228	0.235	1978(79)-87(88)	5.5	6.6
DK	75.2	69.5	-	-	1981-87	4.2	4.9
D	72.3	68.7	-	-	1983-88	10.9	11.2
GR	74.7	64.5	-	-	1982-88	18.5	19.9
E	75.5	67.9	-	-	1980-90	18.7	17.3
F	76.0	68.0	0.297	0.296	1984(85)-89	13.2	14.9
IRL	80.8	71.9	0.330	-	1980-87	18.4	15.8
I	74.2	71.4	0.310	-	1985-88	19.6	22.0
L	73.4	73.5	0.238	-	1988	-	9.2
NL	69.3	67.1	0.247	0.268	1980-88	5.0	6.2
A	72.4	69.5	-	-		-	-
P	73.7	64.8	-	-	1980-89	27.3	26.5
FIN	72.2	69.6	0.207	0.215		-	-
S	73.9	72.5	0.199	0.220		-	-
UK	71.8	73.8	0.270	0.304	1985-88	14.3	17.2

[a] *Compensation of employees as a % of GDP at factor cost, adjusted for self-employment*
[b] *See box for data definitions*

Table 4
Growth of GDP per head in the cohesion countries, 1983-95

		GR	E	IRL	P	EUR4	EUR11	EUR15
Annual growth rate in GDP (%)	1983	0.4	2.2	-0.2	-0.2	1.5	1.7	1.7
	1984	2.8	1.5	4.3	-1.9	1.4	2.5	2.3
	1985	3.1	2.6	3.1	2.8	2.7	2.5	2.5
	1986	1.6	3.2	0.3	4.1	2.9	2.9	2.9
	1987	-0.5	5.6	4.7	5.9	4.7	2.7	2.9
	1988	4.5	5.2	4.3	5.5	5.1	4.1	4.2
	1989	3.8	4.7	6.1	5.3	4.7	3.3	3.5
	1990	0.0	3.7	7.8	4.6	3.6	2.9	2.9
	1991	3.1	2.3	2.2	2.3	2.4	1.4	1.5
	1992	0.4	0.7	3.9	1.1	0.9	0.9	0.9
	1993	-1.0	-1.2	3.1	-1.2	-0.9	-0.7	-0.7
	1994	1.5	2.1	6.7	0.8	2.1	2.8	2.7
	1995	2.0	3.0	8.6	2.5	3.2	2.3	2.4
	1983-1993	1.8	3.0	3.9	2.8	2.9	2.4	2.5
	1983-1995	1.8	3.0	4.5	2.6	2.8	2.4	2.5
Annual population growth (%)	1983-1993	0.5	0.2	0.2	0.0	0.2	0.4	0.4
	1983-1995	0.5	0.2	0.2	0.0	0.2	0.8	0.7
GDP per head (PPS) EUR15=100	1983	61.9	70.5	63.6	55.1	66.2	107.4	100.0
	1988	59.6	72.4	65.0	56.5	67.4	107.2	100.0
	1993	64.5	77.8	80.2	68.2	74.2	105.3	100.0
	1995	64.3	76.2	89.9	68.4	73.8	105.4	100.0

Table 5
GDP per head in richest and poorest regions in the Union, 1983 and 1993

(GDP per head in PPS, EUR15 = 100)

1983 Regions	GDP	Rank	1993 Regions	GDP	Rank
Hamburg (D)	184	1	Hamburg (D)	189	1
Ile de France (F)	168	2	Rég.Bruxelles-Cap./Brussels Hfdst.Gew.(B)	183	2
Rég.Bruxelles-Cap./Brussels Hfdst.Gew.(B)	165	3	Iles de France	163	3
Wien (A)	151	4	Darmstadt (D)	164	4
Bremen (D)	149	5	Luxembourg (L)	162	5
Darmstadt (D)	149	6	Wien (A)	161	6
Greater London (UK)	144	7	Oberbayern (D)	158	7
Oberbayern (D)	140	8	Bremen (D)	154	8
Stuttgart (D)	138	9	Greater London (UK)	144	9
Luxembourg (L)	135	10	Stuttgart (D)	141	10
Highest 10	**154**		**Highest 10**	**158**	
Ahvenanmaa/land (FIN)	133	11	Antwerpen (B)	137	11
Stockholm (S)	132	12	Grampian (UK)	134	12
Uusimaa (FIN)	131	13	Lombardia (I)	132	14
Lombardia (I)	131	14	Valle d'Aosta (I)	131	15
Grampian (UK)	130	15	Karlsruhe (D)	127	16
Berlin (D)	130	16	Mittelfranken (D)	127	17
Valle d'Aosta (I)	128	17	Emilia-Romagna (I)	127	18
Emilia-Romagna (I)	128	18	Ahvenanmaa/land (FIN)	127	19
Antwerpen (B)	126	19	Salzburg (A)	125	20
Düsseldorf (D)	125	20	Trentino-Alto Adige (I)	125	21
Karlsruhe (D)	124	21	Düsseldorf (D)	123	22
Mittelfranken (D)	124	22	Liguria (I)	122	23
Trentino-Alto Adige (I)	119	23	Lazio (I)	121	24
Salzburg (A)	118	24	Friuli-Venezia Giulia (I)	119	25
Noord-Holland (NL)	118	25	Stockholm (S)	119	26
Highest 25	**140**		**Highest 25**	**142**	
Açores (P)	39	1	Guadeloupe (F)	37	1
Guadeloupe (F)	40	2	Açores (P)	42	2
Extremadura (E)	43	3	Alentejo (P)	42	3
Madeira (P)	43	4	Madeira (P)	44	4
Voreio Aigaio (GR)	43	5	Réunion (F)	47	5
Centro (P)	43	6	Ipeiros (GR)	47	6
Guyane (F)	44	7	Centro (P)	49	7
Alentejo (P)	45	8	Voreio Aigaio (GR)	50	8
Réunion (F)	45	9	Mecklenburg-Vorpommern (D)	52	9
Norte (P)	46	10	Martinique (F)	52	10
Lowest 10	**44**		**Lowest 10**	**48**	
Ceuta y Melilla (E)	48	11	Thüringen (D)	52	11
Ipeiros (GR)	50	12	Sachsen (D)	53	12
Algarve (P)	50	13	Sachsen-Anhalt (D)	54	13
Martinique (F)	54	14	Dytiki Ellada (GR)	55	14
Andalucia (E)	55	15	Extremadura (E)	55	15
Ionia Nisia (GR)	56	16	Ionia Nisia (GR)	56	16
Dytiki Ellada (GR)	56	17	Guyane (F)	57	17
Dytiki Makedonia (GR)	57	18	Brandenburg (D)	57	18
Castilla-la Mancha (E)	57	19	Kriti (GR)	58	19
Thessalia (GR)	57	20	Andalucia (E)	58	20
Kriti (GR)	58	21	Algarve (P)	59	21
Kentriki Makedonia (GR)	58	22	Thessalia (GR)	59	22
Anatoliki Makedonia, Thraki (GR)	59	23	Galicia (E)	60	23
Galicia (E)	61	24	Anatoliki Makedonia, Thraki (GR)	60	24
Calabria (I)	63	25	Calabria (I)	61	25
Lowest 25	**53**		**Lowest 25**	**55**	

German new Länder: no data for 1983

Table 6
Indicators for agricultural, industrial and service regions

Regions most dependent on [(a)]:	Employment		Population		GDP		Unemployment	
	% total employment 1993	Annual % change 1983-93	million	hab/km^2	PPS per head 1993	Annual % change 1983-93	% 1995	% point change 1983-93
Agriculture	27.4	0.3	43.4	91	66	2.2	17.1	4.3
Industry	43.9	0.9	86.7	327	109	2.3	8.3	-1.0
Services	68.8	0.7	88.5	786	116	2.4	10.1	1.6
EUR15	-	0.5	369.0	116	100	2.5	10.7	0.9

[(a)] *Defined as the 20% of regions with the highest share of employment in the relevant sector in 1983*

Table 7
Disparities in GDP per head in PPS by region within Member States, 1983-93

(EUR15 = 100, standard deviation)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	14.5	16.2	16.3	14.9	15.0	15.2	15.2	15.4	15.9	16.3	16.8
D (excl new Länder)	20.9	21.5	21.7	22.4	22.2	21.6	21.7	22.9	24.5	25.0	23.4
D (incl new Länder)									39.3	36.8	32.7
GR	6.6	6.9	6.5	6.6	6.9	6.9	6.3	6.2	7.0	7.3	7.7
E	12.7	12.5	13.0	13.8	14.0	14.0	15.0	15.0	16.0	16.0	15.3
F	26.7	25.6	26.7	26.1	28.4	28.8	28.9	29.2	30.2	28.2	27.7
I	23.4	23.5	24.7	25.3	25.2	25.9	26.1	26.0	25.0	25.4	24.8
NL (incl Groningen)	27.4	29.6	32.3	19.4	12.8	11.6	10.8	10.7	12.0	11.7	11.8
NL (excl Groningen)	12.4	12.5	12.3	11.9	10.8	11.0	10.3	9.9	10.1	10.1	10.6
P	13.7	12.9	12.9	14.9	17.2	15.3	15.7	16.9	18.5	19.1	19.9
UK	18.7	18.7	18.8	20.4	21.2	21.5	21.1	20.6	19.1	18.8	19.0
A	24.2	24.0	25.2	25.1	25.9	25.0	24.9	25.2	26.1	26.2	27.1
FIN	17.5	17.5	17.7	17.6	18.6	18.8	18.3	18.4	18.2	15.7	17.1
S	9.3	9.5	9.5	9.5	9.5	12.0	11.8	11.6	11.3	10.8	10.5
EUR15 (by region)	26.8	27.1	27.5	27.2	27.0	26.9	26.7	26.9	29.7	28.8	27.2
EUR15 (by Member State)	17.2	17.6	17.5	17.3	16.6	16.2	15.7	15.7	13.5	13.5	12.8

Table 8
Unemployment rate in worst and least affected regions in the Union, 1983 and 1995

1983			1995		
Regions	**Rate**	**Rank**	**Regions**	**Rate**	**Rank**
Andalucia (E)	22.5	1	Andalucia (E)	33.3	1
Cataluña (E)	21.3	2	Ceuta y Melilla (E)	33.0	2
Pais Vasco (E)	20.4	3	Extremadura (E)	30.5	3
Canarias (E)	19.2	4	Campania (I)	24.7	4
Merseyside (UK)	18.4	5	Calabria (I)	23.7	5
Extremadura (E)	17.3	6	Canarias (E)	23.7	6
West Midlands (County) (UK)	17.3	7	Sicilia (I)	23.5	7
Región de Murcia (E)	17.0	8	Pais Vasco (E)	23.0	8
Comunidad Valenciana (E)	16.8	9	Región de Murcia (E)	22.2	9
Northern Ireland (UK)	16.8	10	Comunidad Valenciana (E)	22.2	10
Highest 10	**19.4**		**Highest 10**	**26.4**	
Cleveland, Durham (UK)	16.7	11	Sardegna (I)	21.7	11
Comunidad de Madrid (E)	16.5	12	Itä-Suomi (FIN)	21.7	12
Limburg (B)	16.0	13	Cantabria (E)	21.4	13
Sardegna (I)	15.9	14	Pohjois-Suomi (FIN)	21.1	14
Dumfries & Galloway, Strathclyde (UK)	15.8	15	Principado de Asturias (E)	20.9	15
Comunidad foral de Navarra (E)	15.7	16	Comunidad de Madrid (E)	20.7	16
Northumberland, Tyne and Wear (UK)	15.3	17	Castilla-la Mancha (E)	20.4	17
Castilla-la Mancha (E)	15.2	18	Castilla y León (E)	20.3	18
Ireland (IRL)	14.8	19	Cataluña (E)	19.9	19
South Yorkshire (UK)	14.4	20	Molise (I)	18.7	20
Gwent, Mid-South-West Glamorgan (UK)	14.3	21	Etelä-Suomi (FIN)	18.3	21
Liège (B)	13.7	22	Väli-Suomi (FIN)	18.1	22
Principado de Asturias (E)	13.7	23	Basilicata (I)	17.6	23
Hainaut (B)	13.6	24	Galicia (E)	17.2	24
Castilla y León (E)	13.6	25	Sachsen-Anhalt (D)	16.7	25
Highest 25	**17.2**		**Highest 25**	**22.4**	
Uusimaa (FIN)	1.7	1	Salzburg (A)	3.2	1
Stockholm (S)	1.9	2	Ionia Nisia (GR)	3.4	2
Luxembourg (L)	3.3	3	Tirol (A)	3.4	3
Småland med Öarna (S)	3.8	4	Notio Aigaio (GR)	3.5	4
Stuttgart (D)	4.0	5	Niederösterreich (A)	3.6	5
Västsverige (S)	4.0	6	Luxembourg (L)	3.8	6
Östra Mellansverige (S)	4.2	7	Kriti (GR)	3.8	7
Tübingen (D)	4.3	8	Kärnten (A)	4.1	8
Oberbayern (D)	4.4	9	Oberbayern (D)	4.1	9
Freiburg (D)	4.6	10	Vorarlberg (A)	4.3	10
Lowest 10	**3.8**		**Lowest 10**	**3.9**	
Kriti (GR)	4.6	11	Trentino-Alto Adige (I)	4.5	11
Trentino-Alto Adige (I)	4.7	12	Schwaben (D)	4.5	12
Darmstadt (D)	4.9	13	Niederbayern (D)	4.6	13
Sydsverige (S)	4.9	14	Centro (P)	4.7	14
Karlsruhe (D)	5.0	15	Burgenland (A)	4.7	15
Schwaben (D)	5.0	16	Madeira (P)	4.9	16
Mellersta Norrland (S)	5.0	17	Steiermark (A)	4.9	17
Surrey, East-West Sussex (UK)	5.6	18	Tübingen (D)	4.9	18
Etelä-Suomi (FIN)	5.6	19	Berkshire, Buckinghamshire, Oxfordshire (UK)	5.2	19
Väli-Suomi (FIN)	5.6	20	Oberösterreich (A)	5.2	20
Ile de France (F)	5.7	21	Koblenz (D)	5.4	21
Alsace (F)	5.7	22	Trier (D)	5.4	22
Niederbayern (D)	5.8	23	Unterfranken (D)	5.5	23
Unterfranken (D)	5.8	24	Oberpfalz (D)	5.5	24
Liguria (I)	5.8	25	West-Vlaanderen (B)	5.5	25
Lowest 25	**4.8**		**Lowest 25**	**4.6**	

Table 9
Disparities in unemployment rates by region within Member States, 1983-95

(Standard deviation)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
B	0.5	1.0	1.4	1.3	1.3	1.6	1.4	1.3	1.0	0.9	1.0	1.4	1.4
D [(a)]	1.7	2.0	2.2	2.2	2.2	2.2	2.0	1.8	1.6	1.9	1.8	1.8	1.9
GR	0.7	0.9	1.8	2.6	1.9	2.1	1.9	1.9	2.1	2.1	2.4	2.4	2.4
E	3.9	5.4	5.1	5.0	5.7	5.0	5.4	5.4	5.3	5.4	5.6	5.4	5.5
F	1.6	1.9	2.0	1.8	1.8	1.9	1.8	1.7	1.8	2.0	1.9	2.1	2.0
I	2.8	3.0	3.3	4.0	5.2	6.4	7.1	6.4	6.7	4.3	5.4	6.4	5.9
NL	-	-	-	-	-	1.1	1.0	1.2	0.8	0.7	0.7	0.8	0.7
P	-	-	-	2.9	2.6	3.1	2.4	2.0	1.5	1.2	1.3	1.8	1.9
UK	3.5	3.3	3.3	3.3	3.5	3.3	3.3	3.2	2.6	2.3	2.3	2.4	2.4
A [(b)]	-	1.0	1.1	0.8	1.0	1.2	1.2	1.1	1.1	1.0	0.8	0.9	0.9
FIN [(b)]	-	-	2.6	2.6	2.5	2.3	1.9	2.0	2.2	2.1	2.5	2.4	2.2
S [(b)]	1.4	1.2	1.1	1.1	1.0	0.7	0.6	0.5	0.7	0.9	1.1	1.1	1.1
EUR12	4.2	4.8	5.3	5.3	5.5	5.4	5.2	4.9	5.0	4.9	5.7	6.1	6.0
EUR15 (by region)	4.2	5.0	5.4	5.4	5.6	5.5	5.3	4.9	5.0	4.8	5.6	6.0	6.0
EUR15 (by Member State)	3.1	3.8	4.3	4.2	4.1	3.9	3.5	3.6	3.7	3.4	4.4	5.0	4.6

[(a)] *West Germany only*
[(b)] *National data for the years 1983-91*

Table 10
Civilian employment by sector, 1983 and 1993

	Agriculture (%)	Industry (%)	Services (%)	Total ('000s)
Ireland				
1983	17.5	30.6	51.9	1118
1993	13.1	27.1	59.7	1155
Spain [(a)]				
1983	16.2	31.8	51.9	10834
1993	10.2	30.8	59.0	11868
Portugal [(a)]				
1983	21.5	33.9	44.4	4225
1993	11.6	32.9	55.6	4464
Greece				
1983	30.0	27.1	42.9	3509
1993	21.3	24.2	54.5	3715
EUR5 benchmark [(b)]				
1983	5.4	36.3	58.0	78945
1993	3.6	31.8	64.3	93881

[(a)] *1986 and 1993*
[(b)] *EUR5 benchmark is a weighted average of Belgium, Germany, France, the Netherlands and the UK. Germany includes the new Länder in 1993 but not in 1983.*

Table 11
Participation and employment rates by age and sex in the Cohesion Four, 1983 and 1993

	Men				Women			
	Participation		Employment		Participation		Employment	
	(% population in each age group)				(% population in each age group)			
	1983	1993	1983	1993	1983	1993	1983	1993
Ireland								
15-24	65.4	49.5	50.2	36.2	55.2	44.0	44.8	34.1
25-54	95.0	91.1	82.7	78.2	36.8	51.4	31.2	43.9
55-64	76.4	65.2	70.3	60.1	20.2	20.1	18.6	18.0
Spain [(a)]								
15-24	54.5	47.5	30.4	28.9	38.8	38.0	19.5	20.3
25-54	94.4	93.0	80.6	78.8	36.0	51.9	30.0	38.5
55-64	66.1	59.2	57.5	52.1	19.2	20.4	18.0	18.7
Portugal [(a)]								
15-24	69.7	51.9	58.3	46.9	53.0	43.0	39.5	36.6
25-54	93.5	94.0	89.0	90.7	61.5	72.2	56.2	68.4
55-64	64.7	62.8	63.1	60.1	29.2	34.0	28.6	33.4
Greece								
15-24	50.4	43.1	41.8	34.5	36.2	34.6	25.3	21.1
25-54	95.1	94.3	90.5	89.9	43.8	53.1	40.1	47.0
55-64	70.8	58.6	68.8	56.9	25.7	22.3	25.2	21.9
EUR4 benchmark [(b)]								
15-24	54.0	49.5	46.4	42.9	47.5	45.5	39.2	39.0
25-54	95.3	93.6	90.3	87.9	58.8	70.1	54.1	64.1
55-64	55.8	48.8	52.9	45.1	25.6	26.5	24.2	24.3

[(a)] *1986 and 1993*
[(b)] *EUR4 benchmark is a weighted average of Belgium, Germany, France and the Netherlands*

Table 12
Population covered by national aid to regions, 1996 (%)

	Overall coverage	Least developed regions [(a)]	Other problem regions [(b)]
GR	100.0	100.0	0.0
IRL	100.0	100.0	0.0
P	100.0	100.0	0.0
E	75.9	59.6	16.3
I	48.9	34.2	14.7
L	42.7	0.0	42.7
F	42.4	2.5	39.9
FIN	41.6	0.0	41.6
UK	38.1	2.9	35.2
D	37.6	20.8	16.8
A	35.2	3.5	31.7
B	35.0	0.0	35.0
DK	19.9	0.0	19.9
S	18.5	0.0	18.5
NL	17.3	0.0	17.3

[(a)] *Article 92(3)a of the Treaty*
[(b)] *Article 92(3)c of the Treaty*

Table 13
The impact of government expenditure and taxes on regional disparities in GDP per head in selected Member States, 1993

(Gini coefficients of the distribution of GDP between regions before and after transfers)

	Before transfers	After transfers	Equalisation effect (%)
	[1]	[2]	[2] / [1]
F	0.12	0.11	-8
D	0.15	0.12	-16
I	0.13	0.10	-28
P	0.15	0.13	-11
E	0.11	0.07	-38
S	0.05	0.04	-14
UK	0.07	0.04	-33
Average reduction in inequality [a]			-23
Reduction in inequality in 7 countries as a whole:			
in GDP (ECU)	0.19	0.17	-10
in GDP (PPS)	0.14	0.12	-15

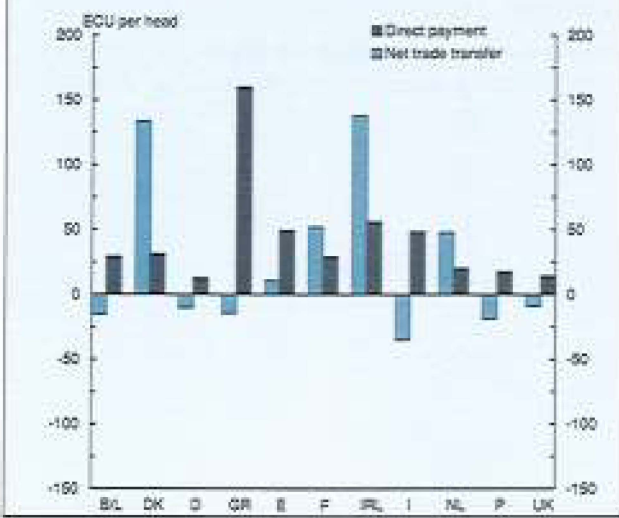
See Sources and methods for an explanation of the Gini coefficient and the method used to derive the estimates of the effect of budget transfers. Budget transfers are government expenditure, including social protection benefits and allowances (except in France and Germany), less taxes.
[a] *Weighted by population*

Table 14
The effect of budget transfers on selected regions with similar GDP per head, 1993

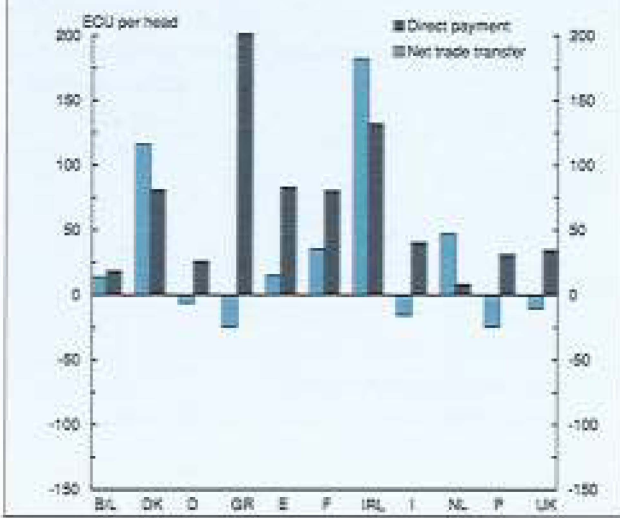
	Transfers		GDP	Net GDP
	% regional GDP	ECU per head	ECU per head	ECU per head [a]
Lisboa & VT (P)	-2	-187	10207	10020
Brandenburg (D)	17	1807	10637	12444
Wales (UK)	8	932	11734	12666
Aragón (E)	-3	-379	11776	11397
North (UK)	9	1176	12433	13609
North-West (UK)	4	552	12507	13059
West Midlands (UK)	1	75	12722	12797
East Anglia (UK)	-3	-358	14140	13782
Languedoc-Roussillon (F)	9	1272	14500	15772
Toscana (I)	-7	-1025	15450	14425
Bretagne (F)	3	395	15621	16016
Midi-Pyrénées (F)	5	869	15842	16711

See the notes to table 13
[a] *GDP plus net transfers (Column 2)*

40 Flows generated by the CAP (market policies), 1991



41 Flows generated by the CAP (market policies), 1994



The calculation of transfers associated with the CAP was undertaken by external experts (College of Europe). It involves a number of simplifying assumptions due to the individual nature of different agricultural markets and the fact that, for some products, there is no international reference price. See Sources and methods below.
Transfers arise between consumers and producers as a result of EU price support. This gives rise to transfers between Member States — 'a net trade transfer' — which depends on national patterns of consumption and production. Transfers from consumers to producers are estimated by multiplying the amount of each product available for consumption in each country by the EU 'price support'. OECD data are used to calculate PSEs (Producer Subsidy equivalent) and CSEs (Consumer Subsidy Equivalent). These data relate to a period before the Uruguay Round Agreement. Support rates for fruit, vegetables, wine and olive oil had to be estimated. Direct payments are unrelated to production and affect sectors such as cotton and tobacco. In the case of Portugal and Spain, comparisons involving data for the period before 1993 are of limited relevance because their agricultural sectors were subject to transitional arrangements, negotiated on accession in 1986, during that period.

Table 15

Gross payments to Member States under the market support policy of the CAP (EAGGF Guarantee), 1990-94 [a]

			(ECU mn)		
	1990	1991	1992	1993	1994
B	873.7	1468.5	1378.2	1298.7	1170.4
DK	1113.7	1220.3	1166.8	1334.7	1278.4
D	4355.2	5234.5	4830.5	4976.2	5179.9
GR	1849.7	2211.2	2231.4	2715.0	2718.9
E	2120.8	3314.3	3578.1	4175.7	4408.3
F	5142.2	6394.4	6916.5	8184.8	8001.2
IRL	1668.4	1731.1	1452.8	1649.9	1480.0
I	4150.3	5353.4	5141.5	4765.4	3460.6
L	5.2	2.8	1.1	7.3	12.1
NL	2868.7	2679.3	2389.8	2328.1	1916.0
P	214.2	315.6	423.8	478.1	708.4
UK	1975.9	2391.3	2451.1	2737.9	2939.0
Community [a]	215.5	69.2	145.9	96.4	139.0
EUR12	26453.5	32385.9	32107.5	34748.2	33412.2

[a] *Adjusted for expenditure against carry-overs and the financial consequences of clearance of accounts decisions*
[b] *Payments direct to recipients made by the Commission under the EAGGF Guarantee Section*

	Population (000) 1994
B	10115.6
DK	5205.0
D	81422.0
GR	10426.3
E	39149.5
F	57899.7
IRL	3570.7
I	57203.5
L	403.8
NL	15382.8
P	9902.2
UK	58394.6
'EUR12	349075.6

Table 16
Trans-European Transport Networks - expenditure by main mode

	Total spending		EIB loans		Structural Funds		TENs	
		of which: EUR4		of which: EUR4		of which: EUR4		of which: EUR4
	(ECU mn)	(%)	(ECU mn)	(%)	(ECU mn)	(%)	(ECU mn)	(%)
TGV	24489	11	3574	22	11	100	184	4
Roads	26473	67	6551	63	3309	96	78	87
Combined transport	3751	9	38	86	23	100	102	27
Rail	5968	61	1041	24	1608	100	51	31
Air	8577	15	1284	14	303	100	0	0
Ports	1272	68	234	58	104	100	3	3
Total [a]	76617	35	13485	40	5373	98	445	27

[a] *Includes spending on other modes*

Table 17
Improvements in market access due to TENs

(Increase in % population reachable within a 6 hour round trip)

Major Cities - Core		Major Cities - Periphery		Medium Cities - Core		Medium Cities - Periphery	
Paris	5%	Madrid	20%	Liege	61%	Cuenca	10%
Frankfurt	11%	Barcelona	20%	Utrecht	35%	Umea	11%
Brussels	28%	Lisbon	16%	Lille	29%	Alexandropoulous	11%
Amsterdam	19%	Athens	26%	Odense	61%	Mede	5%

Table 18
Output and employment in the energy sector, 1985 and 1992

	% total GDP		% total employment	
	1985	1992	1985	1992
B	4.9	4.4	1.8	1.1
DK	2.4	2.6	0.8	0.8
D	4.9	3.7	2.1	1.7
GR	4.4	4.0	2.4	2.2
E	5.6	6.2	1.9	1.3
F	5.0	5.1	1.5	1.2
IRL	5.1	3.1	2.0	1.7
I	4.7	5.5	1.3	1.2
L	2.1	1.4	0.9	0.5
NL	11.8	6.4	1.6	1.3
P	3.7	3.0	1.4	1.2
UK	10.7	5.3	2.6	1.7
EUR12	6.2	4.7	1.9	1.4
EUR4	5.3	5.3	1.9	1.4
EUR8	6.4	4.6	1.9	1.4

Table 19
Funding for TEN energy projects (ECU mn)

	Cost	EIB	EIF	SF	Other EU
B	294.9	88.5	-	-	-
DK	1538.0	280.4	-	-	-
D	1727.7	563.8	-	-	-
GR	601.0	70.7	-	178.5	83.0
E	2791.7	1126.4	-	160.2	-
IRL	913.5	370.9	-	116.0	-
I	4193.6	1312.0	-	86.8	-
P	1947.0	598.8	107.2	222.0	102.0
UK	145.4	91.8	-	-	-
Total	14447.7	4591.8	107.2	763.5	185.0
EUR4	6253.2	2166.8	107.2	676.8	-

Table 20
Expenditure on environmental protection in the Community, 1992 [(a)]

	Total	Division by medium (%)					Environmental expenditure		Environmental investment[(d)]
	ECU bn	Waste	Air	Water [(b)]	Noise [(c)]	Nature protection	% GNP	ECU per head	% total investment
B/L	1.2	40	17	30	5	8	0.7	120	1.1
DK	1.2	33	10	53	1	3	1.1	225	3.0
D	20.5	24	23	50	2	1	1.5	255	3.0
F	12.9	34	8	54	2	2	1.3	226	1.6
I	6.8	47	4	47	1	1	0.7	119	0.8
NL	3.5	33	13	43	4	7	1.4	232	1.6
UK	12.4	35	12	46	3	4	1.5	214	4.9
GR	0.3	22	2	72	1	3	0.5	29	1.0
E	3.9	35	2	46	1	16	0.8	100	1.4
IRL	0.3	52	11	33	3	1	0.7	73	2.0
P	0.3	30	4	52	1	13	0.5	34	1.0
Total	63.3	33	13	49	2	3	1.2	183	2.2

[(a)] Expenditure on environmental protection, excluding R&D, nuclear power and water resource management (dams, drinking water), improvement in living conditions (urban spaces, pedestrian zones), development of renewable energy sources and better energy use, expenditure by private households ("ecoproducts"). On the other hand, expenditure on street cleaning and additional cost of clean technologies are included

[(b)] Waste water treatment, excluding protection of ground water and water abstraction (though in some countries the latter is partly included)

[(c)] The definition and the accounting of expenditure on this vary widely from one country to another; the estimates must, therefore, be interpreted with caution

[(d)] Figures vary substantially from year to year due to cyclical fluctuations in total investment, the timing of which itself differs between countries.

Table 21
Estimated environmental investment requirements in the cohesion countries up to 2005 (ECU mn)

	GR	IRL	P	E	EUR4
Urban waste water	1000	600	1300	7700	10600
Industrial waste water	200	[a]	2000	2400	4600
Urban solid waste	100	200	100	400	800
Industrial solid waste [b]	10	1	200	110	311
Other (maintenance, training and education)	100	100	200	310	700
Total	1410	901	3800	10900	17011

[a] *Included in urban water*
[b] *For Spain includes only Objective 1 regions*

Table 22
The Spanish economy in 2010: alternative environmental policy scenarios

	PIP, INT and INT+ relative to base projection (unless otherwise stated)		
	PIP	**INT**	**INT+**
GDP	0.02	-0.1	0.6
Investment	1.4	2.6	3.0
Employment	0.1	0.7	2.2
Unemployment rate [a]	12.7	12.4	12.2
(Difference from base projection)	-0.1	-0.4	-0.6
Public deficit (% GDP)	-2.9	-2.5	-2.7

Base projection, policy enacted up to 1992
PIP (policy in the pipeline), projection incorporating the 5th Environmental Programme
INT (integration of environmental objectives into economic policy), projection with revenue from environmental taxes spent on the environment and returned to consumers in lower other taxes
INT+ (integration of environmental objectives into economic policy plus 'double div idend'), projection with revenue from environmental taxes used to reduce taxes on emplpyment (social charges)
[a] *Levels in each scenario*

Table 23
Community resources, 1988-99

	1988		1993		1999	
	ECU bn (1988 prices)	**%**	**ECU bn (1992 prices)**	**%**	**ECU bn (1992 prices)**	**%**
Agriculture	27.5	60.7	35.2	50.9	38.4	45.7
Structural action of which:	8.9	19.6	21.3	30.8	30.0	35.7
Cohesion Fund	-	-	1.5	2.2	2.6	3.1
Structural Funds	8.9	19.6	19.8	28.6	27.4	32.6
Internal policies	2.2	4.8	3.9	5.6	5.1	6.1
External action	-	-	4.0	5.8	5.6	6.7
Other	6.7	14.8	4.8	6.9	5.0	5.9
Total commitments	45.3	100	69.2	100	84.1	100

Table 24
Scale of structural intervention (including Cohesion Fund and Community Initiatives), 1989-93 and 1994-99

	1989-93 (annual average)			
	Total	EU intervention	Total	EU intervention
	ECU mn		% GDP [a]	
B	485	173	0.30	0.11
DK	274	86	0.15	0.08
D	6741	1680	0.53	0.13
GR	3091	1834	4.47	2.65
E	6201	3017	1.54	0.75
F	4114	1387	0.42	0.14
IRL	2212	980	5.99	2.66
I	5485	2374	0.63	0.27
L	41	15	0.45	0.17
NL	488	163	0.21	0.07
P	3789	1892	6.15	3.07
UK	2659	1066	0.34	0.13
EUR12	35580	14666	0.71	0.29

	1994-99 (annual average)			
	Total	EU intervention	Total	EU intervention
	ECU mn		% GDP [b]	
B	1089	349	0.57	0.18
DK	426	140	0.34	0.11
D	13954	3622	0.81	0.21
GR	5793	2956	7.20	3.67
E	13747	7066	3.38	1.74
F	7107	2491	0.63	0.22
IRL	2180	1234	4.98	2.82
I	9722	3608	1.13	0.42
L	57	17	0.49	0.15
NL	1498	436	0.53	0.15
P	5300	2940	7.17	3.98
UK	4779	2164	0.56	0.25
EUR12	65651	27024	1.11	0.45
A	1572	316	0.94	0.19
FIN	1134	331	1.38	0.40
S	878	261	0.53	0.37
EUR15	69235	27932	1.12	0.51

(a) average GDP, 1989-93
(b) GDP in 1994
N.B. Data related to the 1989–93 period are extracted from monitoring reports and correspond to actual financed interventions. As some programmes have not been yet completed at mid-1996, available data tend to underestimate the funds commited during this period. In addition, as regards ESF, data do not include achievements made in 1989 as these belong to transitory period based on management by projects.

Table 25
Breakdown of Structural Funds by Objective, 1989-93 and 1994-99

1989-93 (ECU mn)

	Obj. 1	Obj. 2	Obj. 3 & 4	Obj. 5a agric.	Obj. 5a fish.	Obj. 5b	Total	C.I.[a]
B	-	214	344	134	15	33	740	124
DK	-	25	171	91	94	21	402	28
D	2955	581	1054	878	36	511	6015	416
GR	7528	-	-	-	-	-	7528	712
E	10171	1506	837	229	92	265	13100	1129
F	957	1225	1442	1274	135	874	5907	566
IRL	4460	-	-	-	-	-	4460	295
I	8504	387	903	493	106	360	10753	667
L	-	12	11	29	-	3	55	22
NL	-	165	405	79	43	33	725	89
P	8450	-	-	-	-	-	8450	724
UK	793	2015	1502	316	58	132	4816	513
EUR12	43818	6130	6669	3523	579	2232	62951	5285
%	69.6	9.7	10.6	5.6	0.9	3.5	100	-

1994-99 (ECU mn at 1994 prices)

	Obj. 1	Obj. 2	Obj. 3	Obj. 4	Obj. 5a agric.	Obj. 5a fish.	Obj. 5b	Obj. 6	Total	C.I.[a]
B	730	341	396	69	170	25	77	-	1808	288
DK	-	119	263	38	127	140	54	-	741	102
D	13640	1566	1681	260	1070	75	1227	-	19519	2211
GR	13980	-	-	-	-	-	-	-	13980	1154
E	26300	2415	1474	369	326	120	664	-	31668	2781
F	2190	3769	2562	641	1746	190	2236	-	13334	1605
IRL	5620	-	-	-	-	-	-	-	5620	484
I	14860	1462	1316	399	681	134	901	-	19752	1897
L	-	15	21	1	39	1	6	-	83	19
NL	150	650	923	156	118	47	150	-	2194	422
P	13980	-	-	-	-	-	-	-	13980	1061
UK	2360	4580	3377		186	89	817	-	11409	1573
A	162	99	329	60	386	2	403	-	1432	144
FIN	-	179	254	83	331	23	190	450	1503	151
S	-	157	342	170	90	39	135	247	1178	126
EUR15	93991	15352	12938	2246	5270	885	6860	697	138201	14018
%	68.0	11.1	9.4	1.6	3.8	0.6	5.0	0.5	100	-

[a] *Community Initiatives, including 200 mn. ECU (at 1995 prices) resulting from a revision to the financial forecasts decided by the Council in order to fund the PEACE Initiative, but excluding around 64 mn. ECU for networks.*
See note in table 24

Table 26

EIB financing of regional development

EIB financing		1989-99		1994	1995
Individual loans and credits extended on global current loans	**Amount (ECU mn)**	**% total activity**	**% regional development**	**Amount (ECU mn)**	**Amount (ECU mn)**
Total EIB activity in Member States	70,008	100		16,605	17,782
Regional development	47,128	67	100	12,035	12,143
Objective 1 regions	25,046	36	53	5,748	5,881
Objectives 2, 5b and 6 regions	16,916	24	36	4,875	5,449
Other regions in receipt of Community assistance	1,5000	2	3		
Other regions in receipt of national aid	1,306	2	3	60	
Projects covering several regions	2,360	3	5	1,352	813
Regions eligible under Structural Funds	41,962		10	10,623	11,330
- of which: individual loans in receipt of Community subvention	10,669		25	3,246	4,434

EIB financing (individual loans and credits on global loans) in areas eligible for Structural Fund aid: division by Objective and sector

	Transport	Telecom	Water/ environ-ment	Energy	Other	Total infrastruct.	Agriculture, industry, services	Total	of which: credits on global loans
					1989-93				
Objective 1									
ECU mn	5598	5176	1498	4859	1169	18300	6745	25045	3757
%	22	21	6	19	5	73	27	100	15
Objectives 2+5b									
ECU mn	5016	1423	2411	1276	542	10669	6246	16916	4171
%	30	8	14	8	3	63	37	100	25
Total Obj. 1+2+5b	10614	6599	3909	6135	1712	28969	12991	41960	7928
% total Objectives	25	16	9	15	4	69	31	100	19
Total regional development	12677	7466	4473	6339	1816	32771	14359	47130	9320
% total reg. devel.	27	16	9	13	4	70	30	100	20
Obj. 1+2+5b, % regional development	84	88	87	97	94	88	90	89	85
Total activity	17809	8935	7830	12018	2123	48715	21293	70008	14490
					1994 and 1995				
Objective 1									
ECU mn	4307	1901	900	2320	549	9167	2461	11269	1044
%	37	9	8	20	5	79	21	100	9
Objectives 2+5b+6									
ECU mn	3949	297	1040	1614	240	7140	3184	10324	2061
%	38	3	10	16	2	69	31	100	20
Total Obj. 1+2+5b+6	8256	1388	1940	3935	789	16307	5645	21953	3104
% total Objectives	38	6	9	18	4	74	26	100	14
Total regional development	8595	2810	1995	4113	789	18302	5877	24178	4645
% total reg. devel.	36	12	8	17	3	76	24	100	19
Obj. 1+2+5b, % regional development	96	49	97	96	100	89	96	91	67
Total activity	12079	3040	3668	6467	941	26195	8192	34387	7098

Table 27
Breakdown of Cohesion Fund, 1993 and 1994-99

	Transport		Environment		Total
	ECU mn	%	ECU mn	%	
Actual commitments for 1993 (ECU mn at current prices)					
Spain	606	71.0	252	29.0	859
Portugal	161	57.0	123	43.0	284
Greece	105	38.0	175	62.0	280
Ireland	86	61.0	56	39.0	142
Total[a]	958	61.0	606	39.0	1565
Estimates for 1994-99 (ECU mn at 1994 prices)					
Spain	3983	50.1	3967	49.9	7950
Portugal	1380	53.0	1221	47.0	2601
Greece	1235	47.5	1367	52.5	2602
Ireland	665	51.1	636	48.9	1301
Total[a]	7262	50.2	7192	49.8	14454

[a] Including technical assistance and studies

Expenditure on transport and the environment for 1994-99 is estimated on the basis of actual commitments in 1994 and 1995

Table 28
Distribution of Structural Funds by broad target area in Objective 1 regions, 1989-93 and 1994-99 (%)

	1989-93			1994-99		
	Infrastructure	Human resources	Productive environment	Infrastructure	Human resources	Productive environment
B	-	-	-	18.9	34.7	45.8
D	22.5	26.5	48.5	40.5	28.0	30.5
GR	40.9	25.6	34.7	45.9	24.6	27.8
E	54.0	24.2	21.5	40.4	28.4	30.5
F	39.4	28.7	31.1	27.9	27.2	34.2
IRL	27.7	38.0	33.4	19.7	43.9	36.2
I	38.7	21.6	39.3	29.8	21.4	48.2
NL	-	-	-	24.0	26.7	37.3
P	29.2	26.1	37.7	29.7	29.4	35.7
UK	29.5	46.0	22.5	28.4	37.9	30.2
A	-	-	-	19.8	25.9	51.9
Average	35.2	29.6	33.6	29.5	29.8	37.1
EUR4 average	38.0	28.5	31.8	33.9	31.6	32.6

Table 29

Income and unemployment trends in assisted regions, 1983-93

		Regional data by Objective			EUR12
		1	2	5b	Average
GDP per head	1983	64.6	98.0	86.0	100
(PPS, EUR12 = 100)	1989	65.4	96.3	84.4	100
	1993	67.2	92.1	85.3	100
Unemployment rate	1983	12.4	12.5	7.7	9.6
(% labour force)	1989	14.5	11.0	6.5	8.8
	1993	16.2	12.2	6.9	10.3

Note: the figures for Objective 2 and 5b are estimates, since the geographical coverage does not correspond precisely with any regional classification for which comparable data exist.
[(a)] *Objective 1 excludes new Länder*

Table 30

Distribution of Structural Funds by broad target area in Objective 2 regions, 1989-93 and 1994-99 (%)

	1989-93			1994-99		
	Physical regeneration & environment	Human resources	Productive environment [(a)]	Physical regeneration & environment	Human resources	Productive environment [(a)]
B	23.9	19.1	56.2	16.9	33.1	47.5
DK	-	60.0	34.5	-	57.0	41.0
D	37.8	5.8	54.5	25.1	40.0	33.4
E	18.0	26.5	55.5	18.9	28.0	52.4
F	37.0	19.3	43.1	23.5	34.8	40.2
I	42.4	17.9	38.3	19.6	29.8	49.0
L	85.2	4.3	7.8	57.2	28.6	14.3
NL	16.9	43.6	37.1	15.4	37.8	43.8
UK	13.4	19.0	67.5	15.8	34.2	49.0
A	-	-	-	10.3	27.9	60.3
FIN	-	-	-	-	31.7	65.1
S	-	-	-	15.8	34.2	49.0
Average [(b)]	23.9	20.9	55.1	18.2	34.8	45.4

[(a)] *Includes expenditure on economic infrastructure*
[(b)] *Technical assistance, representing an average of 1.3% of total funding, not included*

Table 31
Distribution of Structural Funds by broad target area in Objective 5b regions, 1989-93 and 1994-99 (%)

	1989-93				1994-99			
	Infra-structure	Environment	Human resources	Productive environment	Infra-structure	Environment	Human resources	Productive environment
B	9.1	11.9	24.0	54.9	3.8	8.3	16.6	69.9
DK	28.2	-	30.0	41.8	-	-	19.6	78.3
D	9.0	27.9	17.4	44.5	11.9	16.9	17.9	51.5
E	39.6	16.9	14.8	28.7	10.3	10.2	13.4	66.1
F	17.0	13.3	20.3	47.6	9.2	10.9	12.8	65.1
I	18.9	9.3	14.2	55.9	0.8	10.5	13.4	74.0
L	17.9	-	10.7	71.4	34.4	8.2	12.8	41.0
NL	6.7	19.8	26.8	45.4	0.7	23.8	11.4	62.8
UK	33.9	9.8	21.3	35.0	8.4	7.8	16.1	66.5
A	-	-	-	-	4.0	7.8	16.9	69.9
FIN	-	-	-	-	7.1	8.1	16.6	66.6
S	-	-	-	-	-	-	-	-
Average [a]	20.0	12.1	20.0	47.2	8.4	10.3	15.3	64.7

[a] *Technical assistance, representing an average of 1.5% of total funding, not included*

Table 32
Distribution of Structural Funds by broad target area in Objective 6 regions, 1995-99

	Infrastructure	Human resources	Productive environment	Other	Total
	%	%	%	%	ECU mn 1994
Finland	6.0	25.4	66.7	1.9	450.0
Sweden	4.0	27.6	63.5	4.9	246.8
Total (ECU mn 1994)	36.7	182.2	456.9	21.1	696.8
Total (%)	5.3	26.1	65.6	3.0	

Table 33
Breakdown of expenditure on human resources (ECU mn) under Objectives 3 and 4

	1989-93	1994-96/99						
	Obj. 3 & 4	Obj. 3					Obj. 4	
	%	% total	of which (% expenditure in Member States):				% total	of which:
			LTU	Y.P.	E.P.	E.O.		A.W.
B	5.2	3.6	33.6	21.5	31.3	6.8	1.5	92.3
DK	2.6	2.4	54.8	20.9	22.1	0.0	0.8	92.3
D	15.8	15.2	56.6	26.3	4.6	9.5	6.2	100.0
E	12.5	13.3	33.8	49.2	12.7	4.2	21.9	100.0
F	21.6	23.2	27.5	38.5	27.9	0.7	17.8	100.0
I	13.5	11.9	32.1	43.0	10.0	8.0	23.7	80.5
L	0.2	0.2	28.6	14.3	47.6	4.8	0.1	100.0
NL	6.1	8.3	52.0	13.0	30.0	0.0	9.3	100.0
UK	22.5	13.6	37.4	31.6	23.9	6.0	0.0	0.0
A	-	3.0	34.0	7.0	32.6	18.2	3.6	96.7
FIN	-	2.3	42.4	31.8	23.9	0.0	4.9	95.2
S	-	3.1	27.9	50.0	18.2	0.0	10.1	91.2
Total (%)	100.0	100.0	38.1	33.7	19.7	4.7	100.0	93.9
Total (ECU mn)	6670	11065	4220	3733	2182	523	1682	1580

LTU: Long-term unemployed
Y.P.: Youth unemployed
E.P.: People excluded from the labour market (unemployed and inactive)
E.O.: Equal opportunies
A.W.: Adaptation of workers to industrial change

Table 34
Population assisted and allocation per head by Objective, 1989-93 and 1994-99

1989-93

	Objective 1		Objective 2		Objective 5b	
	% national population	allocation (ECU/head)	% national population	allocation (ECU/head)	% national population	allocation (ECU/head)
B	-	-	22.1	19.0	2.7	26.0
DK	-	-	4.9	20.0	2.1	39.0
D	-	62.0	12.4	16.0	7.4	23.0
GR	100.0	150.0	-	-	-	-
E	57.7	91.0	22.2	35.0	2.5	53.0
F	2.7	120.0	18.3	25.0	9.7	34.0
IRL	100.0	253.0	-	-	-	-
I	36.4	82.0	6.6	21.0	5.0	25.0
L	-	-	38.0	16.0	0.8	187.0
NL	-	-	9.9	22.0	3.0	15.0
P	100.0	171.0	-	-	-	-
UK	2.8	87.0	35.5	20.0	2.6	16.0
EUR12	21.7	123.3	16.8	20.6	5.0	29.6

1994-99

	Objective 1		Objective 2		Objective 5b		Objective 6	
	% national population	allocation (ECU/head)	% national population	allocation (ECU/head)	% national population	allocation (ECU/head)	% national population	allocation (ECU/head)
B	12.8	95.0	14.2	40.0	4.5	29.0	-	-
DK	-	-	8.5	45.0	6.8	25.0	-	-
D	20.6	145.0	8.8	37.0	9.7	26.0	-	-
GR	100.0	225.0	-	-	-	-	-	-
E	59.7	188.0	20.4	51.0	4.4	64.0	-	-
F	4.4	143.0	25.1	43.0	16.7	38.0	-	-
IRL	100.0	262.0	-	-	-	-	-	-
I	36.7	117.0	11.0	39.0	8.3	31.0	-	-
L	-	-	34.6	19.0	7.9	33.0	-	-
NL	1.5	115.0	17.4	42.0	5.4	31.0	-	-
P	100.0	235.0	-	-	-	-	-	-
UK	5.9	115.2	30.9	43.0	4.9	48.0	-	-
A	3.7	120.0	7.5	31.0	28.7	35.0		
FIN	-	-	15.7	45.0	21.6	35.0	16.7	107.0
S	-	-	11.5	32.3	9.2	33.8	5.3	110.0
EUR15	26.6	169.5	16.4	41.9	8.8	35.0	0.4	108.5

Table 35
Allocations on Community Initiatives, 1989-93

	ENVIREG	PRISMA	INTERREG	REGEN	RECHAR	RESIDER	RENAVAL	REGIS	STRIDE
B	-	-	41.6	-	27.6	18.6	6.5	-	4.5
DK	-	-	2.4	-	-	-	12.4	-	2.2
D	-	-	59.2	-	87.6	93.2	37.3	-	4.3
GR	84.0	17.7	252.5	89.9	-	-	-	-	59.3
E	139.2	32.2	265.3	-	25.3	52.4	18.2	78.4	155.9
F[(a)]	32.5	0.2	95.8		52.4	58.8	65.3	49.6	16.4
IRL	30.4	9.4	42.2	118.4	-	-	-	-	13.1
I	171.2	22.6	42.6	2.0	-	23.0	20.5	-	94.9
L	-	-	9.1	-	-	8.7	-	-	2.1
NL	-	-	30.3	-	-	-	27.6	-	4.6
P	101.8	17.5	179.8	82.2	3.4	5.0	24.0	53.4	54.1
UK	17.7	5.7	54.3	-	184.2	4.7	87.3	-	30.2
Total	576.8	105.3	1075.0	292.5	380.4	264.4	299.1	181.4	441.5

[(a)] Includes 14.7 million ECU for Envireg/Stride and 5.1 million ECU for PRISMA/TELEMATIQUE
See note table 24

Table 36
Allocations on Community Initiatives, 1994-99 (ECU mn)

	INTERREG & REGEN Floods and drought		LEADER		REGIS		EMPLOI		ADAPT		RECHAR		RESIDER	
	non Obj. 1	Obj. 1/6	non Obj. 1	Obj. 1/6	non Obj. 1	Obj. 1/6	non Obj. 1	Obj. 1/6	non Obj. 1	Obj. 1/6	non Obj. 1	Obj. 1/6	non Obj. 1	Obj. 1/6
B	46	51	6	4	-	-	29	16	30	8	16	1	17	11
DK	22	-	10	-	-	-	14	-	31	-	-	-	-	-
D	159	287	113	91	-	-	121	76	178	73	83	96	150	55
GR	-	620	-	161	-	-	-	69	-	33	-	3	-	6
E	36	643	71	326	-	214	108	333	106	181	6	28	38	35
F	211	53	219	6	-	262	181	7	266	7	27	8	63	3
IRL	-	162	-	82	-	-	-	87	-	27	-	-	-	-
I	93	287	121	201	-	-	116	277	124	91	1	1	60	31
L	4	-	1	-	-	-	-	-	-	-	-	-	13	-
NL	185	-	9	3	-	-	60	1	68	1	-	-	23	-
P	-	348	-	128	-	124	-	45	-	21	-	2	-	9
UK	52	69	52	25	-	-	164	25	303	7	178	1	49	-
Network	-	-	12	22	-	-	-	-	-	-	-	-	-	-
EUR12	808	2520	613	1048	-	600	794	934	1107	449	311	140	414	149
A	37	12	24	3	-	-	26	-	12	1	2	-	5	-
FIN	18	30	16	12	-	-	26	6	19	4	-	-	-	-
S	31	15	12	4	-	-	22	2	12	1	-	-	-	-
EUR3	86	57	52	18	-	-	74	8	43	6	2	-	5	-
EUR15	895	2577	665	1066	-	600	868	942	1150	455	313	140	419	149

Part of the commitments on Community Initiatives allocated at 1995 prices has been converted to 1994 prices for comparison
See note table 24

Table 35 (continued)
Allocations on Community Initiatives, 1989-93

	TELEMATIQUE	LEADER	EUROFORM	NOW	HORIZON	RETEX	KONVER	TOTAL
B	-	6.9	7.5	4.8	5.3	-	0.9	124.0
DK	-	2.2	3.0	1.5	3.6	-	0.8	28.0
D	-	23.8	21.5	11.0	38.8	1.9	37.5	415.9
GR	41.3	59.1	24.1	13.8	54.0	10.8	5.0	711.5
E	75.5	120.0	65.7	34.4	41.4	17.4	7.6	1128.9
F[(a)]	1.7	65.0	41.0	19.0	32.0	4.0	32.4	566.0
IRL	11.0	27.2	14.3	7.1	19.5	2.0	0.2	294.7
I	64.7	80.9	55.2	31.4	28.3	12.1	17.9	667.4
L	-	0.8	-	0.2	1.3	-	-	22.1
NL	-	1.4	9.3	4.6	7.5	-	3.6	88.9
P	35.6	52.0	33.1	16.9	33.9	30.0	1.8	724.4
UK	5.4	15.4	39.3	10.3	30.2	8.2	20.1	512.8
Total	235.2	454.6	313.8	154.8	295.5	86.4	127.8	5284.7

(a) Includes 14.7 million ECU for Envireg/Stride and 5.1 million ECU for PRISMA/TELEMATIQUE
See note table 24

Table 36 (continued)
Allocations on Community Initiatives, 1994-99 (ECU mn)

	RETEX		KONVER		PME		URBAN		PESCA		PEACE	Total		TOTAL
	non Obj. 1	**Obj. 1/6**	**non Obj. 1**	**Obj. 1/6**	**non Obj. 1**	**Obj. 1/6**	**non Obj. 1**	**Obj. 1/6**	**non Obj. 1**	**Obj. 1/6**	**Obj. 1**	**non Obj. 1**	**Obj. 1/6**	
B	2	3	13	1	3	9	6	13	2	-	-	172	116	288
DK	-	-	2	-	3	-	2	-	19	-	-	102	-	102
D	15	59	130	202	34	152	31	82	10	13	-	1026	1186	2211
GR	-	77	-	22	-	82	-	50	-	30	-	-	1154	1154
E	42	62	11	12	25	223	51	186	12	33	-	506	2275	2781
F	37	-	85	-	49	9	71	8	33	-	-	1242	363	1605
IRL	-	9	-	-	-	28	-	20	-	8	59	-	484	484
I	39	35	51	12	30	158	28	105	18	19	-	681	1217	1897
L	-	-	-	-	-	-	1	-	-	-	-	19	-	19
NL	1	-	27	-	8	2	22	-	11	2	-	414	8	422
P	-	172	-	14	-	122	-	49	-	29	-	-	1061	1061
UK	29	11	125	14	53	14	84	38	36	7	236	1126	447	1573
Network	-	-	-	-	5	20	-	-	3	3	-	20	45	64
EUR12	165	428	445	276	209	819	295	552	144	143	295	5306	8355	13661
A	3	-	-	-	8	1	13	-	-	-	-	129	17	146
FIN	-	-	-	-	6	5	-	4	3	1	-	88	62	149
S	-	-	3	-	13	4	5	-	4	-	-	102	25	127
EUR3	3	-	3	-	27	9	18	4	7	1	-	319	103	423
EUR15	168	428	449	276	236	829	313	556	151	143	295	5625	8459	14084

Part of the commitments on Community Initiatives allocated at 1995 prices has been converted to 1994 prices for comparison
See note table 24

Sources and methods

Most of the data analysed in this Report have prepared within the Commission. The main exceptions are the estimates of net budgetary transfers within Member States in Chapter 3 which are the results of a special study of selected countries and the estimates of net transfers under the CAP in Chapter 4.

The analysis of disparities in Chapter 2 is based on national and regional accounts data and on series for employment and unemployment, compiled by the Statistical Office of the European Commission (Eurostat).

GDP (Gross domestic product) is a measure of the total output of resident producers. It corresponds to the production of goods and services in the economy, excluding consumption of intermediate goods and services, but (when measured at market prices rather than factor cost) including value-added tax on products and net taxes on imports. It is also an indicator of the income generated from such production.

For comparisons between Member States, the figures for GDP are expressed in terms of PPS, or purchasing power standards, which allow not only for exchange rate differences but also for differences in the overall price level in one country relative to that in others (ie even after conversion of GDP figures into ECU, comparisons are still affected by differences in the level of prices which the PPS adjustment is aimed at correcting).

The figures for employment for Member States are from the national accounts and are averages for the year; for regions, the figures are based on the annual Community Labour Force Survey (LFS), which is also the source of the sectoral data.

For unemployment, the data for Member States are from the Eurostat comparable unemployment series (which are based on the LFS). The data on regional unemployment are estimated from the comparable series on the basis of registration figures at labour offices.

The specific source for each of the graphs, maps and tables is listed below.

NUTS classification of regions

The NUTS (Nomenclature of territorial unit for statistics) classification represents a standard framework for analysing economic and social developments in the Union's regions, which is largely based on institutional spatial divisions. The analysis in Chapter 2 is mainly carried out at the NUTS 2 level, which distinguishes 206 regions across the Union as a whole. This is the level at which eligibility for aid from the Structural Funds for Objective 1 and Objective 6 purposes is determined (for other regional Objectives, the level is NUTS 3). Though most of the regions are broadly comparable in size and population, there are a number which differ markedly (Ile de France and Lombardia, for example, have 9–10 million inhabitants, while 16 regions have less than 300 thousand, including Corse, Burgenland and Highlands and Islands). For more details, see Eurostat, *Regions, nomenclature for territorial unit for statistics, NUTS*, March 1995.

Studies

Apart from various studies cited in the text, the preparation of the Report was assisted by outside experts as follows:
Chapter 3: EPRC, UK and OEIL, F
Chapter 4: College of Europe, Bruges, B
Chapter 5: ECOTEC, UK

Estimates of budgetary net transfers between regions

The estimates of interregional transfers reported in Chapter 3 are based on a study commissioned specially for this Report carried out by the EPRC, University of Strathclyde in conjunction with L'OEIL in France. This covered 7 Member States (the four largest countries plus Spain, Portugal and Sweden) and was based on a unified approach, breaking down national budgets (excluding social insurance funds as far as possible) for 1993 into separate revenue and expenditure items which were then allocated between regions using a number of different indicators and various assumptions about the regional incidence of different taxes. Estimates of expenditure assigned to each region and of the tax revenue originating from each were then aggregated to give the net amount of transfer (the difference between the amount received and the amount contributed to the budget).

Two approaches to the allocation of expenditure between regions were adopted in the study. The one most relevant for this report, and referred to here, is the 'flow' method which attempts to measure where expenditure is incurred or where transfers go. The expenditure on a particular government function on this method is allocated to the region (or regions) where the ministry or department and the various agencies attached to it are located. (The other method is the 'benefit' approach under which spending is allocated to where the beneficiaries of the service in question are located.)

Expenditure, however, excludes spending on social protection in France and Germany on both approaches and the estimates for these two countries may, therefore, significantly understate net transfers.

Since the transfers estimated do not conform to national accounting conventions, they are not directly comparable with GDP and, accordingly, are indicative only of the relative scale of budgetary flows between regions.

Estimates of net transfers under the Common Agricultural Policy

The calculation of transfers associated with the CAP was undertaken by external experts from the College of Europe, Bruges. It involves a number of simplifying assumptions, due to the individual nature of different agricultural markets and the fact that for some products, there is no international reference price.

Transfers between Member States

Transfers from taxpayers in each country are estimated by assuming that the share of each in the EU agricultural budget equals the share of its contribution to the overall Community Budget. Transfers also arise between consumers and producers as a result of price support. This gives rise to transfers between Member States — 'the net trade transfer' — which depends on national patterns of consumption and production. Transfers from consumers are estimated by multiplying the amount of each product available for consumption in each country by the EU 'price support'. 'Total support' is based on OECD data used to calculate PSEs (Producer Subsidy equivalent) and CSEs (Consumer Subsidy Equivalent). Because these data relate to a period before the Uruguay Round Agreement, they may not necessarily reflect the relationship between EU prices and world prices after the agreement. This could mean that the scale of EU price support is over-estimated. Since the OECD does not compute support rates for fruit, vegetables, wine and olive oil, these had to be estimated.

Transfers between regions

Food consumption per head and average tax rates are assumed to be the same across all regions in each Member State. Both assumptions are likely to mean that the burden on richer regions is under-estimated in relation to that on poorer regions, and more refined assumptions might, therefore, produce a greater cohesion effect. In the case of Portugal and Spain, comparisons involving data for the period before 1993 are of limited relevance because their agricultural sectors were subject to transitional arrangements, negotiated on accession in 1986, during that period.

Measures of disparity

Two statistical measures of the degree of disparity between regions or individuals are used in the report, the standard deviation and the Gini coefficient.

Standard deviation

The standard deviation measures the dispersion of data (such as for unemployment rates) around the mean. In formal terms, it is the square root of the variance which is defined as $\Sigma((x_i-x_{mn})^2)/n$, where x_i is the ith observation and x_{mn} is the mean of the observations (ie in the case of regional unemployment rates, it is essentially a measure of the average difference of the rate in each region from the mean). To allow for variations in the size of the regions analysed, regions are weighted in each case by the most relevant variable (ie population in the case of income per head and the labour force in the case of unemployment).

Gini coefficient

The Gini coefficient measures the degree of inequality in the distribution of a particular set of data (such as income). More formally, it is a measure of the degree of curvature of the Lorenz curve, which itself indicates the relationship between the cumulative percentage of individuals, groups or regions and the cumulative percentage of the total of a particular variable, such as income, which they account for, ordered by size (ie it shows the percentage of total income in a given country going to a given percentage of the population). If there were a perfectly equal distribution of a given variable, the line describing the relationship would be straight and 45 degrees to each of the axes. The Gini coefficient is defined as the area between the Lorenz curve and the 45 degree line as a ratio of the area above the 45 degree line. The value of the coefficient, therefore, varies between 0 (when the Lorenz curve follows the 45 degree line) and 1 (where it follows the axis and there is perfect inequality), and the higher the value, the more unequal the distribution.

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