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## European Union's Regional Policy: Fostering Convergence? Case Study: Greece.

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**“EUROPEAN UNION’S REGIONAL POLICY: FOSTERING  
CONVERGENCE? CASE STUDY: GREECE”**

**European Union’s Regional Policy And Theories Of Convergence**

It is commonly accepted that for the European Union to be stable and develop its potential towards a closer integration and an economic and political union, economic and social cohesion is the cornerstone of the Union’s success. Convergence upon states and regions is a key priority for the European policy makers.

The demand for a reduction of regional inequalities was present from the very beginning. The preamble to the treaty of Rome stated the willingness to “ensure the harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored regions”

The aim of economic and social cohesion was firstly explicitly incorporated in the Single European Act, while in the Maastricht Treaty “this aim was further strengthened, cohesion becoming one of the central ‘pillars’ of the new European Union (R. Hall 1994)”

The development of the European Union’s regional policy with the proclaimed aim of reducing regional inequalities and fostering regional convergence coincided with the parallel development of different theories of convergence and divergence. The aims of the European regional policy and the adopted policy measures were clearly affected by the theorists of regional science. Each theory recognizes reasons for the existence of divergence and underdevelopment and proposes measures to be adopted for the development of the regions lagging behind. Below we refer synoptically to some theories of regional development whose suggestions were used on the European regional planning, *following the division made by R. Leonardi (1995).*

- Growth Pole theory (F. Perroux 1955). The theory supports that growth can be planned and concentrated into development poles. Governments must intervene to equalize the factors of production. In practice, the theory was used in S.Italy (Mezzogiorno), Greece and Spain. “In S. Italy it was set up in operation from 1950-1993 where public intervention was separated in three phases: a) provision of basic infrastructure and capital formation, b) public enterprises attract branch plants of private corporations, c) SME’s industrialization” (Leonardi 1995).
- Another theory (Hirsch 1976, Olson 1982) supports that state interference in economic activity should be reduced. In the EU liberisation has been reintroduced since the 1980s into the welfare-systems through deregulation and privatization policies.
- Endogenous theory of growth indicates the role of local factors in promoting growth (Cappellin 1993, Stoehr 1990, Suarez-Villa 1989) Governments should help firms and production factors migrate to areas with comparative advantage. This model was used with success in Italy and other European countries (Konsolas 1997) where Small and Medium sized enterprises were given motives for establishment in specific areas.
- Economies of Scale and Industrialization are the factors for development according to other theorists (Hoffmann 1958, Bryce 1960, Hamilton 1986, Apter 1987). It is necessary to remove trade barriers and enforce integration. This concept was accepted by Europeans and led to the creation of a Union with many common policies, such as the Economic and Monetary Union, the Common Commercial Policy etc.
- Cumulative causation theory (G. Myrdal 1957) suggest that market forces tend to increase regional inequalities. Unequal development is caused by a cumulative causation, that is economic growth is concentrated in some “centers of development” due to a cause of accumulation of advantages in these centers. Myrdal’s theory has stimulated regional policies in national states and the EU (Leonardi 1995)

The European Union parallel to the development of its regional policy developed its financial instruments for the implementation of its regional goals. It set up a number of Funds aimed at providing the necessary financial means for implementing the EU’s social and regional policies. Starting with the European Investment Bank which financed projects in Member States and the creation of the European Regional Development Fund

(ERDF) in 1975, the EU expanded its financial instruments with the creation of the Structural Funds (ERDF, ESF, EAGGF-Guidance section, FIFG) and a Cohesion Fund.

The operation of the Structural Funds is underpinned by a number of fundamental objectives (Obj. 1-6). In the Commission's Agenda 2000 proposals for the period 2000-2006 it is proposed that the current system need to be simplified by reducing the number of the Structural Funds' priority objectives from six (6) to three (3) (Agenda 2000).

Testing the European Union's regional policy performance in fostering convergence through the Structural Funds is an immense work and is partly analyzed by the European Commission's Periodic Reports. This paper tries to lighten the convergence question starting the opposite way. It takes the example of Greece as a case study and presents the findings of several scientists who study the convergence question. The period covered is from 1970 to 1996, that is before and after EU membership. It is very simplistic and divertive of reality to conclude that if the findings in Greece show convergence or divergence is solely because of the EU structural policy. What the paper wants to show is that if a member state which is among the net beneficiaries of EU funding does not seem to overcome its regional inequalities and converge towards EU average then perhaps the efficiency of the EU policy should be put under question. Trying to go a bit further, we question not only efficiency but also the initial concept that stimulated EU specific actions.

## **Greece And The Convergence Question**

This chapter is divided in two parts. The first, is presenting the case of Greece's convergence/divergence towards Europe, whereas the second, refers to convergence/divergence across the Greek regions.

### *Greece towards EU*

In the period from 1980 to 1995 Greece has faced a process of real divergence from the European average GDP percentage growth rates. Attention has been given to fulfill the criteria of nominal convergence as pointed out in the Maastricht Treaty in order for Greece to qualify for the EMU (inflation, debt, etc.). "Real convergence" is claimed to be left aside.

A question of why convergence did not occur is posed. Possible explanations rest upon the state's, or even, the EU's regional policies. Greek regional policy did not manage to boost development. As far as the regional incentives system for industry is concerned it is observed that in the period 1970-96 there has been a stagnation of investments and no significant restructure of production (Syriopoulos and D.Asteriou 1996). The regional implications of other state policies such as those on tourism, agriculture, infrastructure, transportation, communications, housing were equally ineffective. (Syriopoulos and Asteriou 1996)

Regional development pursued under the EU policies did not bring about the envisaged results. One reason-this is the case for the Integrated Mediterranean Programmes- was due to their nature as projects rather than programmes. The greek administrative system was not ready to run these projects. The whole process was characterized by improvisation instead of a planned and structured programme.

A. Lyberaki (1995) examines greek economic performance since 1980 following Leonardi's approach who distinguishes three levels of convergence:

- a) Convergence at the level of economic performance
- b) Convergence at the level of economic policies
- c) Convergence at the level of structures and institutions

The author finds that Greece did not score high in any level of convergence.

In the first level 'economic performance' Greece's per capita GDP and productivity have both widened the gap towards EU average. In the 'economic policies' level although efforts have been made they lacked consistency and so the results were well below the expected ones. Finally, in the 'structures and institutions' level Greek enterprises did not manage to go beyond the traditional market structure of the family-based firms of a small and medium size. Innovation, technological know-how, quality oriented production and specialization were notions that were not really integrated in the Greek entrepreneurship spirit (A.Liberaki, 1996).

In a previous study A. Lyberaki (1993) has investigated convergence of the Greek economy vis-à-vis the European economies in two sub-periods: 1960-1980 (before EU membership) and 1980-1988 (EU member-state). The author's findings suggest that convergence has been significant up to the 1970s, whereas a trend of real divergence has marked the 1980s.

#### *Greek Regional Inequalities*

In their paper Syriopoulos and Asteriou (1996) examine convergence across the Greek regions. Their empirical results indicate **the absence of convergence across Greek regions**. The period under study is from 1970 to 1996. They test convergence using the Barro and Sala-i-Martin type of unconditional and conditional beta-convergence equation. **The prosperity indicators** used are income and investment.

They support the existence of economic dualism across the southern and northern regions of the country. This result gives evidence to the prevailing popular view in Greece about the dualism in economic performance among the capital city (south) and the periphery (north).

In a recent article by G.Petrakos and Y. Saratsis (1999) regional inequalities in Greece are being tested. **Their empirical investigation confirms the tendency towards regional convergence** in the last 20 years. At a first glance, there is a contradiction with the previous findings by Syriopoulos and Asteriou which showed the absence of convergence in Greek regions.

G.Petrakos and Y. Saratsis examine regional inequalities in Greece (51 regions in NUTS III level) on the basis of  $\sigma$ -convergence and  $\beta$ -convergence and show that they were reduced in the 1970s and the 1980s. Their research covers the period from 1971 to 1991. The results are not in contrast with those found by the previous writers although they test the Greek regions for more or less the same period and with similar methodology. This is due to the different indicators of prosperity used.

The **indicators of inequality in the levels of prosperity** of the Greek prefectures in the work of Petrakos-Saratsis are measured by a) the GDP per capita of the Greek prefectures, b) the number of private cars per 1.000 inhabitants, c) the household consumption of electricity per inhabitant and d) telephones per 1.000 inhabitants for the years 1971, 1981, 1991.

They support the hypothesis that the decrease in regional disparities in Greece in recent years is due to some degree to a prolonged recession that hit the economy in the 80s. In other words, there is a pro-cyclical character of the regional inequalities in Greece.

### **An Estimation**

The Greek case study showed the existence of a real divergence of the Greek economy towards EU average from the time of the country's membership to the Union, and two different empirical results that examined convergence across the Greek regions, the one proving convergence and the other divergence for the same period of time.

The first result of real divergence can be explained by a number of factors. It is not in the purpose of this paper to identify all of them. Our interest rests on the European Funds that are made for fostering convergence but it seems that they haven't been successful ( if we exclude all the other parameters). A number of reasons for their failure can be recognized.

Given that EU funds are sufficient enough, then a possible explanation for the diverging performance of Greece is the way these funds are allocated, and the lack of specific policy measures and administrative capability for the absorption of the funds (C. Syriopoulos and D.Asteriou ). "The quantitative dimension of funding can hardly be dismissed as 'insufficient'. The poor performance of the Greek economy both at the national and regional levels can be explained more usefully in terms of the qualitative dimension of the allocated funding in various projects of questionable importance from a development perspective" (C. Syriopoulos and D.Asteriou ).

The Structural Funds as mentioned above operate on a basis of six different objectives making their operation confusing and inefficient. As proposed in the Agenda 2000 these objectives should be reduced to three and their management should be simplified and decentralized (Agenda 2000). The Berlin European Council (1999) recognized this need and stated in the President Conclusions that “Greater concentration of structural fund assistance in the areas of greatest need will be achieved by means of a substantial reduction in the number of Objectives to three”

The two different empirical results for the Greek regions convergence/divergence case are explained on the basis of the different indicators of prosperity used by the researchers. My point is the following: In order to measure convergence and take the appropriate action to foster economic and social cohesion among regions we should decide upon a common ground of indicators to measure prosperity.

Any action taken to foster regional growth which is based on different assumptions and different factors of recognizing the existence of regional inequalities is condemned to fail or only partially succeed. The example used in the Greek case study supports this conclusion. If we cannot decide upon whether divergence exists or not how can we take the appropriate actions for cohesion? And more important if we cannot find the exact problems of a region that makes it diverge from the others how can we propose correctional actions?

The measurement problem is indicated for Greece but it is a general case. For the efficiency of the European regional policy and the right use of the Union’s financial instruments, we should identify those prosperity indicators that cover the whole spectrum of the economic, social and demographic welfare of a region.

The European Commission in its Fourth Periodic Report recognizes as regional inequalities the per capita GDP (income), productivity, employment, demographic factor of migration, competitiveness, education and vocational training, new technologies, innovation and research. The Union’s policy measures for economic and social cohesion are decided upon the results of the measurement of these prosperity indicators. The Objectives set for the operation of the Structural Funds are based on some of these



indicators. Objective 1 which is forwarded to the least developed regions of Europe whose “development is lagging behind” identifies the eligible regions using the indicator of per capita GDP . This indicator has not been changed in the new modified Objective 1.

Greece is the entire country eligible under Objective 1. Following the analysis presented above we can conclude that the indicator chosen by the European Union is insufficient. We cannot expect an elimination of regional inequalities because GDP per capita solely is not a sufficient indicator of prosperity.

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