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## The European Union's role in regional, social, and economic integration

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## **ADB Working Paper Series**

### **THE EUROPEAN UNION'S ROLE IN REGIONAL, SOCIAL, AND ECONOMIC INTEGRATION**

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**Abstract**

Since the Lisbon Process, the EU has changed its function from a mere economic common market into a social union. The EU addressed its future policy also to sustainability with increasing employment and better jobs, and greater social cohesion. That implies the acknowledgment of social inclusion and solidarity. The key words are convergence and improving competitiveness. The EU's regional policy therefore addresses less developed regions. Furthermore, leaving the existing regional disparities in place would lead to unwanted migration: the less developed regions would be deprived through the brain drain and would lack a qualified workforce for their own future investments and for economic progress. On the other hand, migration to highly developed centers would increase traffic problems and housing prices. This situation was essentially apparent after the enlargement to include the central and eastern former socialist states, which are the poorest states in the EU. Aside from improving the GDP of the poorer countries, there are some other objectives, like improving education and employment or regional cooperation. The Europe 2020 strategy again changed the targets, with concrete objectives to fight climate change and achieve higher employment rates.

To improve the results, EU funding no longer addresses the central states but involves regional and local partners. The aim is to increase the chance of engaging citizens in their own affairs and adopting tailor-made strategies (Hübner 2005).

The question then is whether these goals have led to a harmonious development of convergence in Europe. Despite some successes, there are doubts, because we face welfare chauvinism and eroding solidarity between the rich and the poor regions. Furthermore, political reactions to the budget crisis have counteracted the EU's convergence policy objectives.

**Keywords:** disparity of regions, goals of the EU's regional policy, regional funding, partnership principle and engagement of civil society, influence of the austerity policy

**JEL Classification:** H5, O23

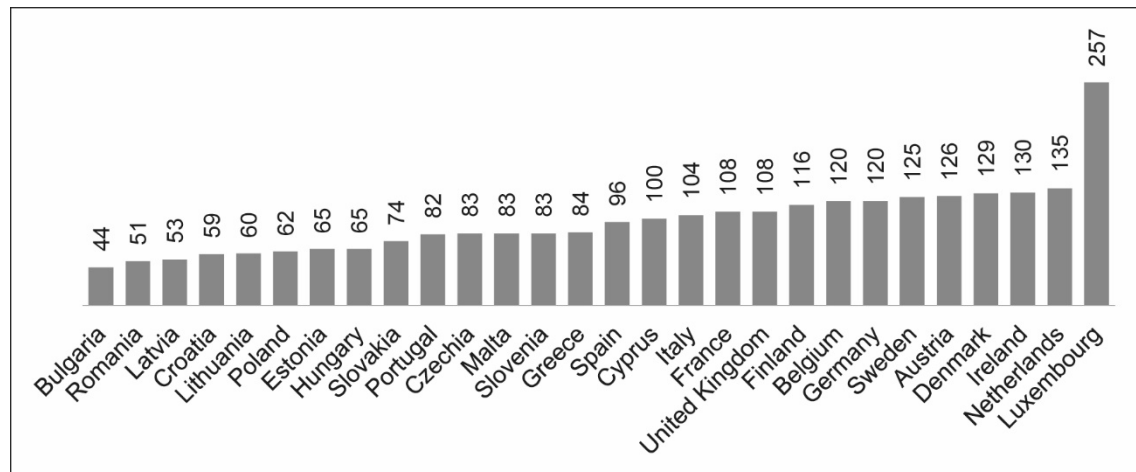
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# 1. INTRODUCTION

Standards of living vary within the EU and within each country. In some regions of the EU, the GDP per inhabitant in purchasing power parities (PPS) is less than 50% of the EU average; in other regions, it is 40 to 50% above the EU average. The entry of the central and eastern member states has led to a dramatic increase in regional disparities in the GDP per inhabitant.

**Figure 1: GDP per Inhabitant in PPS 2010**



Source: Eurostat. <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00114>

“Since 1994, the Cohesion Fund has been used to provide support for the poorer regions of Europe and stabilize their economies with a view to promoting growth, employment and sustainable development. (...) The Cohesion Fund may also be used to finance the priorities of the EU’s environmental protection policy” (EU Commission 2018). The EU uses over 35% of its budget to boost the economies of these regions and in turn strengthen the EU as a whole. The Cohesion Policy focuses first on regions with a GDP per inhabitant below 75% of the EU average to achieve greater convergence while continuing to invest in the competitiveness of the other regions. It is up to the European Parliament and the Council of the European Union to define the tasks, the priority objectives, and the organization of the Structural Funds through the ordinary legislative procedure and consultation.

As the overview in Table 3 shows, the regional funds helped, to a certain extent, to increase the GDP per head and thus contribute to better living conditions in the backward regions. Nevertheless, access to European funds alone cannot explain economic progress and coherence. EU funding is only one of the tools to support economic growth, fight unemployment, and minimize inequality among regions. We have to analyze the possible effects of national financial equalization programs and cultural factors too.

In many member states, the weaker regions are eligible for support through financial equalization to combat regional disparities. Of relatively high relevance here is the example of Germany. Germany’s constitution guarantees a system of financial equalization among the Laender, which reduces the differences in receipts among them. Poorer Laender receive adjustment payments. The wealthy states have to fund these payments. The system of financial equalization among the states thus ensures that fiscally weak states also have adequate financial resources to fulfil their tasks

and develop their sovereignty. Aligning the revenue of the Laender intends to create and maintain equal or comparable living conditions (Hauptstein 2007; Eißel 2013; Bundesministerium der Finanzen, Finanzbericht 2018). In contrast, there are other countries, like Italy and Spain, where some richer regions enjoy special rights concerning their tax income, which they must not share in solidarity with the financially weaker regions.

A further impact on economic success comes from the political culture and regional identity, as Keating, Loughlin, and Deschouwer (2003) showed in their research on eight different European regions. A comprehensive explanation for the factors behind the regional economic process and its failures and success stories does not exist; rather, there is a plethora of disparate approaches: agglomeration research, the theory of growth poles, the export basis concept, neo-classical approaches, free trade theory, and politico-economic approaches. However, it remains questionable whether and to what extent the backward areas are able to mobilize the necessary resources politically to balance out their previous disadvantages as locations and why vice versa the richer regions are successful. A rather neglected aspect in this context is the impact of culture and historical identities on the management of the ongoing process of facing global competitive challenges. The more citizens develop a common regional identity and the more they act in a trustful cooperation—even between capital and labor—the better is the chance of developing their economic potential and making effective use of the available funds. Furthermore, Putnam (1993) assumed, having analyzed the case of Italian regions, that identity is an important vehicle in the shaping of images of a region and, more specifically, in applying the “logics” of regional economic positioning and regional governance. Processes of region building are legitimized on the basis of “objectified” notions of a community, common culture, shared values, and shared history and destiny, creating an illusion of an “objective” region (van Houtum 2002).

In 2010, the EU Social Agenda set a further priority of fighting against poverty and social exclusion, which the European Social Fund (ESF) would mainly support. “By most standards, Europe can be considered an affluent society. More than 50 years of economic growth and inclusive social policies have brought about unprecedented levels of prosperity and comfort for its citizens. And yet as you read this, almost 80 million Europeans are struggling to make ends meet, to clothe and feed their children, to keep a roof over their heads. 17% of our fellow EU citizens currently live below the poverty threshold” (EU Social Agenda 2010). “Exclusion imposes unjustifiable and avoidable costs on society. The Lisbon strategy’s response—a European social agenda—is to provide basic skills for all, promote employment for those who are able to work and ensure adequate social protection for those who cannot. This approach recognizes the role of well-developed social protection systems in reducing poverty and promoting employment and employability, as well as the need for such systems to be modernized to ensure their long-term sustainability in the face of an ageing population” (European Commission 2003). Poverty is mainly the consequence of unemployment and relatively low social transfers. The empirical data on unemployment and low income per head clearly indicate that the most serious problems arise in the peripheries of the EU. That is why, to fight poverty in the EU, it should first address the poorer societies in central, eastern, and southern countries, where over 20% of the population, even after social transfers, remain in poverty (see Table 1).

**Table 1: People at Risk of Income Poverty after Social Transfers**  
(in % of total population)

	2008	2018		2008	2018
Czechia	9.0	9.6	Luxembourg	13.4	18.3
Finland	13.6	12.0	Malta	15.3	16.8
Denmark	11.8	12.7	Ireland*	15.5	15.6
Netherlands	10.5	13.3	Poland	16.9	14.8
Slovakia*	10.9	12.4	Portugal	18.5	17.3
France	12.5	13.4	Croatia	..	19.3
Slovenia	12.3	13.3	Italy	18.9	20.3
Austria	15.2	14.3	Greece	20.1	18.5
Hungary	12.4	12.8	Estonia	19.5	21.9
Belgium	14.7	16.4	Latvia	25.9	23.3
UK**	18.7	17.0	Lithuania	20.9	22.9
Cyprus	15.9	15.4	Spain	19.8	21.5
Sweden	13.5	16.4	Bulgaria	21.4	22.0
Germany	15.2	16.0	Romania	23.6	23.5

\* 2016, \*\* 2017.

Source: Eurostat [https://ec.europa.eu/eurostat/databrowser/view/t2020\\_52/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/t2020_52/default/table?lang=en).

Having no hope for an improvement concerning their social situation in future, mainly the young, mobile, and better-trained members of the workforce leave their country in search of a better life in the wealthier states of the EU. Even though some countries and regions have gained better labor market conditions in recent years, there are still states and regions where they have deteriorated, like the Baltic States, Romania, and Bulgaria. Many countries are confronting long-term youth unemployment rates (see Figure 1), exceeding 50% in some regions, like the south of Italy (Eurostat 2018, 80).

Fighting youth unemployment successfully furthermore gives the hope of minimizing unwanted harmful migration effects on both the poor regions through depopulation and the better-off regions through high agglomeration costs (more traffic problems and rising rental fees in the cities) at the same time. Depopulation has happened in Germany since the reunification. In the period from 2001 to 2010, about 3 million East Germans moved to the West (Federal Statistical Office 2012, 46), leaving many districts in East Germany even without any medical care. Depopulation could leave the backward regions without a sufficient number of skilled workers and adequate social services.

It is obvious, lacking a skilled workforce, that companies are not willing to locate their production in these regions. However, until now, the positive effects of the funds addressing employment have remained small and been unable to prevent ongoing emigration stemming from workers' negative future outlook regarding finding a job in their home country. This is observable in Romania, Bulgaria, Poland, and—with regard to youths—dramatically in Greece and Spain, where in some regions youth unemployment is over 50%.

**Table 2: Youth Unemployment Rate, 2005–2017**  
(% share of the labor force aged 15–24)

	2005	2017		2005	2017
Netherlands	6.6	5.9	Latvia	14.1	12.3
Luxembourg	6.8	6.6	Belgium	14	12.6
Sweden	10.4	6.8	Ireland	11.8	12.9
Austria	10.1	8.4	Poland	18.4	12.9
Germany	13.8	8.5	Hungary	17.1	13.3
Malta	15	8.8	France	13.2	13.9
Denmark	5.9	9.1	Slovakia	20.2	16
Slovenia	9.7	9.3	Spain	14	16.4
Czech Rep.	16.9	10	Cyprus	17.9	17.6
Lithuania	10.7	10.2	Romania	18.4	17.8
Portugal	12.3	10.6	Croatia	17.9	17.9
Finland	9.5	10.9	Bulgaria	26.8	18.9
Estonia	13.5	11	Greece	18.5	21.3
UK	8.9	11.4	Italy	20	24.1

Source: Eurostat.

## 2. GOALS OF THE EU'S REGIONAL FUNDING

Article 158 of the Treaty of Amsterdam, which entered into force on 1 May 1999 states that, “in order to strengthen its economic and social cohesion, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favored regions or islands, including rural areas.” The Summit of Lisbon (2000) indicated that the one-sided emphasis on the goals of the common market and deregulation were no longer the only goals. Since then, full employment and social cohesion have been at least equally entitled to be long-term goals for the European economy.

In addition, two years later, the Barcelona Spring Summit (2002) highlighted the Lisbon agenda, among others, as indicating an obligation to eradicate poverty and social exclusion by 2010. The most important regional funds to fight poverty and social exclusion and to achieve greater cohesion are the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

The cohesion policy must be adapted to the particular needs and characteristics of individual regions in terms of the problems and opportunities that derive from their specific geographical situation. The territorial dimension includes the following themes:

- the contribution of cities (urban areas) to growth and jobs (to promote entrepreneurship, local employment, and community development, for example);
- supporting the economic diversification of rural areas (e.g., the synergy between structural, employment, and rural development policies);
- cross-border, transnational, and interregional cooperation focusing on the aims of growth and job creation (e.g., the Baltic sea rim).

On the whole, the EU regional policy is an investment policy. It supports job creation, competitiveness, economic growth, improved quality of life, and sustainable development. The program period from 2000 to 2006 included three objectives that a total sum of €235 billion financed (1999 prices), two-thirds of which supported objective 1 (European Anti-Poverty Network [EAPN] 2006).

During the period 2007–2013, the EU invested a total of €347 billion in Europe's regions. In this period, the cohesion policy focused on three main objectives: convergence, solidarity among regions, regional competitiveness, employment, and European territorial cooperation. Most important here is the convergence fund which is addressed to the poorer regions in the eastern part of the EU, the former communist countries and the poor regions in the south (Portugal, parts of Spain and Greece, south of Italy, and Cyprus). Industrial areas in the other EU countries are eligible to get financial support for phasing-out and phasing-in.<sup>1</sup>

The funding helps, for example, to improve transport and internet links to remote regions, boost small and medium-sized enterprises in disadvantaged areas, invest in a cleaner environment, and improve education and skills. The EU also invests funding in innovation, developing new products and production methods, energy efficiency, and tackling climate change. Member states where the GDP is lower than 90% of the EU average can also benefit from the Cohesion Fund but not by the same amount. A phasing-out system is available for member states that would have been eligible for the Cohesion Fund if the threshold had stayed at 90% of the GDP average of the EU of the former 15 Member states. The highest sum, targeting convergence, was 82% of the total of €347 billion for the poorer regions with the objective of reducing regional disparities in terms of income, wealth, and opportunities.

With the challenges of climate change, the EU's demographic changes, and the recent economic crisis still very much in evidence, the EU changed its goals for regional support during the last program period from 2014 to 2020. Again, it ranked the regions and split them into three groups:

- less developed regions (where the GDP per inhabitant was less than 75% of the EU-27 average);
- transition regions (where the GDP per inhabitant was between 75% and 90% of the EU-27 average); and
- and more developed regions (where the GDP per inhabitant was more than 90% of the EU-27 average).

Because of concerns about climate change, the proposed European Regional Development Fund (ERDF) would channel resources toward energy efficiency and renewable energy, innovation, and support for small and medium-sized businesses (SMEs). The EU earmarked minimum amounts for investments in energy efficiency and renewable energy for all regions.

The scope of the Cohesion Fund will remain largely similar to the last period, with support for:

- investment to comply with environmental standards and energy projects, providing a clear benefit to the environment, for example by promoting energy efficiency and the use of renewable energy; and

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<sup>1</sup> [http://ec.europa.eu/regional\\_policy/atlas2007/index\\_en.htm](http://ec.europa.eu/regional_policy/atlas2007/index_en.htm).

- investment in trans-European transport networks as well as urban and low-carbon transport systems. For the first time, part of the Cohesion Fund will contribute to the Connecting Europe facility for a competitive and sustainable European transport system.

The ERDF focuses its investments on several key priority areas. This approach is called “thematic concentration”:

- innovation and research;
- the digital agenda;
- support for small and medium-sized enterprises (SMEs); and
- the low-carbon economy.

The resources that the ERDF allocates to these priorities will depend on the category of a region. In more developed regions, at least 80% of funds must focus on at least two of these priorities; in transition regions, this focus is for 60% of the funds; and it is 50% in less developed regions.

As before, the main addressees are those regions where the GDP per inhabitant is below 75% of the European average. Again, the eastern and central regions (in the Baltic states, Poland, Czech Republic, Slovakia, Slovenia, Hungary, Croatia, Bulgaria, and Romania) and southern regions (in Portugal, Spain, Italy, Greece, Malta, and Cyprus) are primarily eligible to receive financial support (Eurostat 2018: 18).

In comparison with the last funding period, several regions, mainly in central Europe, have lost the right to claim this funding due to the fact that the rich countries refused to enlarge their contributions to the funds after the enlargement of the EU.

### **3. PARTNERSHIP AS A KEY ORGANIZING PRINCIPLE**

“Historically the European Union has developed its regional policy activities and distributed cohesion policy funding through a partnership process, which includes significant input from the Member States. Partnership working covers the whole programming process, from the preparatory stage through to the implementation and assessment of results. This approach should lead to better program outcomes and help ensure that money from the European Structural and Investment Funds (ESIF) is spent efficiently” (EU Commission 1988). The EU introduced the “principle of partnership” in the funding period after 1988 and obliged the relevant social groups in the region—which are eligible to claim financial support—to collaborate on development strategies for their disadvantaged region. It based local and regional actions on three related dimensions:

- First, the EU recognized that the socioeconomic problems facing deprived areas were too complex and difficult for anyone organization or group working on its own to solve.
- Second, the increasing number of agencies and bodies involved has increased the need for different actors to work together and to coordinate their actions to avoid conflicts or duplication of work.
- Third, the emphasis is on social inclusion as a key goal of the development policy, which implies that bodies representing different groups and interests participate in the planning and implementation of local initiatives (EU Commission 2010).

For better regulation and acceptance of the designing of laws, regulations, and policies, it is necessary to consult a range of stakeholders. Broad consultations are the best

way to ensure that they take into account all interests and a broad spectrum of society. The same method of cooperation supports the execution of EU programs. Due to the rising complexity and variety in the current political and societal system negotiations, corporations, networking, and market forces are participating as stakeholders in the decision-making process (Benz et al. 2007). Because of this enhanced participation, there is a perception that the spread of governance as a reaction to the functional demands of complex societies and to deficits in classical government in decision-making processes is a step toward more democracy. The European Commission established its own concept of governance in the “White Paper on European Governance” (EU Commission 2001), in which the term “European governance” refers to the rules, processes, and behavior that affect the way in which entities exercise power at the European level, particularly as regards openness, participation, accountability, effectiveness, and coherence. These five “principles of good governance” reinforce those of subsidiarity and proportionality. The first steps toward this concept of governance are apparent in the “Open Method of Coordination (OMC)” —replacing in part the traditional way of law making, through directives and benchmarks, which include fewer or no sanctions in the case of failure to reach the goal. It leaves the transfer of objectives to practice to member states. In addition, the EU wants citizens and organizations of the civil society to engage in various fields of interest, in which their knowledge and competence are helpful in reaching tailored goals. Last but not least, to increase the transparency in decision making, people perceive the influences of political and societal groups and the evidence-based effects of decisions as a new task for the EU Commission. In this context, the EU Commission has referred to “better regulation” and currently “smart regulation” to indicate the desired characteristics of new modes of governance (Chu and Eißel 2013).

So far, the EU has changed its way of making policies. Regions, towns, and citizens have gained a more important role when implementing the tailor-made strategies of the EU. They should mobilize a wide range of non-state actors, such as trade unions, interest groups, and nongovernment organizations (NGOs), to try to shape policy decisions and execute them in the best way (Warleigh-Lack and Drachenberg 2009).

Furthermore, regional identity and joint projects can help to minimize conflicts within regional groups, like those between tradition and modernity, inward and outward-looking economic development, and social cohesion. Even the creation of fundamentally constructive collaboration aiming to achieve an advantage for the entire region cannot be guaranteed, it needs trust and reciprocity in negotiations to achieve greater success (Putnam 1993; van Houtum 2002; Keating, Loughlin, and Deschouwer 2003).

All in all, the regional policy aims to reduce the significant economic, social, and territorial disparities that still exist between Europe’s regions. Leaving these disparities in place would undermine some of the cornerstones of the EU, including its large single market and its currency, the euro. The question remains of whether the regional funds have reached their objectives.

## 4. RESULTS

When we compare the GDP per head within the last decade, we notice a general trend: all of the poorest regions of the European Union have improved their economic situation, while many rich regions have reduced their distance to the average GDP (see Table 3).

So far, greater convergence is observable. Nevertheless, without the neoliberal reaction to the financial crisis followed by a budget crisis in nearly all member states, the effect could have been better.

**Table 3: Regional GDP (PPS per Inhabitant as a Percentage of the EU-28 Average) by NUTS 2 Regions (Selection of the 32 Poorest and 32 Richest Regions)**

Poorest Regions		2005	2016	Richest Regions		2005	2016
Mayotte	FR	23	33	Karlsruhe	DE	135	137
Nord-Est	RO	23	36	Provincia Autonoma di Trento	IT	135	122
Sud-Vest Oltenia	RO	27	42	Noord-Brabant	NL	135	133
Severozapaden	BG	28	29	Lazio	IT	138	110
Yuzhen tsentralen	BG	28	34	Valle d'Aosta	IT	140	122
Severen tsentralen	BG	29	34	Lombardia	IT	141	128
Sud - Muntenia	RO	29	46	Zuid-Holland	NL	141	128
Sud-Est	RO	30	50	Prov. Antwerpen	BE	144	139
Severoiztochen	BG	32	59	Bolzano/Bozen	IT	144	149
Nord-Vest	RO	33	51	Salzburg	AT	144	154
Centru	RO	34	54	Outer London-W and NW	UK	144	137
Yugoiztochen	BG	35	43	North Eastern Scotland	UK	144	144
Lubelskie	PL	35	47	Bratislavský kraj	SK	146	184
Podkarpackie	PL	36	48	Åland	SE	146	131
Podlaskie	PL	37	48	Stuttgart	DE	147	162
Warminsko-Mazurskie	PL	38	49	Hovedstaden	DK	154	159
Swietokrzyskie	PL	39	49	Helsinki-Uusimaa	FI	154	144
Vest	RO	39	60	Groningen	NL	156	128
Észak-Alföld	HU	40	43	Bremen	DE	159	155
Észak-Magyarország	HU	41	45	Berkshire, Buckingham-shire and Oxfordshire	UK	160	151
Opolskie	PL	42	55	Utrecht	NL	162	149
Dél-Dunántúl	HU	43	44	Southern and Eastern	UK	163	217
Dél-Alföld	HU	43	48	Praha	CZ	169	182
Východné Slovensko	SI	43	53	Noord-Holland	NL	169	133
Kujawsko-Pomorskie	PL	44	56	Wien	AT	169	153
Malopolskie	PL	45	62	Darmstadt	DE	170	160
Lódzkie (2013)	PL	46	64	Île de France	FR	171	175
Zachodniopomorskie	PL	46	57	Oberbayern	DE	172	177
Lubuskie	PL	46	57	Stockholm	SE	172	173
Stredné Slovensko	SI	46	61	Inner London - East	UK	177	176
Latvija	LV	50	64	Hamburg	DE	217	200
Pomorskie	PL	50	56	Rég. Bruxelles	BE	238	200

Source: Eurostat.

## 5. AUSTERITY POLICY COUNTERACTING CONVERGENCE POLICY

Mainly because of bail-outs for the banks that were negatively engaged in the financial crisis—Lehman Brothers 2007—and rising interest rates to rescue states' budget, many European countries, like Greece, Italy, Spain, and Portugal, nearly became bankrupt. As their public debt reached levels that were not acceptable within the EU, a troika, consisting of the European Central Bank, the EU Commission, and the IMF, forced these countries to execute harsh cuts in their expenditures (austerity policy) when accepting supporting credit. In the case of Greece, this policy led to the following cuts. By the end of 2014, Greece had dismissed at least 11,000 civil servants. Nearly 11 million Greeks paid a high price for the neoliberal shock treatment: the domestic demand collapsed, and about 100,000 companies became bankrupt. The unemployment exploded to 27%, and about 1 million people lost their jobs (Eißel 2015). The troika forced the Greek government to reduce payments for public support, execute cuts in pensions, and even reduce payments for health care. The IMF (Roos 2015, 33) demanded a cap on spending in the public health sector of a maximum of 6% of the GDP (the average in the EU is 8% and in Germany 10%). As a result, many people lost their access to health services. Foreign aid organizations that originally supplied exclusively refugees now have to help large parts of the Greek population. Due to the radical spending limits on medicine, there was a lack of antibiotics and insulin (Kiziltepe et al. 2014, 7). "Overall, the austerity had an impact on the Greek economy as a shock. (...) All these facts accelerated the recession and had a destabilizing effect on the political system. More than heated debates about the coverage of the financial deficit or the sustainability of public debt in 2020, the country needs investment to return to a growth path" (Troost 2014).

**Table 4: Development of the GDP (2010=100)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Germany	101.8	96.1	100	103.7	104.2	104.7	107	108.8	111.3	113.7
Ireland	103.3	98.1	100	103.7	103.9	105.3	114.6	143.3	150.5	161.4
Greece	110.6	105.8	100	90.9	84.2	81.5	82.1	81.7	81.6	82.8
Spain	103.7	100	100	99	96.1	94.5	95.8	99.3	102.4	105.5
France	101	98.1	100	102.2	102.5	103.1	104.1	105.2	106.5	108.8
Italy	104	98.3	100	100.6	97.7	96.1	96.2	97	98.2	99.7
Portugal	101.1	98.1	100	98.2	94.2	93.2	94	95.7	97.5	100.3

Source: Eurostat.

**Table 5: Development of Public Debt**

S1	Public Fiscal Balance as a Percentage of GDP			Public Debt as a Percentage of GDP		
	2008	2010	2017	2008	2010	2017
Greece	-10.2	-11.2	0.8	109.4	146.2	176.1
Italy	-2.6	-4.2	-2.4	102.4	115.4	131.2
Portugal	-3.8	-11.2	-3.0	71.7	96.2	124.8
Ireland	-7.0	-32	-0.2	42.4	86	68.4
France	-3.3	-6.9	-2.7	68.8	85.3	98.5
Spain	-4.4	-9.4	-3.1	39.5	60.1	98.1

Source: Eurostat.

Despite all the promises, the austerity policy did not help to generate GDP growth again in all countries, and above all it enlarged the ongoing public indebtedness. Mainly Greece lost wealth, while most of the other countries, which the budget crisis strongly affected, recovered a little, with the exception of Ireland. After years of the austerity policy, Europe will never be the same. Not only are the people in the affected southern EU countries distressed, but so are many economists in Europe and the US (like Stiglitz and Krugman), who have vehemently criticized this austerity course. An interview in Time clearly stated their message: "Since it's impossible to grow while both the private and public sector cut costs, deficit problems in southern Europe are getting worse, not better" (Time, 12 August 2013: 26, 27). Examining the short-term effects of fiscal consolidation on economic activity, even researchers from the IMF could show that the changes in fiscal policy resulting from a desire to reduce the budget deficit and not as a response to prospective economic conditions had negative results. They suggested that fiscal consolidation has contradictory effects on the private domestic demand and GDP (Guajardo et al. 2011).

In the end, the austerity policy is economically a fiasco, a humanitarian catastrophe, and politically a danger for democracy. Instead of allowing the states to invest in capital and human infrastructure, which are pre-conditions for economic growth and recovery, states like Greece have lost their effective ability to restart economic growth.

Today we need the economic breathing room to recover and allow states like Greece to pay off a reduced burden of debt over a long period of time. Now is the time for a humane rethink of the punitive and failed program of the austerity policy within recent years to avoid counteracting the supportive strategies of the EU's regional funds.

## 6. CONCLUSION

The regional policy of the EU and its execution through funding have surely helped to improve the social situation in many poor regions of the EU. It was the right measure to address the financial support for the regional authorities directly, with the clear demand to engage the civil society in working on tailor-made projects. This first brought broader knowledge of the amount of funds that the EU offered and at the same time better control on the part of the EU and second could help to enlarge the steering capacity when engaging regional society in its own affairs.

Nevertheless, there are doubts about whether funding alone could lead to a better future. Several poor regions could improve their economic situation, indicating a rising GDP per head. Nevertheless, the regional funds could not prevent the ongoing emigration from poorer regions, mainly in the central and eastern member states. Following the data from the United Nations Population Prospects, the Baltic States and Bulgaria lost between 16% and 26% of their populations between 1991 and 2015, and this will continue in the future (UN World Population Prospects 2019, 12). The permission for free movement of people in the EU has actively encouraged many citizens to look for opportunities in richer countries.

A change of these negative effects of depopulation and ongoing poverty in poorer regions can only be achieved if the members of the population face a positive outlook for their future. This is hardly attainable, but increased funds, supportive policies, and more engagement of the people in developing their own destiny would help to improve the situation. Investments in a future-oriented competitive economy plus more investments in infrastructure, education, and research and development are necessary. Building regional identity and a culture of cooperation in the region furthermore helps to mobilize endogenous potential.

Last but not least, increasing economic growth rates and higher employment rates are dependent on a large scale of factors encompassing competitiveness, a skilled workforce, enough demand, and so on. From the very beginning, the common currency favored those countries like Germany that were more competitive. Since the introduction of the euro, the weaker countries have no longer had the opportunity to compensate for their lower level of competitiveness with devaluation, as for example Italy did in 1993 by devaluating its lira by 25%. This helped at that time to make imports from Germany more expensive and thus minimized the negative trade exchange rates. Having introduced the euro, this classic method of protecting against stronger trade partners is no longer available. Furthermore, the positive effects of regional funding and support for the poorer regions were counteracted by the austerity policy in the spirit of market dogmatism. Even before the financial crisis of 2007/2008, the neoliberal strategy of the EU member states had increased the gap between rich and poor by downsizing the tax load on capital income, lowering wages and labor market regulations (Stiglitz 2010, 197; Leaman 2013, 79–196).

Nevertheless, the idea of leaving the eurozone would not help those member states that suffered heavily from the austerity policy, because the debt would be the same. Their chance of regaining a better economic situation is only dependent on higher growth rates introduced through investments in future technology and increasing the public and private demand. This strategy needs an investment program—like the European Recovery Program after the Second World War—as these states are unable to meet the challenges alone.

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