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REDUCING REGIONAL DISPARITIES IN EUROPE: THE POLICY ISSUES

Abstract: This paper examines the key issues to be addressed by policy-makers seeking to reduce regional disparities in Europe. It explores the nature and causes of existing disparities and critically appraises the effectiveness of the prevailing policy approach towards tackling them. It finds that although it is flawed, fundamental reform of the policy is circumscribed by both the limited European budget and the demands of striving for closer economic union. Accepting this policy framework, there is a need for a closer scrutiny of prevailing expenditure and revenue flows to and from the regions.

Key words: regional policy, European integration.

1. INTRODUCTION

The scale of the regional problem facing EU policy-makers is not in doubt. GDP per head in the EU's richest region now stands at almost six times that of its poorest, a gap which looks set to widen as the process of enlargement proceeds apace. Neither is the importance of reducing these disparities open to question. Regional inequalities constitute a serious threat to the Community's principal policy objective, the attainment of closer economic and political union.

Deciding what the appropriate policy response to the problem should be, is the more hotly contested issue. The present policy approach to the reduction of disparities is a product of the conflicting processes of widening and deepening. The policy is dominated by financial support for declining industrial and poorly

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developed rural regions and has been subject to some considerable criticism. Not least of the charges against it is that the volume of resources it provides is insignificant relative to the size of the problem at hand. Furthermore, this support is insufficiently tailored to the specific needs and requirements of different regions.

The development of a more effective policy response to the regional problem demands a complete understanding of the nature of existing disparities, of the inadequacies of the present policy approach, and of those factors which circumscribe its reform. The main objective of this paper is to help reach that understanding via a critical review of the literature available.

The paper begins with a discussion of the enlargement versus integration dialectic and its growing significance in relation to regional disparities. The complex patterns of these inequalities are then traced and the current policy response to their reduction critically appraised. The paper concludes with some suggestions for future research.

2. ENLARGEMENT, INTEGRATION AND THE REGIONS

The fundamental dialectic between territorial enlargement and closer integration provides the key to understanding the complex synergies of European policy and the regions. From the literature a picture emerges of a web of inter-relationships between the processes of widening and deepening, and the extent of regional disparities in Europe (figure 1). It is the unity-diversity conflict which explains why the reduction of these disparities is both so critical and yet so difficult.

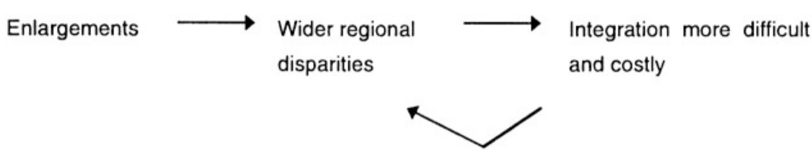

Fig. 1. Enlargement, integration and disparities

The process of territorial enlargement in Europe has significantly changed the map of regional advantage from the circumstances of the original six member states, where the Italian Mezzogiorno was the main exception to a comparatively homogenous economic area. The 1973 accession of the UK, Denmark and Ireland brought countries with serious regional problems inside the Community and provided the first real impetus for the introduction of a specifically regional element into the budget. The result was the establishment of the European Regional Development Fund (ERDF) in 1975, with a specific mandate to provide grants for investment in infrastructure.[1]

The 1981 accession of Greece further widened the gap between the regions with Greek per capita GDP some 50% of the EU average. Pressure for the introduction of more pro-active regional policy initiatives became acute with the Iberian enlargement of 1986. This doubled the population living in areas whose per capita GDP was less than 25% of the EU average.

The policy response was threefold. Firstly, the ERDF was reformed in 1984 to meet the criticisms surrounding its limited funds and the inequity of their allocation via fixed national quotas.[2] The quota arrangement was replaced with a system of 'indicative ranges' defining the minimum and maximum allocations each member state would receive from the fund.

Secondly, Integrated Mediterranean Programmes (IMP's) were established in 1985 to foster rural development in 29 impoverished regions of France, Italy and the whole of Greece.[3] These were founded on three main principles: medium-term planning; co-ordinated funding by the agricultural Guidance Fund, the ERDF, the European Investment Bank (EIB) and the European Social Fund (ESF); and institutional partnership between regional, national and Community authorities. These principles were consolidated with the third and most significant policy response, the reform of the Structural Funds.[4] This committed the Community to a doubling of the regional funds to 14 billion by 1993. It also categorised the regional problem into regions with low per capita income (Objective 1); declining industrial regions in more prosperous member states (Objective 2); and rural regions with relatively undiversified economies (Objective 5b).[5]

The absorption of the East German Lander into the Community caused a further widening of disparities. In 1991 the top ten regions in Europe had an average income per head some three and a half times greater than the bottom ten. With the new German Lander included this difference increased to four and a half times (CEC, 1994).

Prospective future enlargements of the EU are likely to have mixed consequences for regional disparities but seem certain to throw the existing policy framework into turmoil. The accession of the EFTA countries is unlikely

[1] Council Regulation (EEC) 724/75.

[2] Council Regulation (EEC) 1787/84.

[3] Council Regulation (EEC) 2088/85.

[4] Council Regulation (EEC) 2052/88.

[5] A new Objective 6 was created in 1995 to meet the concerns of Sweden and Finland about their sparsely populated northern regions.

to widen disparities since their average level of GDP per head is almost the same as that in the Community, while unemployment rates have historically been much lower. They will, accordingly, impose relatively little burden on the budget of the Structural Funds (CEC, 1994).

In contrast, the accession of the Central and Eastern European (CEE) countries will place an enormous strain on the EU budget. Under current institutional arrangements, all the CEE countries would qualify for substantial amounts of Structural Fund support given that their average per capita GDP is only 10% of the EU average. Even more disturbing is that budgetary outlays under the Common Agricultural Policy (CAP) could be more than doubled by their absorption into the EU. These costs are untenable and imply that CEE accession cannot be contemplated without a substantial scaling down of existing regional support expenditure (Jackman, 1995).

Herein lies part of the conflict: the pursuit of closer integration is dependent upon the reduction of regional disparities and therefore some continued commitment to regional support expenditure. Regional inequalities threaten price stability and efficient resource allocation, both of which are essential for a smooth progression to integration. Wider regional disparities also undermine the political consensus critical to integration. Regional imbalances may become so serious as to cause mounting dissatisfaction with Community policies in some countries, leading first to non-cooperation and ultimately to secession (Liebmann and Montalvo, 1992). This helps explain the conviction that "greater Community involvement in stabilisation and redistribution policies is the indispensable complement of the ambitious project of completing the internal market" (Padoa-Schioppa,1987, p. XI).

This conviction also emerges from the knowledge that the integration process itself is likely to widen disparities. Neo-classical theory teaches that the freer trade associated with closer integration will lead to an increase in overall growth and to convergence in regional economic development. However, evidence suggests that freeing trade is more likely to make for a divergence in the pattern of production specialisation than to result in a convergence of living standards. The convergence model fails to hold because of its unrealistic assumptions of perfect competition, full factor employment and perfect resource mobility (Perrons, 1992).

The completion of the Single European Market (SEM) seems destined to widen regional disparities. The Cecchini Report (1988) predicted that the removal of all internal trade restrictions in Europe would produce a total gain of between 4 and 7% of EC GDP, but said nothing of the regional distribution of this gain. This depends on the interplay of two effects. The first is the extent to which increased aggregate growth 'trickles-down' to individual regions. The second derives from the resource relocation implicit in the supply-side shock that completion of the internal market delivers (Begg, 1989).

The dominant theme in the literature is that weaker regions will lose out from the SEM because it will favour regions endowed with high-tech industries. The SEM will encourage the concentration of industrial activities in 'core' Community regions. As internal barriers fall, it makes sense for firms to exploit the scale and agglomeration economies from having the whole network of business services in these regions (Peschel, 1992; Camagni, 1992; Collier, 1994).

Progress to full economic and monetary union (EMU) will amplify the single market effects. By raising the standards of convergence and policies among heterogeneous countries, a single currency will increase the risk of divergence of living standards across the European economies.

Weaker regions in less developed countries are likely to lose out because of the difficulties they face in meeting the EMU convergence criteria. Under fixed exchange rates and in the absence of sufficient resource mobility, weaker regions will suffer from the need for external deficit reduction and deflationary adjustment policies, both of which will force inefficient sectors out of the competitive arena (Curbelo and Alburquerque, 1993; Collier, 1994). The deepening-widening dialectic is such that integration is more likely to exacerbate regional inequalities, the wider the range of per capita income levels to be embraced by the process (Padoa-Schioppa, 1987, p. 94).

3. PATTERNS OF INEQUALITY

There is, therefore, little doubt about the importance of reducing regional disparities in Europe. Neither is the scale of the problem facing policy-makers subject to debate, particularly given the complexity of prevailing patterns of inequality.

Most studies of disparities rely upon estimates of GDP per capita for NUTS (Nomenclature of Statistical Territorial Units) Level II regions, which are the geographic units used for determining eligibility for Objective 1 status. Inequalities in regional per capita GDP can be measured in two ways. Measurements in European Currency Units (ECU) indicate the international value of the output of regional economies. Measurements in Purchasing Power Standards (PPS) allow for differences in the prices of goods and services in different regions. Averaged over the period 1989–1991, GDP per head in NUTS Level II regions measured in PPS varied from 177% to 40% of the EC average, while in ECU the extreme values were 199% and 26%.

Regional disparities in GDP per capita have tended to diminish in times of economic expansion and widen in times of recession. Up to 1974 there was a period of regional convergence in Europe. This was a product of rapid growth in the Western world and the fact that national growth rates were fastest in lower per capita GDP countries (Molle, 1980).

Table 1. GDP for selected regions in EU 12

Region	GDP 3-year average 1989–1991 EU 12 = 100	
	per person employed (PPS)	per person employed (ECU)
Belgium	116.6	116.2
Antwerp	139.8	139.3
Denmark	84.1	109.1
Germany	105.2	116
Hamburg	163.9	180.8
Luneburg	74.2	81.8
Greece	52.8	39.3
Ionia Nisia	41.3	30.7
Spain	95.8	83.4
Madrid	117.3	102.2
Andalucia	88.7	77.3
France	115.7	119.5
Ireland	83.4	83.2
Italy	113.1	111.2
Lombardia	129.6	127.4
Basilicata	83.5	82.1
Luxembourg	121.9	122.1
Netherlands	98.4	100.6
Portugal	45.5	26.8
Alentejo	35.0	20.6
UK	89.1	83.9
South East	101.4	95.5
Wales	82.4	77.6
EU 12	100	100
Weighted standard deviation	19.6	25.3

Source: CEC (1994), table A 27.

Regional inequalities widened between 1974 and the mid 1980s when growth slowed and two of the mechanisms which had underpinned convergence ceased to operate: an earlier wave of productive investments in less developed areas ended, while rising unemployment in developed regions closed off opportunities for emigration (Dunford, 1993). Since the mid-1980s there has been a slight return to convergence, with the standard deviation in regional GDP per capita in EU12 falling from 0.306 in 1981 to 0.291 in 1991. This is entirely due to the small degree of convergence in national growth rates between the less and more developed countries of the Community (Dignan, 1995).

Regional disparities in unemployment also narrowed in the late 1980s but remain large. The average rate of unemployment in EU12 stands at 10.4% with regional rates ranging from 1.5% to 29% (CEC, 1994). These disparities do not appear to conform to the core-periphery pattern which is traditionally perceived to characterise inequalities in Europe, since regions in Greece and Portugal have the lowest rates. The severity of the employment problem in these regions is, however, disguised by underemployment, high levels of unpaid farm labour, and the absence of a social security system (Dignan, 1995).

Indeed, it is the distinction between north and south which is probably more relevant to the future analysis of regional inequalities than the distinction between centre and periphery. This is partly explained by the declining importance of accessibility and distance from markets, but also reflects the increased premium being placed on scientific and technical innovation which already advanced northern regions are best placed to benefit from (Neven and Gouyette, 1995; Tomaney, 1994).

4. POLICY RESPONSE AND PROBLEMS

It is a relatively simple matter to identify the scale and dimensions of regional disparities in Europe. The greater difficulty lies in finding appropriate ways of reducing them. The evidence so far available suggests that the present policy response is flawed and ineffectual. Consequently, the challenge for current and future research is to both understand the shortcomings of present policies and identify the characteristics of a more appropriate policy approach.

The development of an effective regional policy is dependent first and foremost on there being a clear perception of the causes of regional problems. Unfortunately, it is not clear that European policy-makers possess the necessary level of understanding. The Commission continues to hold firmly to its opinion that prevailing income disparities are strongly associated with inadequate infrastructure provision (CEC, 1994). Yet studies continue to suggest that regional problems in Europe are in fact non-homogeneous and multi-causal.

Variations in regional per capita GDP are the result of a number of different factors including resource endowments, economic structures, and sectoral characteristics. They will not, therefore, be uniquely solved by centrally-designed standard policies of subsidised investment in physical infrastructure. The removal of disparities in fact requires that a nexus of conditions be simultaneously in place – a high degree of local competition, sophisticated networks of local customers and suppliers, and the support of a social infrastructure. Above all, regional success depends on there being an indigenous means to reproduce these factors (Begg, Gudgin and Morris, 1995; Porter, 1990; Storper, 1995).

There are a number of dangers from over-reliance on a policy of infrastructural support for weaker regions. Firstly, this leads to a narrow preoccupation with slower development in these regions to the neglect of analysis of the success of core regions. Secondly, there is a danger that infrastructural improvements in weaker regions might merely serve to promote easier penetration of their markets by firms at the core. Thirdly, the removal of infrastructural disparities may not be enough given that they may be a cause not a consequence of low per capita GDP (Williams, Williams and Haslam, 1991; Tomaney, 1994).

Since the 1988 reform of the Structural Funds, the Commission has attempted to reduce the bias towards investment in basic infrastructure. Whereas support for investment in transportation, telecommunications, energy and water accounted for 80% of total Regional Fund expenditure in the pre-reform years, this figure has since been reduced to 55% in Objective 1 regions and to a mere 16% in Objective 2 areas. At the same time, a far greater proportion of resources (40% in Objective 1 and 80% in Objective 2) is being used to support productive investment in industry, to improve the business environment and to develop human resources (CEC, 1994).

Despite this it is widely argued that the Structural Funds remain insufficiently tailored to the range of regional problems in Europe, and are therefore unlikely in their present form to achieve the necessary degree of convergence. Firstly, the broad criteria used to designate the assisted regions, namely per capita GDP and unemployment rates, have created problems in determining eligibility. Differences in the calculation of unemployment rates between member states, for example, can affect qualification for support.

Secondly, the standardised nature of Structural Fund regulations creates enormous scope for widely different interpretations of the policy's requirements. In applying for Objective 1 funding, for example, member states are required to submit detailed regional development plans providing information on the current development situation, the effectiveness of previous support received and the anticipated objectives of future operations. These requirements often place an intolerable administrative burden on smaller regions which, in combination with the vagueness of the regulations, results in huge differences between regions in the level of detail provided by these plans. In many cases a lack of detail hinders effective strategy formulation (Bachtler, 1995).

This failure to tailor regional support effectively reflects the difficulties caused by the trade-offs between the principles underlying the policy, namely subsidiarity, transparency, efficiency and additionality. Assuming regions know their own needs best, it could be argued that more appropriately fashioned policies would emerge were they given greater scope to design their own development programmes.[6] This fits in with the definition of subsidiarity as a substantive principle which recommends that decisions be taken as closely as possible to the citizen (Scott, Peterson and Millar, 1994).

Set against this motivation for smaller units in administration is the problem of competences, particularly in planning, management and project appraisal. These problems will be more significant where regional authorities are either absent or lack autonomy, and where member states prefer to interpret subsidiarity as a procedural principle to check the power of Community authorities relative to the nation state. In general the evidence suggests that the Structural Funds work more efficiently where regions have the capacity to act as full partners and where national institutional frameworks recognise the role of regions in economic development (Bachtler and Michie, 1993; Begg and Meyes, 1991). Standardising the interpretation of subsidiarity is of ultimate importance therefore to the pursuit of both political union and cohesion.

The policy has also been plagued by a continuous tension between the need to concentrate resources for efficiency's sake, and the need to scatter resources widely in order to keep member states on side (Hooghe and Keating, 1994). The 1988 reform both doubled the Structural Funds and aimed to concentrate aid on the poorest, most structurally backward regions of the Community. However, since many countries wanted to maintain the designated areas already in receipt of ERDF support, assisted area coverage was significantly higher and support less concentrated than originally intended. Objective 1 regions represented approximately 21% of EC population and accounted for around 60% of Structural Fund expenditure, while Objective 2 regions represented approximately 16% of population.

The 1993 reform saw a further 50% increase in total funding for the second programming period 1993–1999. An attempt was made to improve the concentration of support with over three-quarters of funding going to programmes in Objective 1 regions. However, Objective 1, 2 and 5b regions in combination now account for over 50% of the population of EU12 (CEC, 1993).

The size and scope of the Structural Funds have created problems of bureaucracy and administration and indeed, one of the main aims of the 1993 revision was to simplify policy procedures. Following the revision, member states were permitted to take the lead in designating areas under Objectives 2 and

[6] There is evidence to show that regional and local authority actions to stimulate development in their own boundaries can meet with considerable success. Examples include regional development banking and technology initiatives (Murray, 1992).

and 5b and present their development plans and draft regulations simultaneously as part of a single document. Furthermore, the three phases of programming (regional development plans, Community Support Frameworks and Operational Programmes) were reduced to two.

Despite these changes, the disbursement of Structural Fund expenditure still entails a complicated and time-consuming process of area designation, development planning, plan appraisal, monitoring and evaluation. It is questionable whether this is the most efficient method of spending regional resources, particularly for those member states who pay net contributions to the Community budget which are ultimately returned to them under Community Support Frameworks (Bachtler and Michie, 1994).

In this way the pursuit of efficiency in European regional policy can conflict with the principle of additionality which states that EU regional funds should be additional to and not a substitute for national government actions. This requires that member states both match the EU funds and ensure transparency in their flow to the regions for which they are intended.

It is the transparency issue which has caused most problems. Evidence suggests that because the spending of structural funds is difficult to audit with any certainty, member states are able to use European money as a substitute for territorial funding. The problem is greatest in countries such as the UK which do not have strong and established networks of territorial interests and who have significantly downgraded the importance they attach to regional policy. The 1993 reform has attempted to increase transparency with the obligation to provide indicative breakdowns of the Structural Fund resources available for commitment by member states and by each objective (Greenwood, Levy and Stewart, 1995).

This demonstrates that the success of EU regional policy remains heavily dependent upon the financial and political co-operation of member states themselves. Tackling the accelerating problem of lagging regions in Europe demands increased funds which many national governments lack the political will to deliver. The German and UK governments have been particularly vocal in expressing their discontent at increased budgetary contributions. Both governments have very reluctantly accepted the terms of the Edinburgh Summit agreement in December 1992, which raised member states contributions to the Structural Funds from a 1.2% ceiling of national GDP to 1.27% by 1999.

Member states will also continue to influence the regions through their indigenous economic policies where they affect, for example, corporate governance, innovation and labour markets (Marks, 1993; Anderson, 1990; Amin and Tomaney, 1995). More specifically, the budgetary limitations on European regional funds combined with the principle of additionality means that national regional policies remain of some significance. In many northern member states regional incentives are being rationalised in line with general public expenditure cut-backs. As regional policy becomes more circumscribed in its coverage, the case for tailoring intervention to the needs of individual regions would seem to be strengthened (Bachtler and Michie, 1993; Pompili, 1994).

Even with increased national contributions to the Structural Funds, an enormous gap exists between the scale of resources available to tackle disparities and that required to achieve convergence. According to Padoa-Schioppa (1987), increases in capital formation of between 55 and 76 billion ECU would be necessary to achieve increases of just 1% in GDP in the less favoured regions. On the positive side, the Structural Funds do make a significant contribution to raising expenditure in assisted countries and regions. Under the 1989–1993 programmes, they added 3% to GDP in Greece and Portugal, 2% in Ireland and 1% in Spain and Italy. Moreover, these programmes may contribute to development in ways that exceed the value of their resources. They certainly appear to have had a demonstration effect in compelling national and regional authorities to co-ordinate their efforts and consider the total effects of sectoral transformation on a region (Cheshire *et al.*, 1991).

There is no escape from the fact that fiscal transfers to member states remain small compared with the internal transfers which occur within individual nations. National economies develop automatic checks and balances which help contain their internal regional inequalities. The poorer, more vulnerable regions pay less in tax than they receive in public expenditure, and vice-versa for more prosperous regions. In practice, fiscal transfers reduced regional inequalities in per capita income by an average of 40% in the sample of countries covered by the MacDougall Report (CEC, 1977). There is a dearth of empirical evidence to support or refute the counter argument that fiscal transfers create a dependency which hinders development (Barry *et al.*, 1994).

The EU has failed to develop a fiscal transfer mechanism because it still lacks the degree of cohesion necessary to provide the popular support for such transfers, and the independent financial sources and democratic institutions to organise them effectively. The enduring paradox is that closer union may require fiscal support for vulnerable regions whereas fiscal transfer itself depends on closer union (Mackay, 1993).

The problem with EU expenditure as it relates to the regions is not simply confined to the inadequacy of regional funding. There is the added, less easily estimable, problem associated with the regional effects of expenditure flows from the Community's non-spatial economic policies. Most Community policies are applied without specific regard to their regional impact. Indeed, there is a widespread acceptance of the need to both reduce the potential of these policies to increase regional inequalities and tailor them as far as possible to different regional needs and circumstances (Liebmann and Montalvo, 1992; Tylecote, 1995; Bristow, 1996). This can only be undertaken efficiently however, when the scale and nature of their regional bias is properly understood. This requires the quantification of expenditure flows to the region.

Franzmeyer *et al.* (1991) have demonstrated that while the Structural Funds do indeed distribute to the less favoured regions quite effectively, other policies (notably the CAP) can dilute and even overturn those equalising effects. Whereas payments under the Agricultural Guidance Fund are diverted towards the weaker EC regions, price support or Guarantee payments flow to poorer regions only in proportion to (or somewhat less than) their share in the population. With over two-thirds of the Community budget typically accounted for by agricultural support, the regional bias of the CAP is highly significant.

The methodology used to reach this conclusion is not without its problems however. Franzmeyer *et al.* (1991) have imputed agricultural guarantee payments to the regions by product on the basis of their share of production. A similar methodology has been used by Brown (1990). This assumes that the distribution of commodity price support is exactly proportional to commodity output and that similar responses to price changes occur in all farm type groups.

More importantly, this static analysis of expenditure flows under the CAP does not provide an adequate means of ascertaining their effect on income. This is critical to gaining a greater understanding of the potential for these flows to exacerbate or temper regional disparities. Firstly, farmers' incomes benefit from the difference between the EU-supported price and the low world price level. An attempt could be made to explore the implications for regional income of changing world commodity prices. Secondly, the price-related loss of consumer income from price support is balanced by price-related growth in farmers' incomes. Franzmeyer *et al.* (1991) suggest that this could be dealt with by producing quantitative estimates of the extent to which EC agriculture is subsidised by the consumer.

The Producer Subsidy Equivalent (PSE) measure of farm support appears to provide an appropriate means of tackling these problems. This is the OECD's preferred method of quantifying the support farmers receive from price guarantees and other subsidies. It seems to be appropriate in this context since it measures transfers from consumers and taxpayers to producers and is in large part based upon the estimated difference between guaranteed commodity prices and their respective world prices.

Regional PSE calculations are as yet in their infancy (Bristow, 1995). Nevertheless, their value in agricultural policy evaluation *per se* has been acknowledged by the OECD (OECD, 1990, p. 37). The production of regional PSE estimates seems to be the logical first step towards achieving the necessary closer scrutiny of regional bias in EU expenditure.

But the spending side of the picture is only half the problem. Since the EU does not raise revenue on the basis of ability to pay, the net contributions of member states can also vary considerably and can certainly differ markedly from receipts of expenditure. EU revenue is raised from four resources – customs duties on extra-EU imports, agricultural levies, VAT contributions and GNP-related national contributions. Only the latter is related to ability to pay. The other resources vary between nations according to their propensity to import from third countries, their propensity to consume and the efficiency of their tax collection systems.

The EU Court of Auditors provides annual information on receipts and payments through the EU budget which shows that Germany and the UK have traditionally been the largest net contributors. Regional budgetary contributions have not so far been estimated, yet these are critical to a proper evaluation of whether a region makes a net benefit or loss from EU policies.

Customs duties and agricultural levies are the product of common policies and therefore, although haphazard in their distribution, constitute the Community's 'own resources' (Tsoukalis, 1993). Regional contributions here could be estimated on the basis of shares in national trade and agricultural production. It is the inequitable burden of reliance upon VAT revenue which is less easy to justify and which requires more careful analysis. According to Franzmeyer *et al.* (1991), the regional assessment basis for VAT could be calculated using population statistics, per capita income and by estimating patterns of consumption.

5. CONCLUSION

The issues which surround the policy approach to the reduction of disparities in Europe are complex, since they reflect the fundamental dilemmas at the heart of EU development and impinge upon many other policy decisions. The reduction of regional disparities is critical to furthering the progress of integration, yet integration itself may exacerbate existing inequalities. This is in turn compounded by the continuing process of enlargement.

Despite recent increases, the volume of resources devoted to the reduction of disparities appears inadequate considering the scale of the problem at hand and when compared with the more obvious commitment to further integration. Issues of space and the impact of EU policies over space remain subservient to the wider vision of closer economic and political union.

This conclusion is reinforced when the financial resources devoted to regional funds are placed in their context of an overall EU budget which remains dominated by the expenditure flows of non-spatial policies such as the CAP. These expenditures and the way they are financed have potentially very significant distributional implications. However the scale of the existing spatial bias in the EU budget is not yet fully understood and requires further analysis. Regional net receipts from or contributions to the budget need to be more precisely quantified before existing distortions can be properly identified.

Evidence increasingly suggests that regional problems in Europe are non-homogeneous and multi-causal. As a result there are growing clamours for more tailoring in regional and other policy measures to the specific requirements of different regions. These demands can only be met effectively when there exists both a greater understanding of the scale and appropriateness of existing net transfers to the regions, and the political will to place the EU's regional problem higher up on the policy agenda.

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