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FOREIGN POLICY

EUROPEAN FUNDS: EUROPEAN REGIONAL POLICY IN SPAIN. 1986-2003

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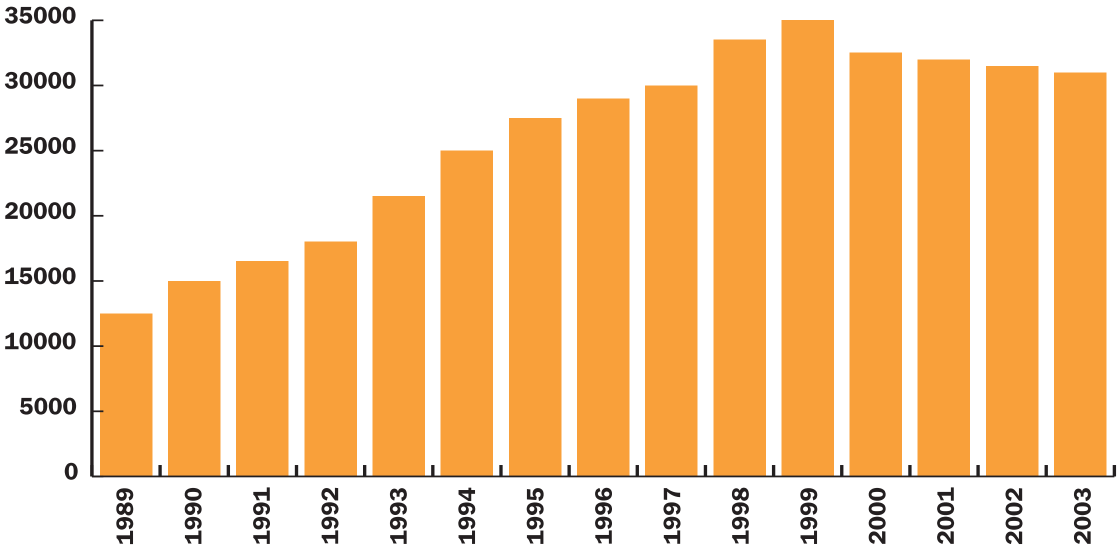
EVOLUTION OF STRUCTURAL FUNDS IN THE EU



The Cohesion Policy financed by the Community budget is beneficial for all the Union's Member States. In the medium and long term, it facilitates a process of real convergence with the poorest countries and regions, although it also offers some important competitive advantages to the wealthiest members of the Union. However, if regional policies are not accompanied by the necessary structural reforms, there is a risk that subsidies will become the main source of income for extensive sections of the population on a permanent basis, thus perverting the nature and purpose of these funds.

The Foundations of European Regional Policy

The concept of regional policy has to do with the creation, adaptation and management of the conditions relating to economic activity throughout a particular area. It is, therefore, very closely connected to the idea of area planning, designed to create a more rational distribution of the population and create the appropriate conditions for a more equitable assignation of economic capacity.

National governments are fully aware of this problem, which is why they devote substantial financial resources to improving the productive conditions in less developed areas through a series of policies, including direct investment in infrastructures, industrial policies, training policies, direct subsidies aimed at attracting private investment in production, and the use of specific financial instruments, such as the Inter-Regional Compensation Fund and the Teruel Special Fund in the case of Spain.

The idea of a European Regional Policy or Cohesion Policy has its own connotations. In essence, this is the instrument for financial solidarity and economic integration within the European Union, and its aim is to reduce income disparities between the various regions that make up the Union, in order to benefit the citizens of the EU and improve their levels of welfare and quality of life.

"The idea of a European Regional Policy or Cohesion Policy is, in essence, to serve as an instrument for financial solidarity and economic integration within the European Union, its ultimate aim being to reduce income disparities among the various regions that make up the Union"

Although other European policies also have strong regional effects (for example, the Common Agricultural Policy, research and development policies and the Competition Policy), the European Regional Policy is articulated through the structural funds and the Cohesion Fund.

We should not ignore the dangers that regional policies involve if they are not accompanied by the necessary structural reforms. The main risk is that subsidies can become the main source of income for extensive sections of the population on a permanent basis. This perverts the nature and purpose of the funds.

European Funds and Community Law

The first step in creating the European Regional Policy was taken with the founding treaty of the European Community in 1957, the Treaty of Rome, whose preamble refers to the need "*to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions.*"

However, it was not until the 1970s that a series of real Community measures were adopted in order to co-ordinate and financially complete the national instruments aimed at implementing regional policy. In particular, it is worth highlighting the creation, in 1975, of the European Regional Development Fund (ERDF). This new fund was designed exclusively with the aim of reducing regional inequalities within the EEC by means of transferring resources to regenerate industrial regions in crisis, whilst providing support measures for underdeveloped regions.

The real consolidation of this cohesion policy came about during the third expansion stage of the European Common Market, featuring the incorporation of Spain and Portugal. At the same time, the Single European Act was passed, coming into force in 1987. The Act was the first modification of the founding treaties of the European Community and facilitated the creation of a real European economic area in which inner national borders were eliminated, removing protectionist barriers and providing for the free circulation of goods, persons, services and capital throughout the entire European Community area.

"In 1999, the Spanish Government's negotiating strategy secured funds for Spain to the tune of 8,900 million euros a year, to be paid for a period of seven years. Now is the time to establish the European financial outlook for the next few years. The current Government's influence in Europe may be assessed in the light of the results of the negotiations now underway"

At the same time, it also established some highly ambitious goals in terms of economic and social cohesion: the European social area, European research and technology policy and the strengthening of the European Monetary System, all measures designed to bring about Economic and Monetary Union.

At that time, European institutions were witnessing an ongoing series of budgetary battles, which is why the European Parliament and Commission proposed passing an Institutional Agreement that would guarantee budgetary calm over longer periods of time, initially periods of five years.

Within the context of the negotiations for these new financial plans, the less developed countries expressed their fear that the mobility of factors of production promoted by the single market would benefit the more developed regions and countries to a greater extent, to the detriment of the poorer parts of the Union. This is why, to counteract this effect, the less-developed countries requested the creation of a series of financial support instruments that would enable them to adapt their structures to a free competition market. It was essentially a question of creating a form of budgetary compensation for the benefits the most prosperous countries in the Union would gain from the more open markets of the less prosperous Member States.

"In addition to the single market, the Single European Act also sanctioned the goal of economic and social cohesion, thus making cohesion an objective of the European Union as a principle of solidarity, aimed at reducing the differences between the regions and countries throughout the Community"

Thus, Article 130 A of the Single European Act establishes that "*In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the various regions and the backwardness of the least-favoured regions.*"

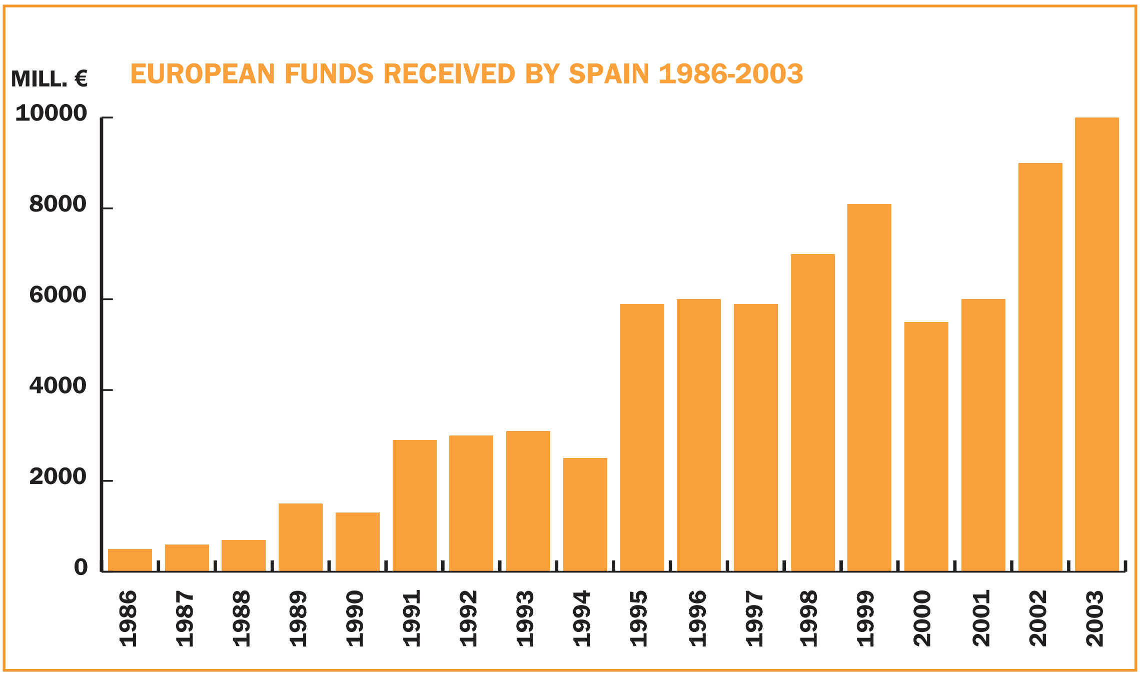
In this way, in addition to the single market, the Single European Act also sanctioned the goal of economic and social cohesion, thus making cohesion an objective of the European Union as a principle of solidarity, aimed at reducing the differences between the regions and countries throughout the Community.

This principle was taken a step further with the Maastricht Treaty of 1993, which defined the Union's objectives as follows: "*To promote economic and social progress which is balanced and sustainable, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of economic and monetary union...*" (Title I, Common Provisions, Article B).

The Maastricht Treaty also agreed that it "*shall, before 31st December 1993, set up a Cohesion Fund to provide a financial contribution to projects in the fields of the environment and the trans-European networks in the area of transport infrastructure.*" (Article 130 D of the European Union Treaty). This fund was to target EU Member States with a GNP per capita of less than 90% of the European average. At the same time, these countries would have to carry out "convergence policies", i.e. measures to control inflation, interest rates and public debt, with the aim of avoiding excessive public deficits. The countries involved –Spain, Greece, Portugal and Ireland– came to be known as "the Cohesion countries".

Development of the EU Structural Funds

As a result of this process, since 1986 we have witnessed an ongoing increase in the amounts set aside for the structural funds (and, since 1993, the amounts devoted to the cohesion funds) approved during the successive financial plans established as a budgetary framework for the EU. Thus, between 1994 and 1999 an average of 30,280 million euros a year were set aside for this purpose, compared to a yearly average of 32,430 allocated to the EU-15 cohesion policy for the period 2000-2006. The highest figure was in 1999.



Spain As a Beneficiary of the Structural and Cohesion Funds. The Historic Success of the Berlin Summit (1999)

The structural and cohesion funds received by Spain have continued to increase year after year. Thus, during the period following Spain's incorporation into the EU (1986-1988) the country received an average of 540 million euros a year, which increased to almost 2,400 million euros a year with the Delors I Package (1989-1993) and to almost 5,900 million euros with the Delors II Package (1994-1999).

With the Financial Plans agreed at the European Council of Berlin (March 1999), Spain achieved Community budget returns in the form of structural and cohesion funds to the tune of 8,900 million euros on average per year for the entire 2000-2006 period. As a consequence, Spain has continued to be the main beneficiary of European regional policy, even improving its comparative position with regard to the rest of the Member States over the last few years.

"European Regional Policy has fulfilled its goal of speeding up the real convergence of the European economies through large-scale investments –especially in infrastructures– in the less developed parts of the Union, whilst also creating and consolidating an increasingly wide internal market, to the benefit of all"

Now is the time to establish the European financial plan for the next few years. The current Government's influence in Europe may be assessed in the light of the results of the negotiations now underway.

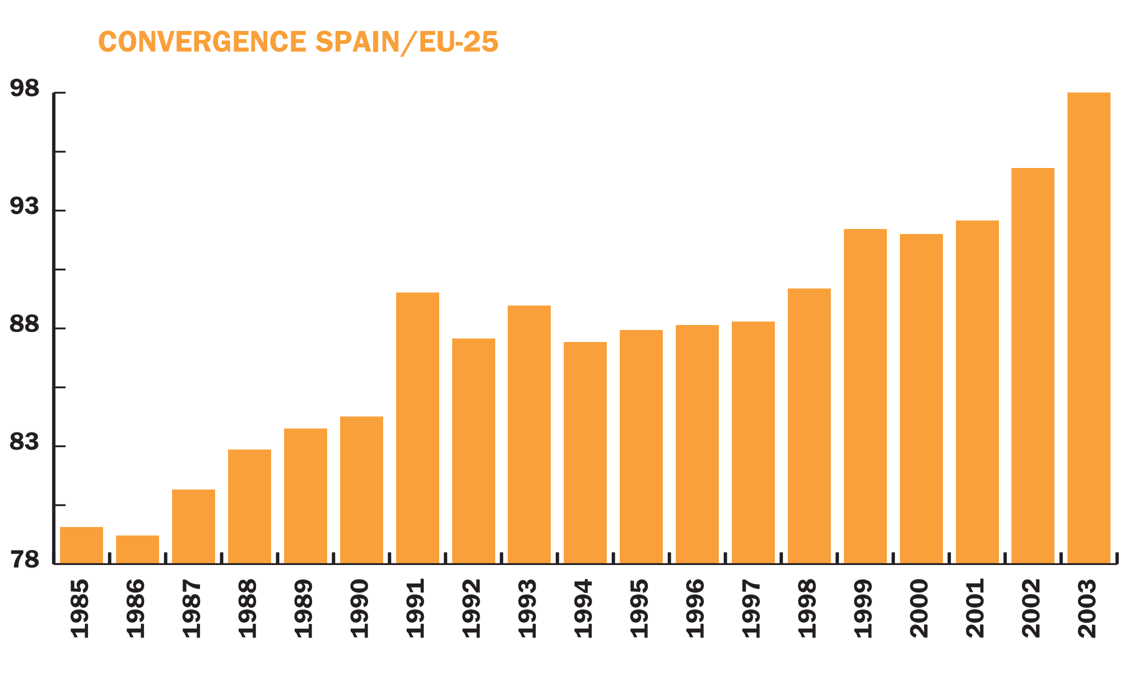
Financial Flows, Real Convergence and National Economic Policies

There is little doubt that in terms of the convergence and well being of Europe's regions and countries, the results have been good. As an example, Spain has undergone a sharp convergence process with regard to the average Community income, progressing from an income level estimated at 69% of the EU-15 average in 1986 (the date on which Spain joined the European Economic Community) to almost 90% in the year 2003. With regard to the average income of the EU-25, Spain progressed from 78% in 1986 to almost 98% in the year 2003.

This same real convergence process is reflected in the rest of the countries that have benefited from the cohesion policy, with improved convergence levels compared to the European Union average in all cases.

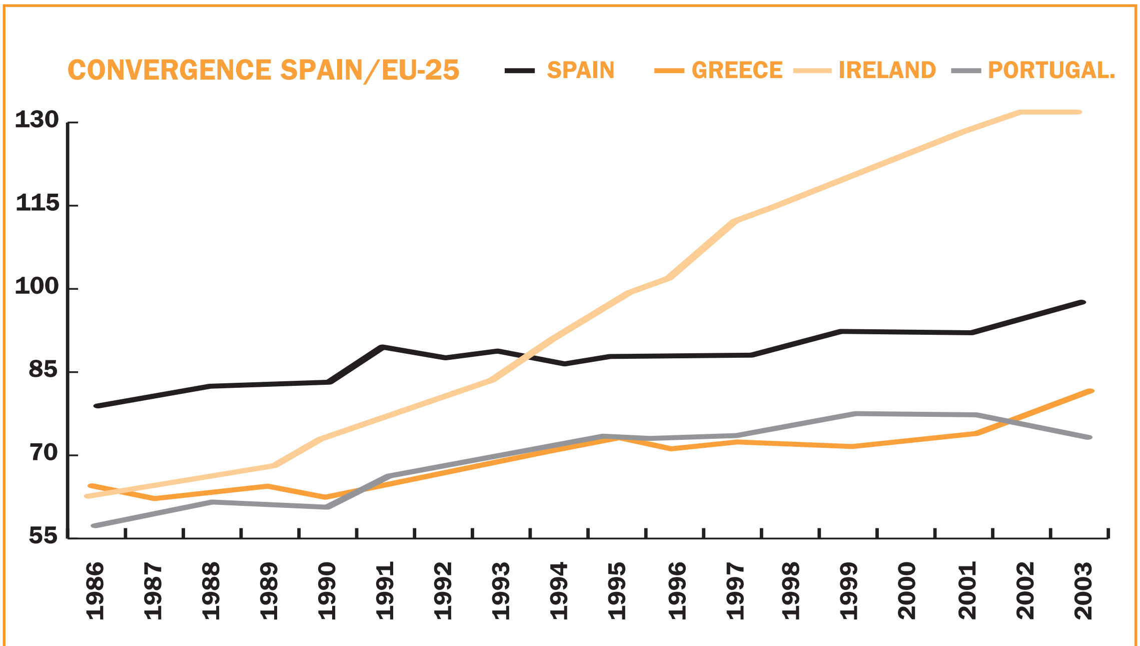
"Convergence is closely linked to the national policies implemented over the years in question. Throughout the period 1986-2003, both Greece and Portugal converged by 17 points, Spain by 20 points –10 of which were gained between 1997 and 2003– and Ireland by 70 points"

However, if we study the development processes of the four cohesion countries in greater detail, we can observe some important differences that confirm the fact that convergence is closely linked to the national policies implemented over those years. Thus, throughout the period 1986-2003, both Greece and Portugal converged



by 17 points vis-à-vis the EU average, compared to a 20-point convergence in the case of Spain and 70 points in the case of Ireland. Out of the 20-point gain Spain achieved during this period, 10 points correspond to the last six years (1997-2003).

The considerable benefits of Europe's Regional Policy are, therefore, quite evident in the cohesion countries. However, this system has also meant that the transfers received by the poorest countries have also benefited the wealthiest countries of the EU to a significant extent.



The goal that was initially established has therefore been achieved. This was to speed up real convergence in the European economies through large-scale investment (especially in infrastructures) in the less developed parts of the Union, whilst also creating and consolidating an increasingly broad internal market, to the benefit of all.

Financial and Trade Flows

As a result of the financial transfers under the European Regional Policy, there has been a considerable increase in trade among all the members of the Union. This has generally created significant imbalances in the balance of trade figures of the cohesion countries. In this respect, it is interesting to observe how the wealthiest countries' budget deficits with regard to the EU have coincided with strong trade surpluses vis-à-vis the cohesion countries. Thus, in the year 2003 Germany had a financial deficit with regard to the EU of 0.40% of its GDP and a balance of trade surplus with the three cohesion countries (Spain, Greece and Portugal) of 0.92% of GDP. In the case of Holland, its financial deficit with regard to the EU came to 0.64% of its GDP, whilst its trade surplus with the cohesion countries came to 1.55% of GDP. As another example, France had a financial deficit with regard to the Community budget of 0.11% of its GDP and a trade surplus with the cohesion countries of 0.44% of its GDP.

This trend has generally applied to all the countries which have maintained a deficit with regard to the Community budget, all of them having at least doubled their deficit figure in the form of a trade surplus with the cohesion countries, with the sole exception of the United Kingdom (a country that has both a deficit with regard to the Community budget and a balance of trade deficit with the cohesion countries). However, the situation of some of the wealthiest countries in the EU, such as Ireland, Belgium and Luxembourg, is even more striking. In spite of the considerable controversy surrounding their net contributors to the EU budget, Ireland, Belgium and Luxembourg have managed to maintain strong surplus figures vis-à-vis the Community budget for many years now.

In conclusion, the Cohesion Policy financed by the Community budget benefits all the countries of the Union, facilitating the real convergence of the poorest regions and countries throughout the Union in the medium and long term, whilst also offering some significant competitive advantages to the wealthiest countries and regions. The European Regional Policy makes our project of economic and monetary union a model of development and well-being for all.

BUDGETARY BALANCES WITH REGARD TO THE EU AND BALANCES OF TRADE WITH THE COHESION COUNTRIES EXPRESSED AS A PERCENTAGE OF GDP, 2003

GERMANY	% GDP Germany	HOLLAND	% GDP Holland
Budgetary balance with the EU	**-0.40%**	Budgetary balance with the EU	**-0.64%**
Bilateral balance of trade with:		Bilateral balance of trade with:	
Spain	0.67%	Spain	0.97%
Portugal	0.09%	Portugal	0.20%
Greece	0.16%	Greece	0.39%
TOTAL	**0.92%**	TOTAL	**1.55%**
AUSTRIA	**% GDP Austria**	**IRELAND**	**% GDP Irlanda**
Budgetary balance with the EU	**-0.16%**	Budgetary balance with the EU	**1.40%**
Bilateral balance of trade with:		Bilateral balance of trade with:	
Spain	0.38%	Spain	1.57%
Portugal	0.08%	Portugal	0.14%
Greece	0.13%	Greece	0.25%
TOTAL	**0.59%**	TOTAL	**1.97%**
BELGIUM	**% GDP Belgium**	**ITALY**	**% GDP Italy**
Budgetary balance with the EU	**0.27%**	Budgetary balance with the EU	**-0.08%**
Bilateral balance of trade with:		Bilateral balance of trade with:	
Spain	0.93%	Spain	0.26%
Portugal	-0.01%	Portugal	0.10%
Greece	0.46%	Greece	0.28%
TOTAL	**1.38%**	TOTAL	**0.65%**
DENMARK	**% GDP Denmark**	**LUXEMBOURG**	**% GDP Luxembourg**
Budgetary balance with the EU	**-0.15%**	Budgetary balance with the EU	**4.27%**
Bilateral balance of trade with:		Bilateral balance of trade with:	
Spain	0.32%	Spain	1.48%
Portugal	-0.01%	Portugal	0.45%
Greece	0.14%	Greece	0.66%
TOTAL	**0.45%**	TOTAL	**2.59%**
FINLAND	**% GDP Finland**	**UK**	**% GDP UK**
Budgetary balance with the EU	**0.01%**	Budgetary balance with the EU	**-0.22%**
Bilateral balance of trade with:		Bilateral balance of trade with:	
Spain	0.11%	Spain	-0.04%
Portugal	0.02%	Portugal	-0.05%
Greece	0.06%	Greece	0.04%
TOTAL	**0.18%**	TOTAL	**-0.05%**
FRANCE	**% GDP France**	**SWEDEN**	**% GDP Sweden**
Budgetary balance with the EU	**-0.11%**	Budgetary balance with the EU	**-0.40%**
Bilateral balance of trade with:		Bilateral balance of trade with:	
Spain	0.28%	Spain	0.54%
Portugal	0.02%	Portugal	0.04%
Greece	0.14%	Greece	0.15%
TOTAL	**0.44%**	TOTAL	**0.73%**

Source: Eurostat and the European Commission

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