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Comment on Philippe Martin: The geography of inequalities in Europe

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Social and economic cohesion is a treaty-bound objective of the European Union. But how this end should be pursued and whether 10, 30 or 50 billion euro should be spent annually on the measures called "structural and cohesion policy" is a matter of political choice. There is nothing sacred or treaty-bound in the volume or mix of programmes currently operating. To continue or expand the present cohesion policy, there should be better reasons than just plain inertia. We should also be convinced that the money is well spent.

Yet can we? The picture is highly ambiguous. Contending that cohesion policy measures should be undertaken in the pursuit of either efficiency or equity objectives, Martin suggests that there is weak evidence that either of these purposes is in fact being served. Before examining his principal argument, it should be recalled that several other motives have also contributed to the design and development of EU cohesion policy. The field is a prime example of "goal congestion" and the uneasy coexistence of explicit and implicit objectives.

A key function of structural policy has always been to overcome opposition to various strategic decisions through the provision of side-payments to hesitant member states. The very invention of EU regional policy was linked to the UK discovery that on accession, the country would become a significant net contributor to CAP. The introduction of targeted support to lagging regions was welcomed by Italy with its steep geographic disparities. Later on, there were further adjustments in the conditionality for EU structural fund contributions in connection with the accession of Spain, Portugal, Sweden and Finland.

Besides facilitating enlargement, structural policy became an important instrument to pave the way for the internal market in the 1980's and the monetary union in the 1990's. The cohesion fund was instituted as a time-limited instrument, with the specific mission of

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helping some countries meet the Maastricht criteria. This goal was reached within a few years.

The historical achievements of EU structural policy should not be underrated, but they provide little justification for continued transfers. As far as the facilitation of past decisions is concerned, the mission is already completed. In adapting the policies to future needs, the questions raised by Martin can hardly be side-stepped.

One important issue is the relationship between growth and convergence. In its Financial Perspectives, the Commission places these objectives into one single budgetary box, contending that they can both be pursued in harmony and by the same instruments. This is simply not true. In many circumstances, there are difficult choices to be made between growth and equalisation, both within countries and at the European level. There are often trade-offs between short-term and long-term equalisation, with redistributive measures favouring the former and investment support promoting the latter. We may wish to pursue equity at the expense of efficiency or the other way round, but we cannot avoid the dilemma by sweeping it under the carpet.

As noted in the Commission's Third Cohesion Report (European Commission, 2004), there has been some economic convergence between countries whereas regional disparities within countries have by and large increased. Is the latter tendency a cause for concern? Is growing wealth in capital areas a good or bad thing for the periphery? There is no self-evident answer to these questions, unless we specify whether absolute standards of living are more important than the relative positions among different areas. With the extent and duration of "trickle-down" still being a matter of dispute among economic geographers and regional economists, there is not yet any good evidence to predict the ultimate outcome of this divergence.

What remains very disturbing is the Commission's tendency to define regional disparities on the basis of production rather than consumption levels. Martin provides data from France to demonstrate that the geography of production differs significantly from the geography of incomes, and there is ample fragmented evidence from other countries to indicate that this is a general phenomenon. Through a whole panoply of corrective mechanisms, the gap in living standards between different regions is considerably narrower than the gap in production capacity. What is called "regional policy" in European countries provides only a very small fraction of all interterritorial redistribution. Every welfare state has at its disposal a broad

spectrum of fiscal instruments, expenditures and transfers that conspire to significantly narrowing the gaps between rich and poor regions.

Why is this not taken into account in the formulation of EU policies? By stubbornly sticking to "gross" data defining the situation before the member states' own redistributive interventions, the Commission violates the very principle of additionality which it has proclaimed as one of its own lodestars. If Member States make substantial efforts to equalise the living conditions within their territories, how can the Commission pretend that such efforts have not taken place? This is one of the persistent riddles in the Cohesion policy of the European Union.

Another riddle is the uncritical acceptance in many quarters of the equity argument. If solidarity were really a leading motive for cohesion policy, one would expect a clear targeting of the transfers to the poorest regions and countries, mainly in Central Europe. Yet the system remains very much rigged in favour of EU15. As Vanags and Pobyarzina (2005) have recently shown, the per capita contributions to Slovenia in the 2007-2013 period will be less than a quarter of those foreseen for Portugal, with a comparable GDP per capita. The per capita payments to Spain and Greece also surpass those going to the poorest member states. The limited absorption capacity argument justifies only one side of this disparity.

Social cohesion and social inclusion remain cardinal common values of all European states, but this is not tantamount to saying that they are necessarily high-priority spending objectives in the EU budget. Most measures in the field of income maintenance and social protection are better taken care of within national systems, and Martin is right in pointing out that they are also better taken care of through other forms of redistribution than those labelled "regional policy". It is in fact doubtful whether regional policy has any comparative advantage at all in this field, whether at the national or at the European level.

European politicians have found it easy to rally around the idea of convergence, but it is not an easy goal to pursue. We all wish lagging economies to catch up and disparities to shrink, but the result of our efforts to pursue this objective through cohesion policy is so far only mildly encouraging. Some convergence has no doubt occurred in the EU, but nobody knows for sure to what extent this is due to trade and investments expansion stimulated by market liberalisation, to na-

tional policies and to EU structural policy. The whole process of reducing disparities is exceedingly slow and protracted, and hence not too appropriate for energetic spurts within the limited lifetime of single legislatures, governments, or Commissions. Speeding up convergence by transfers to public investments or subsidies to small and medium companies is simply not a very promising enterprise.

On this basis, one may wonder whether convergence is such a well-chosen priority for European policy (further on this in Tarschys, 2003). Martin's exploration into the shaky foundations of EU cohesion policy gives our leaders further reasons to make good use of their recently proclaimed "pause for reflection". So far, there has been more pause than reflection.

References

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