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## REGIONAL DIFFERENCES IN THE EUROPEAN UNION IN THE PAST AND NOWADAYS

### REGIONÁLNE ROZDIELY V EURÓPSKEJ ÚNII V MINULOSTI A DNES

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For a long time specialists have been following up with different attention territorial disproportion of European economic development in accordance with different aspects. In the European Union, from the point of view of economic development, the main territorial process is focused on the underdeveloped member states, on the elimination of the macro-regional differences (convergence), and on the regional cooperation. Economic disproportions in the enlarged European Union are more notable than before. Though the joining of the new member states has already started, the disproportion inside these countries has been growing up till now. The aim of this paper is to outline the past and present situation, starting with the explanation of reasons and roots of the economic disproportion on the European continent and showing the increase of the territorial disproportion in the enlarged Europe.

**Key words:** integration, regional policy, competitiveness, economic interests, labour

#### The Historical Dimension of the European Regionalism

According to some authors (Baranyi, 2004; Enyedi, 1976; Nemes Nagy, 1990) we can go back to the 15<sup>th</sup> – 16<sup>th</sup> century to find the roots of the region differences. In American Immanuel Wallerstein's (Baranyi quotes, 2004) conception the European world economy arose at the beginning of the 16<sup>th</sup> century. He claims that the new world economy did not bear one big empire sign; it was the most important sign of denotation which characterized entity. The most important feature of the „European world economy” has emerged as a fact of becoming bigger than any legally defined political unit.

The „European world economy” has been created on the base of capitalistic production and it was formed over the earlier evolved order of European work division. It all meant that some European territories, most of them in the eastern and western parts, were significantly affected. It resulted in acumination of centre-periphery connection within the continent. The centre-periphery theory (Baranyi, 2004) characterizes mainly the capitalistic connections and first of all refers to the international economy. Among the representatives of the different centre-periphery theories there is the understanding that in the centre and periphery connection system the long-distance natural displacement can come after. It means that centre and periphery territories can be changed: centre territory can be changed into periphery and vice versa.

From the beginning of the 16<sup>th</sup> century it could be observed that there was a strong difference between European world's economic centre and periphery territories. For many years this difference brought clearly out-lining contradiction towards the Western and the Eastern Europe (in front and behind the Elbe territories). Developing trends and features have become different and the role of European division of labour in western and eastern areas has changed. It coincides with the settled changes as a consequence of the great geographic discoveries. The East European countries have been dropped out of the geographic discoveries advantages and as a result we had to experience ceasing the trade routes between Europe and Asia.

In this period the economic crisis has begun and brought contradictory results in Eastern and Western Europe. Feudalism was gradually eliminated in Western Europe and the capitalistic economic system started its formation, which meant the beginning of modernization. In opposition to this, in the Eastern Europe the modernization process got stuck, after all the territories behind the Elbe avoided the main united economic-social processes. Hereby, it gave the possibility for feudalism to be reinforced once more. The Eastern Europe expanded territory; partly because of the role within the European division of labour it has become a crop exporter and a raw material distributor for the Western industrialized Europe.

European economic division continued to exist for several centuries and in the 20<sup>th</sup> century political disorganization deepened it even more.

#### The Determination of the Regional Differences in European Union

The regional policy in first times of the European integration at the present definition does not figure as the aim of signatories. In the second article of the Rome Agreement it is stated, that „the aim of the agreement is to subservience of the member-states for conceptual development and the improvement of the life style”, but the aim of the formation of the concrete regional policy is not involved in this document. The funding member states in the Rome Agreement (123 articles) have created the European Social Fund, which with its limited authority and financing arrangements is dealing with recruitment and re-training of labour force. From there also the establishment of the European Social Bank which participated in the program of financing the underdeveloped regions stems from. In this case it provides services for the economic enlargement.

Six founding member states were from the most developed European territories, that is why there was no need for the regional policy. Except for some states (e.g. Italy), there was not any significant difference. During the creation of the European Community the specialists working there shared the opinion that comparatively small difference would disappear

with progressing integration. They supposed that the underdeveloped territories would introduce comparative advantages as the consequence of unobstructed intermigration of the wages and new production, as well as they would benefit from relatively low prices of the goods. With the help of comparative advantages, the underdeveloped territories would start growing without any significant state interventions. The beginning of 60's was the period of upsurge, so it seemed the specialists were right.

In the middle of 60's some territories despite the advantages broke off balking the European integration development. In the middle of 60's and at the beginning of 70's there was a fallback in the European integration process. According to the regional studies, imagination of the territorial disproportion can be understood together with the economic and social development. Behind the formation of the disproportion there is the pursuit of maximum economic efficiency, so the disproportions arise from the fact that the economy looks for the optimal allocation. The territorial disproportion claims are required only when the disproportion of the chances is formed, namely people living in the underdeveloped regions in comparison with the others have worse chances for sufficient living standards, cultural and carrier opportunities.

Nowadays one of the main aims of the EU is the closing up of the different development of the territories, its validation confirms the Union active structural policy. One of the most important aims of the European integration is the decrease of the economic disproportion between some regions and countries and because of that, growth of some underdeveloped areas. During the enlargement of the European Union, it became clear that the integration not only decreased, but also certainly increased the differences between the territories (for example Greece). The difference between territorial developments can become a source of serious political tension and thus it puts into question the capability of the European Union to effectively fulfil its functions. That is why it became so important to strengthen stronger economic and social cohesion (Marselek et al., 2005; Kumar Singh et al., 2008).

### The Reasons of the Regional Differences

The regional differences in Europe are significant. What is the reason for this situation?

How it is possible that there are the differences about 7.5 times higher between the most developed and underdeveloped regions? One of the most important and exciting research questions of the regional study is the definition of the reasons of differences or at least the systematization of the facts forming these reasons. For a long time the research results could be valued touching upon economic, social, historical and geographical reasons, or touching upon demographical characteristics, or aspects of economic activity and production experience, or environmental situation, or touching upon the encouraging and limiting actions taken by the political establishments. According to Rechnitzer (2005) and summarizing him shortly, the most important and the best circumscribing as well as the most accurate explanative facts are as follows:

Firstly, the geographical situation should be mentioned, which means the region placement, possible directions and connections with larger economic, developmental centres. The cities or regions having larger European developing positions or connections with them possess greater producing potential of income.

The next important and well measurable fact is the economic structure base. It matters which economic structure

is possessed by the region, what kind of the inner market they have and how much they are capable to deliver. Furthermore, the constitution is determinant as well. After all, definite provinces attract new branches creating possibilities for employment, increasing income. This leads to the conclusion that more economic factors can appear.

Defining the size of the population and its composition, following factors are decisive: active earning proportions, limitation, competence, the structure and changes of employment; and it is very important to know the health of the population and its evolution.

The infrastructure of the region should not be disregarded, as well as transport means and connections (attainability, logistic possibilities), complement of outset elements, available line infrastructure systems, but nowadays we should distinguishably treat the presence of the info-communication systems and their availability.

Finally, we should distinguish the place, the region spirits and genius loci factors. Here we should list such capabilities which cannot be measured or can be measured with difficulties, which can be followed from the region or settlement, past values, complex capabilities and can be present in some form, effect the population, those who are interested in it (for example, investors, tourists, who is going to settle down).

### The Economic Disproportions in the Enlarged European Union

As the consequence of 2004 and 2007 enlargement processes, the economic differences even deepened in



**Figure 1** The European Union – National level  
Source: EUROSTAT

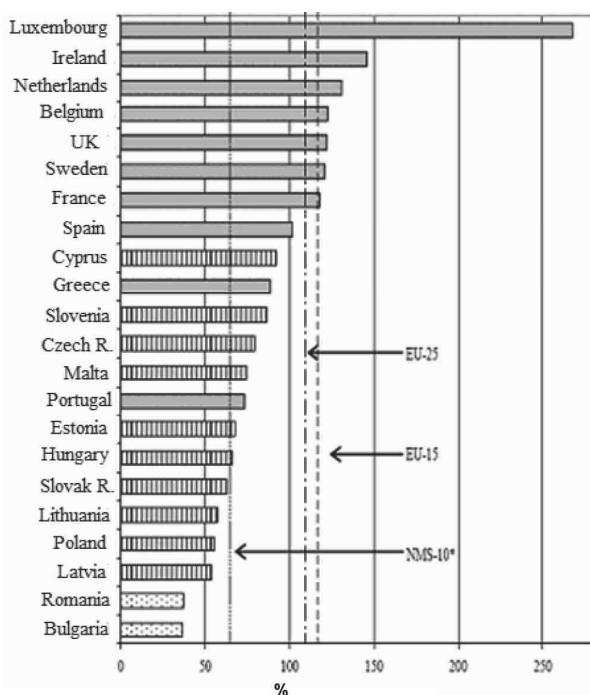
**Obrázok 1** Európska únia – národná úroveň  
Zdroj: EUROSTAT

European Union (figure 1). After all, most of the new member states' economic development was significantly lagging behind the EU-15 states.

The problem of the territorial disproportions has been in the functioning of European Union for a long time after all the basis of communities, or rather its goods, services; capital and labour force (persons) free flow from territories of different development level has been limited. Nevertheless, during the enlargement process of states, this problem arose among the former and new EU states. In the new EU states the economic production significantly declined in comparison with the former EU-15. The community regional policy aimed at the decrease of differences between underdeveloped and developed regions of member countries by creating the European Regional Developing Fund (1975), through which significant community money has been used for underdeveloped regions. In the times, when this aim has been renewed in Structural Funds and with accession of Ireland, Greece, Portugal and Spain, it was created as well as the Cohesion Fund in 1992.

One of the most important indicators of economic enlargement and welfare in European Union is purchasing power capacity parity of GDP per capita in proportional comparison to EU-15 (figure 2).

Measuring the value of purchasing power capacity parity shows very well the inequality between countries and regions and their development in time. The most successful story had Ireland, joined in 1973, where at the beginning GDP per person it did not reach a half but in 2004, this state was considered the second most developed one in European Union. Greece joined in 1981, in 1986 Portugal and Spain became members of the Community and their economic performance increased since the accession, but only Spain reached the 15<sup>th</sup> average in 2004



**Figure 2** Per capita GDP in the EU-27 in 2006

Source: EUROSTAT

**Obrázok 2** HDP na obyvateľa v EÚ-27 v roku 2006

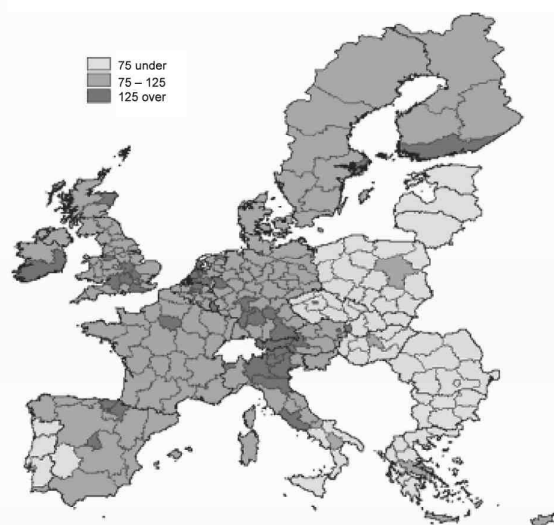
Zdroj: EUROSTAT

(Villányi et. al, 2009). The process of accession to macro-economy has significantly developed since the change of the system and according to WIIW model counting (Havlik, 2003) to 2015 Slovenia and the Czech Republic will overtake the present cohesion average of the states, Hungary and Slovakia will approximate it. According to Eurostat data, Slovenia has reached 76 % of EU-15 average, while the Czech Republic 61.3 %, the Slovak Republic 48.6 % and the Republic of Hungary 58.7 %. There are significant differences shown in Fig. 2. However, the situation in 2006 showed the great upgrading of the new member states in comparison to the previous period. To the end, we wish to underline that after all, the Maastricht criteria can be reached only under the condition of the increased economic performance.

It is worth to review the differences from the point of view of territorial (regional) arrangement system of the European Union (NUTS). In the Fig. 3 the darker shading shows the bigger specific GDP categories, so the form of a „blue banana“ is lined out: a well-known territories of South England, the Benelux states, the Ruhr province, the Rhine, and North Italy, where significant part of EU economic performance has been concentrated. The lighter shading shows more developed territories: except Eastern Middle European city regions, on the territories of former EU-15 states: South Italy, Greece, Portugal and France performed 75 % of EU average in 2007.

Viewing regions of the 27 members of European Union, 1/4 of the population lived in the regions with more than 125 % of GDP average; 1/4 lived in the regions marking less than 75 % of the average and the half in the zone from 75 to 125 %. As much as 41 % of the population of 10 states joined in 2004, almost all the population of Bulgaria and Romania, lived in the areas with less than 50 % of the average. At the same time, GDP per person in each former EU-15 states took over the half of 27 country average.

Arranging 268 regions of EU-27 states according to GDP per capita, at the beginning the EU-15 member states can be seen. Among them during the last 10 years on the first six places the same regions are found, only their order has been changed.



**Figure 3** GDP per person in EU-27 in 2004

Source: EUROSTAT

**Obrázok 3** HDP na obyvateľa v EÚ-27 v roku 2004

Zdroj: EUROSTAT

(1) pod 75, (2) nad 125

Among new member countries from the first 10 places only Prague has dropped out (12.). Except it, in the Central and Eastern Europe only Bratislava (39.) can be distinguished as the next advantageous region. At the end of the rating zone only Romanian and Bulgarian regions are seen. The indicator is three times higher in the leading Internal-London than the last Romanian region. If we do not take into consideration Romanian and Bulgarian areas, the difference decreases by 8.6 times. In this case, 7 Polish, 2 Hungarian (North Hungary and North Plain), as well as Slovakian region would form the last ten places. As far as the difference from the EU-15 member states is concerned, the difference is only 5.6 times. The late rating zone is closed by Greece, Portugal and over sea French regions.

For the first glance, there is a remarkable difference between the first and last 10 regional specific structures. From additional brute value the proportion of services in the first 10 cases except one, everywhere is above 80 % and agriculture almost cannot be seen, while in the last 10 economic structures, there is about 20 % of the agricultural proportion.

#### Management of the Regional Differences

To the national policy regional issues, higher and higher importance is devoted. The regional policy holds together and materializes the principles, aims, techniques and organizations of the country policy. The regional policy stands for sector (branch) policy completing it by territorial aspects and in consequence with its help it expresses extensional appearance by reinforcing territorial approach. This means, for example, that the industrial policy can be defined only in the territorial dimension or transport policy can be collated unequivocally on the base of the regional coherence, but educational or agricultural political issues can always be covered in concrete territorial coherence. The situation of the regional policy is not simple opposite the sector policy, as the horizontal aims often coincide with traditional branch (vertical) aims, in this way there is a struggle for validation of extensity in different development aims.

In European Union, the principles, aims and the assets for accomplishment and systematization of organizations have been continuously formed since the 80's. From 1988 Structural Funds have been created, they represent larger and larger proportion in European Union budget and allow the member states to decrease the differences with the help of definite principles and strict rules. The elements of regional political Quaker Dom using its principals take into the consideration the European values (Rechnitzer, 2005).

The first principle is concentration and addiction, i.e. drawing together, uniting the sources of development (for example, disadvantageous areas, where GDP is below 75 % of the average of the European Union), the concentration of aims (for example, designation of the problem regions), and expectation and demanding of the contribution from the local/territorial characters.

The second principle is planning, programming, monitoring. In the case of regions the developing plans are necessary, it is reasonable to see in advance, to think over the future, the resources should be accurately specified, as well as their utilization mode. It should not be neglected that during the accomplishment and at its end the aims and results should be presented.

The third principle is the regional political cooperation, organizational and institutional systems, which can guarantee it. Gradually, organization system has been created, regional

development institutions have been established (Council, Agency), and on small area levels the partners' cooperation has appeared. The problem can be noticed when mixed structures are functioning, after all there are counties and regions and county leaders appear in the region, so they should have double awareness, evaluation and system of interests. This is not easy; however, the processes can be implemented.

Finally, the principle of subsidiarity and decentralization should be mentioned; it means that the decisions should be put on the level where there are the most visible due to the competence and accomplishment.

#### Support for 2007 to 2013 Programmed Period

The aim of the EU cohesion policy is the promotion of economic, social cohesion, the decreasing of inequality. From previously shown measuring numbers we can see, that regional differences are significant despite the fact that the decrease of inequality has already started.

With the help of European Regional Development Fund, European Social Fund and Cohesion Fund, from 2007 to 2013 the European Union has converted 307 billion Euros for the decrease of the differences. On the base of three main community priorities, the regions are competent to call for regional different legal titles. The highest amount, 177.8 billion Euros can be given to the so called convergence regions: among them 6 Hungarians, South Italian, South Spanish, Portuguese and Greek regions. The regions (so called „phasing out“ areas), where GDP, because of the effects of statistics going together with increasing of EU, hardly could overtake the threshold, participated in continuously decreasing subsidization from target oriented resources. Because of its size, Poland has been entitled to get the greatest support (59 billion 698 million Euros). Hungary could count on the sixth biggest resource up to 22 billion 386 million Euros, in addition to 3.8 billion Euros from Agricultural and Rural Development Fund, or 34.4 million Euros from European Fisheries Fund. All together, Hungary with 15 % of domestic national financing can get 8 000 billion HUF from Union support between 2007 and 2013.

#### The Future of European Union

One of the most often asked questions is: "Where will be the borders of European Union in the future?" The geographical localization or both political and economic interests of Europe will allocate it. According to last years' decisions, Balkan states, Albania, Croatia, Macedonia, Bosnia-Herzegovina, Serbia and Montenegro can be anticipated as new members of EU. For a long time Turkey belongs to the applicants but it is difficult to say when it can get a membership. In West, the membership of Norway, Switzerland and Iceland is an open question. For a long time they should be supposed to be the members. As a result of gradual increasing, the European Union can consist of 35 to 38 states. Taking into consideration the meaningful number of new states, which are significantly different in their characteristics, the next accession process will take long-time. As from the EU point of view as well as from the considered states positions, it could be expected that they will become the EU members within next 20 to 25 years.

In contrary, there is a wide agreement that Russia due to the various reasons cannot be the member of the EU (and presumably the member of NATO) in the foreseeable future. At the same time, the Union has strategic interest in stable and prosperous Russia that is why in long terms it would be necessary to have extensive and close safety and economic

connections as well as institutional structure with Russia. This can mean the full acceptance of the safety agreements (about the military questions, actions against organized criminality or drug-traffic etc.), or a broad free trade system which would ensure accession to the huge and potentially increasing Russian market, which would have compatible market elements. From perspective point of view, a lot of politicians think about European Economic Area (or Norway) type of agreements.

Concerning the European Union borders, there are questions about Ukraine, Belarus, as well as two trans-Caucasus states (Georgia and Armenia), because of their geopolitical situation, language, culture or religious links and interests. During the past century they formed traditional special connections with orthodox Russia. In the future they can strengthen their cooperation with EU.

### Conclusions

Opposite the common macro-economics in the EU the fact is, that the development differences between the states and regions in the EU were in the past, and nowadays they still are, significant. Though they decreased in the past years, the essential principle is that in the EU, regional policy accomplishing the cohesion targets should be carried out.

From the above said, there is the following message to our economic policy: the present regional differences, soluble structural problems should be handled by ourselves, the Union resources; policies can be considered only as additional assets and really they will help to improve our countries competitive capability, if acceptable domestic conception will be formed. The Union experience allows concluding that structural resources on the macro level contribute to support the process of rejoining but the inner cohesive process cannot be supported significantly.

The aim for the future of any part of the European Union, for any place where people live is that the people should have the possibility to create favourable living conditions for themselves.

### Súhrn

Počas dlhej doby odborníci sledovali odlišný územný nepomer európskeho ekonomického vývoja v súlade s rôznymi aspektami. Z hľadiska ekonomického rozvoja sa územné procesy v rámci Európskej únie zameriavajú hlavne na zaostané členské krajiny, na odstránenie makro-regionálnych rozdielov (konvergencie), a na spoluprácu v rámci regiónu. Rozšírením Európskej únie je ekonomický nepomer viditeľnejší ako predtým. Hoci pripojenie nových členských krajín už začalo skôr, disproporcía v týchto krajinách rastie dodnes. Cieľom tohto príspevku je načrtnúť minulosť a súčasnosť, vysvetlením pôvodu a tiež dôvodu ekonomickej disproporcie na európskom kontinente. Súčasne poukazuje na zvýšenie územného nepomeru v rozšírenej Európe.

**Kľúčové slová:** integrácia, regionálna politika, konkurencieschopnosť, hospodárske záujmy, práca

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