

Location Effects, Economic Geography and Regional Policy

Europe's regions

- Concern for Europe's disadvantaged regions has always been part of EU priorities
 - In Treaty of Rome preamble
- Pre-1986, most spending on regions was national
 - Rural electrification, phones, roads, etc.
- Entry of Spain & Portugal created voting-bloc in Council (with Ireland and Greece) that induced a major shift in EU spending priorities, away from CAP towards poor-regions
- “Structural spending” now about 1/3 EU budget

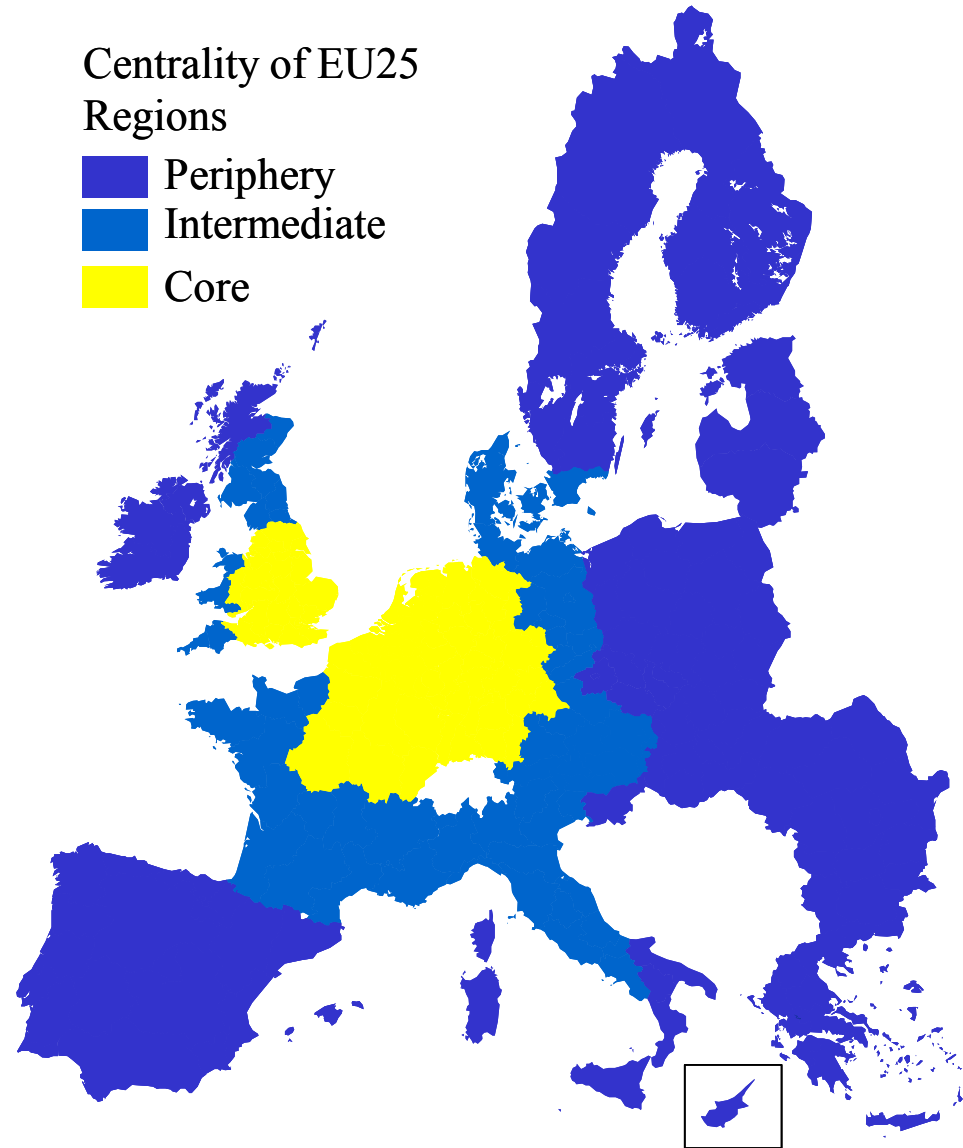
Europe's Economic Geography: Facts

Europe highly centralised in terms of economic activity.

- western Germany, Benelux nations, N.E. France and S.E. England have 1/7th land, but 1/3rd of pop. & 1/2 GDP

Periphery has lower standard of living

- More unemployment
 - Especially among youth
- More poverty



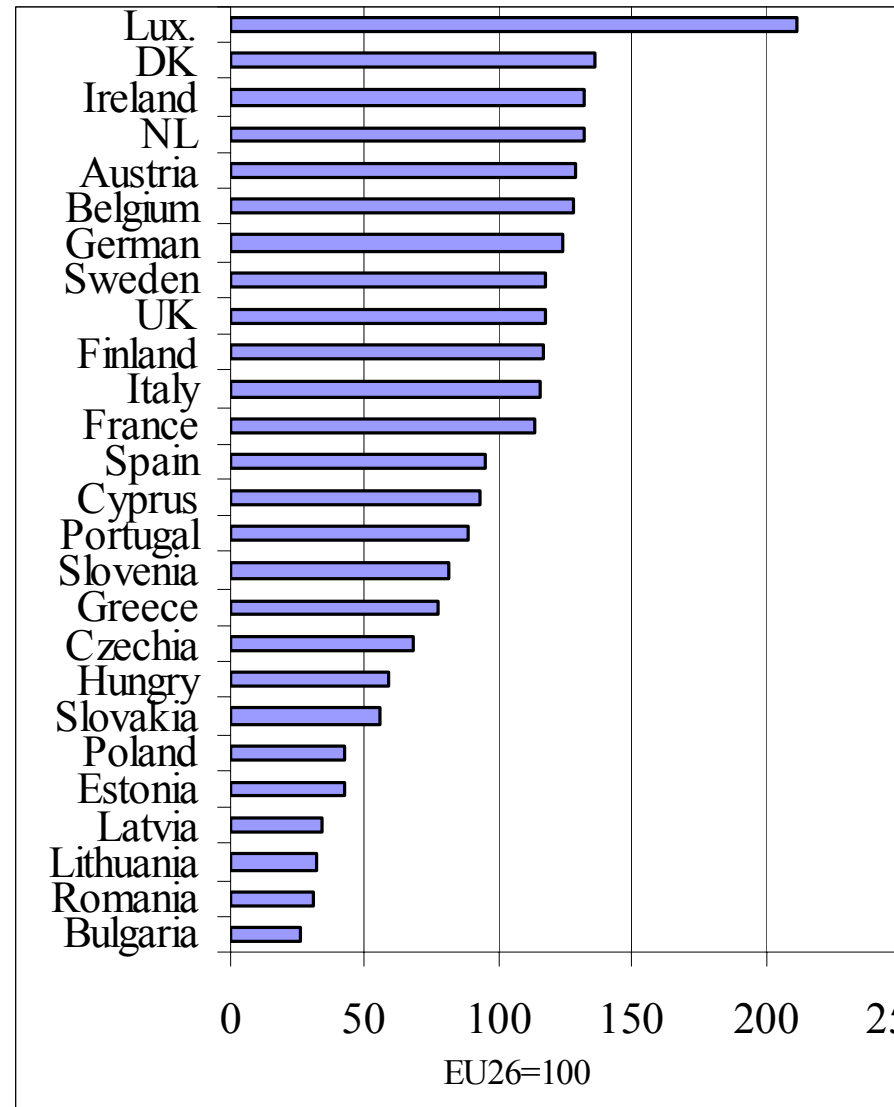
Geographic income inequality

Very uneven income distribution, geographically

1999 income/pop by nation

Luxembourg is 110% richer than average

Bulgaria only 26% of average



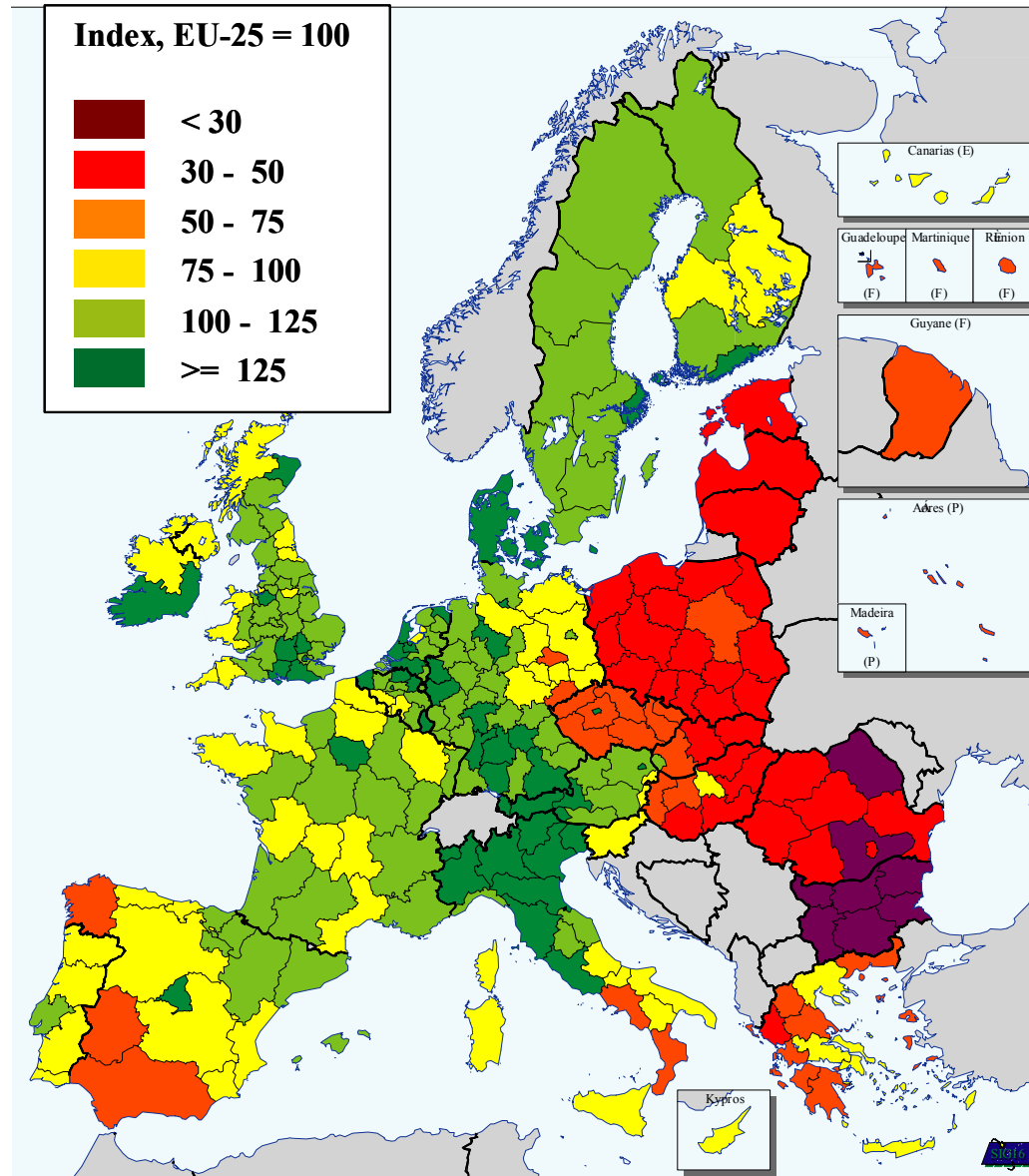
Geographic income inequality

income distribution
even more uneven at
regional level.

Within nation
economic activity is
very unevenly
distributed

Income distribution
has become:

- More even in EU15
- Less even within EU15 nations (by region)

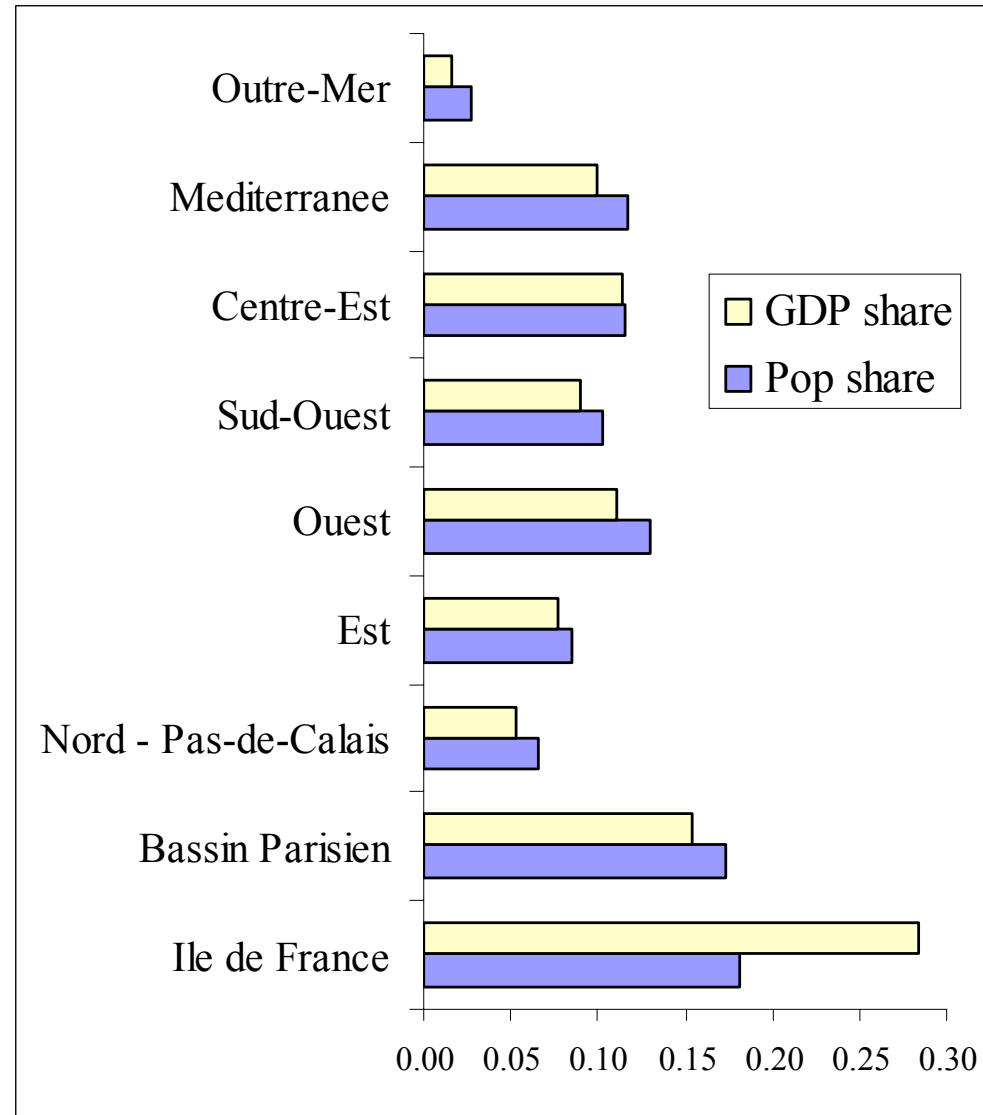


Geographic income inequality

French example

- Ile de France (Paris) has almost 1/3 of all economic activity
- Per capita incomes (not shown) are 158% of EU15 average
- Mediterranee has 10% of GDP, 12% of population
 - GDP/pop only 86% of EU15 average

Outre-Mer are former French colonies (poor islands in Caribbean, etc.)



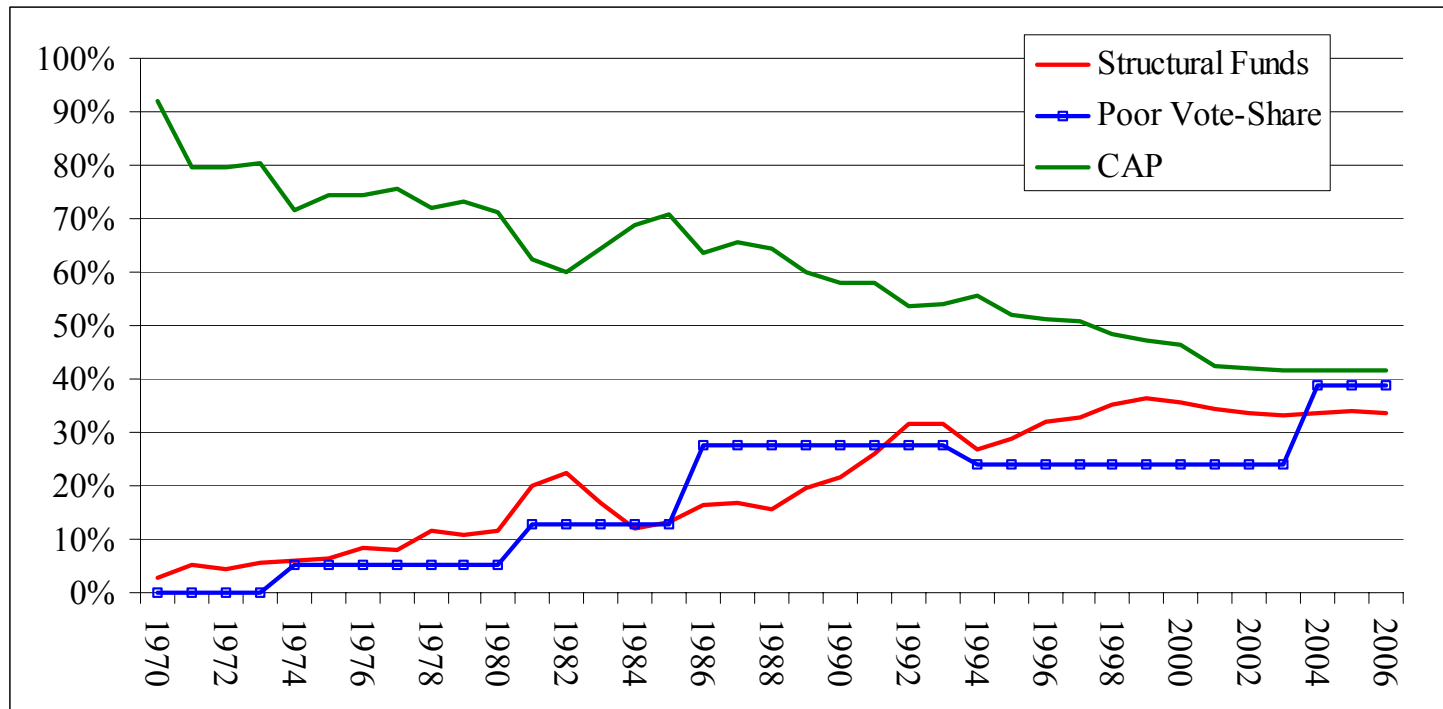
EU Regional Policy

EU always had poor regions (Mezzogiorno, etc.)

- much spending on poor EU regions, but very little by EU (pre 1986)

1973, Ireland (poor at the time joined); 1981, Greece joined but no major reorientation of EU spending priorities.

In 1986, Iberian enlargement shifted power in Council and spending priorities changed



EU Regional Policy

For historical reasons, EU has five “Funds”,

- four “Structural Funds”, and

- Spent in any qualified region

- “Cohesion Fund”.

- Spent only in poor-4 (Spain, Portugal, Greece and Ireland)

5 Funds work together under overall strategy

Many programmes, initiatives, and objectives, BUT
over 90% is spent on three priority “objectives”

3 Objectives

Objective 1 (about 70% of structural spending).

- spending on basic infrastructure and production subsidies in less developed regions
- generally defined: regions with incomes less than 75% of the EU average
 - Nordic exceptions (low population density)
- There are about 50 “objective 1 regions”; they have about 20% of the EU population.

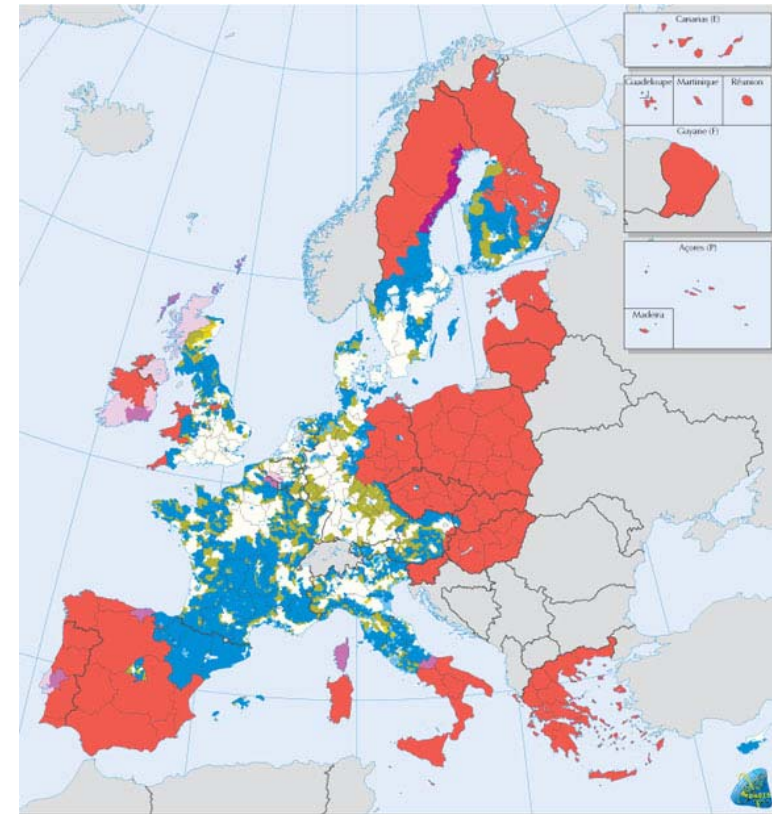
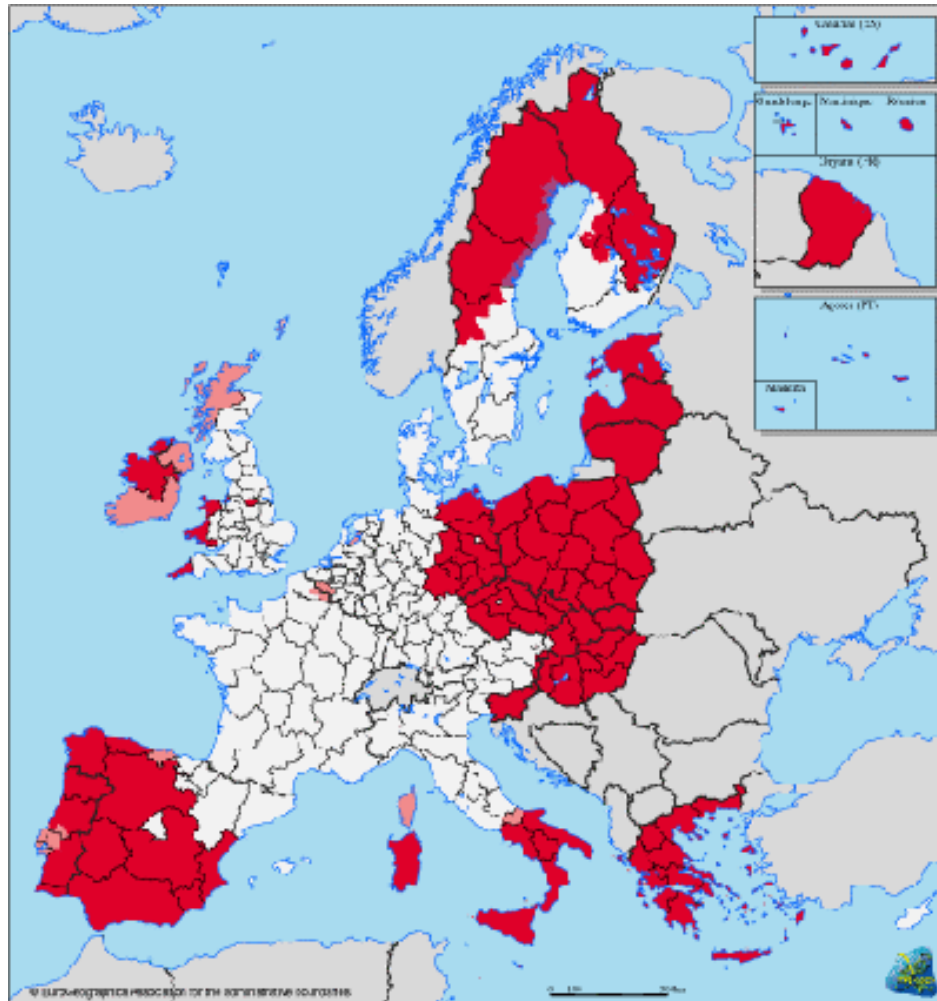
Objective 2 (about 10% of structural spending).

- projects in regions whose economies are specialised in declining
 - coal mining, fishing, steel production, etc.
- spending should support economic and social “conversion”
- About 18% of the Union's population lives in ‘Objective 2’ regions.

Objective 3 (about 10% of the funding).

- measure to modernise national systems of training and employment promotion.

Regions covered by Objectives 1 & 2



Structural Funds 2004-2006: Areas eligible under Objectives 1 and 2

- | | |
|-------------------------------|--|
| Objective 1 | Objective 2 |
| Objective 1 | Objective 2 |
| Phasing-out (till 31/12/2005) | Objective 2 (partly) |
| Phasing-out (till 31/12/2006) | Phasing-out (till 31/12/2005) |
| Special programme | Phasing-out (partly) (till 31/12/2005) |

Objective 1 (2006)

Impact of 2004 Enlargement

- New members are much poorer than EU15
- Difficulties
 - Cost of structural spending could rise substantially
 - 10 new poor nations make some poor regions in EU15 look relatively rich
 - Pushes them above 75% of EU25 average
- Political power in Council likely to shift spending priorities

Impact of 2004 Enlargement

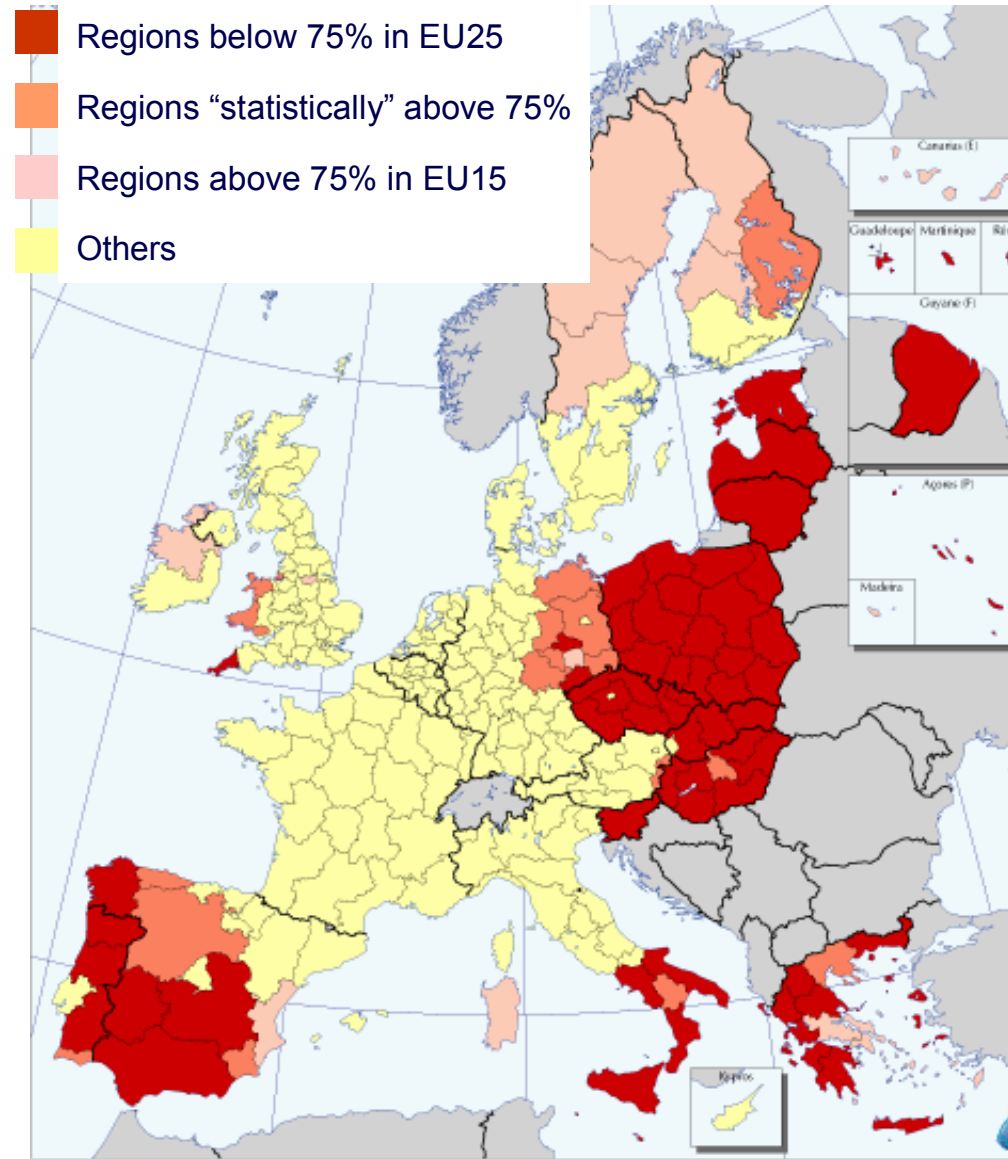
Some regions that will be pushed above 75% of average will lose Objective 1 status

Some, like northern Finland and Sweden are unaffected

- Low population density criteria

All of 2004 entrants have less than 75% of EU25 average

- Except Cyprus



Allocations for Newcomers

- EU already allocated structural spending for newcomers up to 2006
- Can predict spending/pop based on income using EU15 numbers
 - “linear” line in figure;
 - NB: newcomers get ‘below the line’ treatment

